

Briefing on the Musical Instruments Business

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Musical Instruments Business Group**

July 10, 2008

YAMAHA CORPORATION

- Outline of Medium-Term Business Plan
- Recognition of Business Environment and Key Issues
- Review of the First Year
- Progress of Key Measures and Future Development
- Projections for the Second Year

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Position of Musical Instruments Business Throughout the Company



The Sound Company

- Musical Instruments/
Audio/Music Entertainment
- AV Equipment
- Sound Networks
- Semiconductors

Use sound/music/network technologies as a platform to **drive group-wide growth** by deepening, expanding and creating business in the fields of musical instruments/audio/music entertainment, AV/IT and devices

Diversification Businesses

Lifestyle-Related Products

Recreation

PT

Golf Products

PT: Productive Technology
(FA / metallic molds / automobile interior wood components)

Inspired by the brand slogan “Creating ‘Kando’* Together,” contribute to increasing group corporate value by utilizing the original technologies and sense built up in the course of Yamaha operations to secure a strong position in each industry and **achieve sound business management**

*Kando is a Japanese word that signifies an inspired state of mind

Yamaha Group Corporate Philosophy YAMAHA

Corporate Philosophy



Corporate Objective

CREATING 'KANDO' TOGETHER

Yamaha will continue to create 'kando' and enrich culture with technology and passion born of sound and music, together with people all over the world.

Kando (is a Japanese word that) signifies an inspired state of mind.

Management Philosophy

Customer-Oriented and Quality-Conscious Management

Yamaha fully satisfies its customers by offering quality products and services that incorporate new and traditional technologies as well as refined creativity and artistry.

Transparent and Sound Management

Yamaha delivers proper returns to shareholders by ensuring a solid business performance and achieves lasting development through transparent and sound management.

Valuing People

Yamaha strives to be an organization where each person's individuality and creativity are respected and all can demonstrate their full potential through their work.

Harmony with Society

Yamaha is a good corporate citizen that contributes to the development of society, culture, and the economy by observing laws, demonstrating high ethical standards, and endeavoring to protect the environment.

Committed to the vision of becoming a brand of which people will proudly proclaim “I play Yamaha,” the Yamaha Group will endeavor to create and develop the musical instruments business as its core business to provide the joy of making music to as many people as possible in every part of the world.

■ Customer Intimacy

Keep the customer's perspective in mind at all times, making it possible to develop innovative marketing methods that respond to changes in the purchasing behavior of customers, and thereby earn their trust

■ Product Leadership

Develop products that respond to polarization in the market as well as provide unique products and services in order to establish the overwhelming superiority in the sales power of the products needed to come out on top of specialized manufacturers in various fields

■ Operational Excellence

Clarify objectives and promote integration, standardization, and streamlining of operations, and develop an outstanding business structure that is capable of achieving the objectives while using only a minimum of resources

Medium-Term Business Plan
(April 2007-March 2010)

Yamaha Growth Plan 2010
~ *Act & Change!* ~



*The entire company **acts** as one to **steadily implement** growth strategies and **changes** to shift into a growth phase!*

1. **Realize growth** in the “The Sound Company” business domain

Growth by actively investing management resources

2. **Substantially strengthen profitability** as the foundation for growth

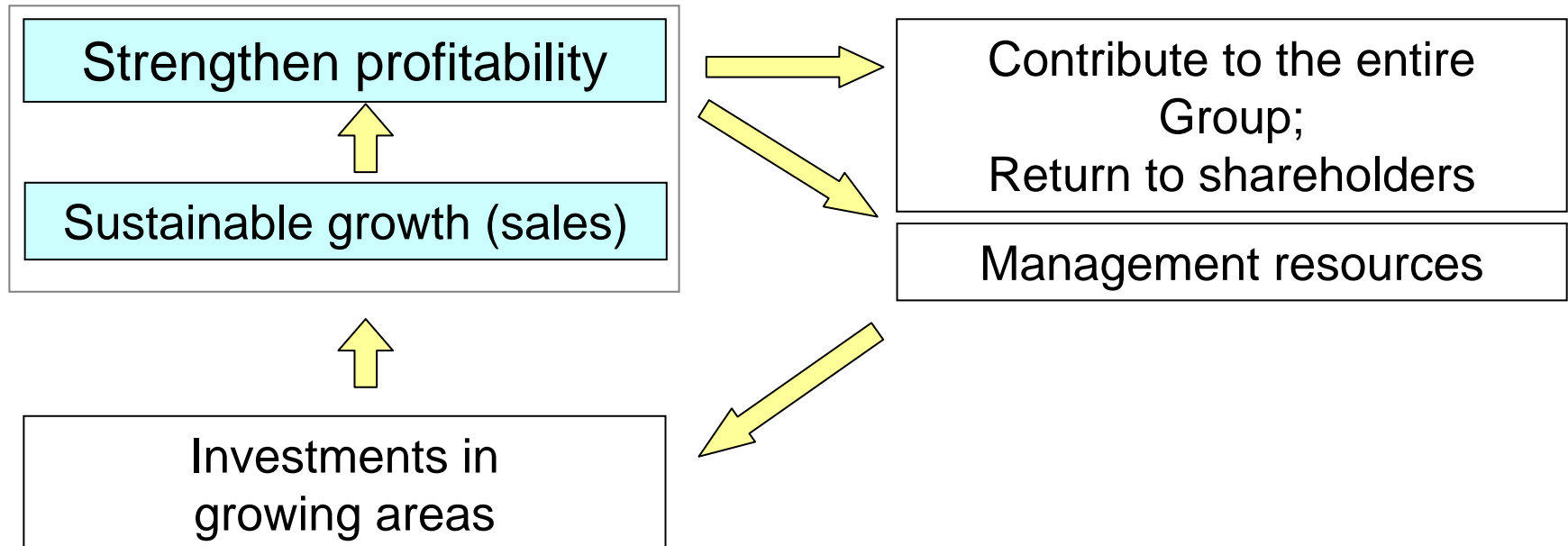
Increase profitability through reforms in manufacturing and realignment of businesses

3. **Improve corporate governance** to enhance all-round capabilities of the Group

Further improve the efficiency, transparency, and soundness of management

Fundamental Policies

While centered around substantial strengthening of profitability, management resources will be strategically distributed to growth areas to promote bolstering of businesses that are “uniquely Yamaha,” thereby realizing sustainable growth.



FY2010.3 Targets

	Yamaha Group	“The Sound Company” business domain	Musical Instruments
Net sales	¥590.0 billion 3-year sales growth rate: 7.2%	¥493.0 billion 3-year sales growth rate: 12.7%	¥360.0 billion 3-year sales growth rate: 10.4%
Operating income	¥45.0 billion Operating income margin: 7.6%	¥39.5 billion Operating income margin: 8.0%	¥30.0 billion Operating income margin: 8.3%

Outline of Today's Presentation



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【Customers】

■ Structural changes in the market

- Decreasing birthrate and aging of the Japanese market
- Growth of demand in emerging markets

■ Polarization of demand

- Commoditization of low-priced products
- Consumer behavior of not being concerned with price once the value is acknowledged

【Sales Network】

- Large-scale capitalization and formation of chains of retail stores
 - Development of musical instruments business by major distributors
 - Rise of mass retailers of musical instruments
- Rise of cross-boarder retail business and information
 - Internet retailing becoming commonplace
 - Globalization of information about products and prices

【Competition】

- Chinese-made products are being used to carry forward low-price strategies
 - Development of a second brand by long-established manufacturers
 - Development of house brands by major dealers

【Areas of Concern】

- US economy is weakening and European economy is patchy
 - Impact on sales
- Continuing high prices for crude oil and raw materials, such as wood and metal
 - Impact on manufacturing costs and distribution costs
- Fluctuation in exchange rates (in particular, a weak US dollar and strong Chinese yuan)
 - Impact on the profits of businesses overseas

1. Accelerate product innovation and development



Respond to “polarization of demand”

2. Strengthen manufacturing process



Respond to “intensifying competition”

3. Strengthen marketing power



Respond to “changes in the market structure”

4. Operate more efficiently



Strive for “total optimization”

1. Accelerate Product Innovation and Development



1. Develop high-grade and high added-value products

Policy: Differentiate our products with features that are “uniquely Yamaha”

- Promote Total Piano Strategy
- Build a high added-value strategy that utilizes “Artist Relation”
- Rebuild guitar business

2. Develop affordable price range products that are competitive

Policy: Products with full specifications and high cost performance

- Extensive lineup of affordable price range products
- Develop models in line with the market

2. Strengthen Manufacturing Process



1. Reorganize and reinforce production bases

Policy: Expand bases in Japan, China, and Indonesia as key production bases, and manufacture core product lineups at Yamaha facilities

- Consolidate production bases in Japan
- Strengthen bases in China and Indonesia

2. Improve productivity and reduce costs

Policy: Firmly establish activities to achieve improvements and reduce costs for procuring materials

- Promote Yamaha Productivity Management (YPM) activities
- Strengthen capabilities to procure parts and materials globally

3. Strengthen Marketing Power



1. Build sales system appropriate for market characteristics

Policy: Achieve both comprehensive and specialized capabilities

- Create synergy through “One Yamaha”
- Promote development of “Multi-Specialists”

2. Establish sales methods from customer-oriented perspective

Policy: Put into practice customer-oriented approach

- Promote store strategies that respond to the needs of customers
- Improve quality of sales and service activities

3. Strengthen Marketing Power



3. Increase the population of musical instrument players and producers of music

Policy: Create demand by providing the “opportunity & place”

- Create a school environment that is appreciated by customers
- Developing music entertainment into a core business

4. Increase investments in key markets and product domains

Policy: Continue to actively invest in growth areas

- **Markets:** China, Russia, and India
- **Products:** Commercial audio equipment

4. Operate More Efficiently



1. Nurturing and effective utilization of human resources

Policy: Promote transition to next generation and appropriate posting of human resources

- Promote systematic handing down of skills and techniques
- Secure production facility employees globally

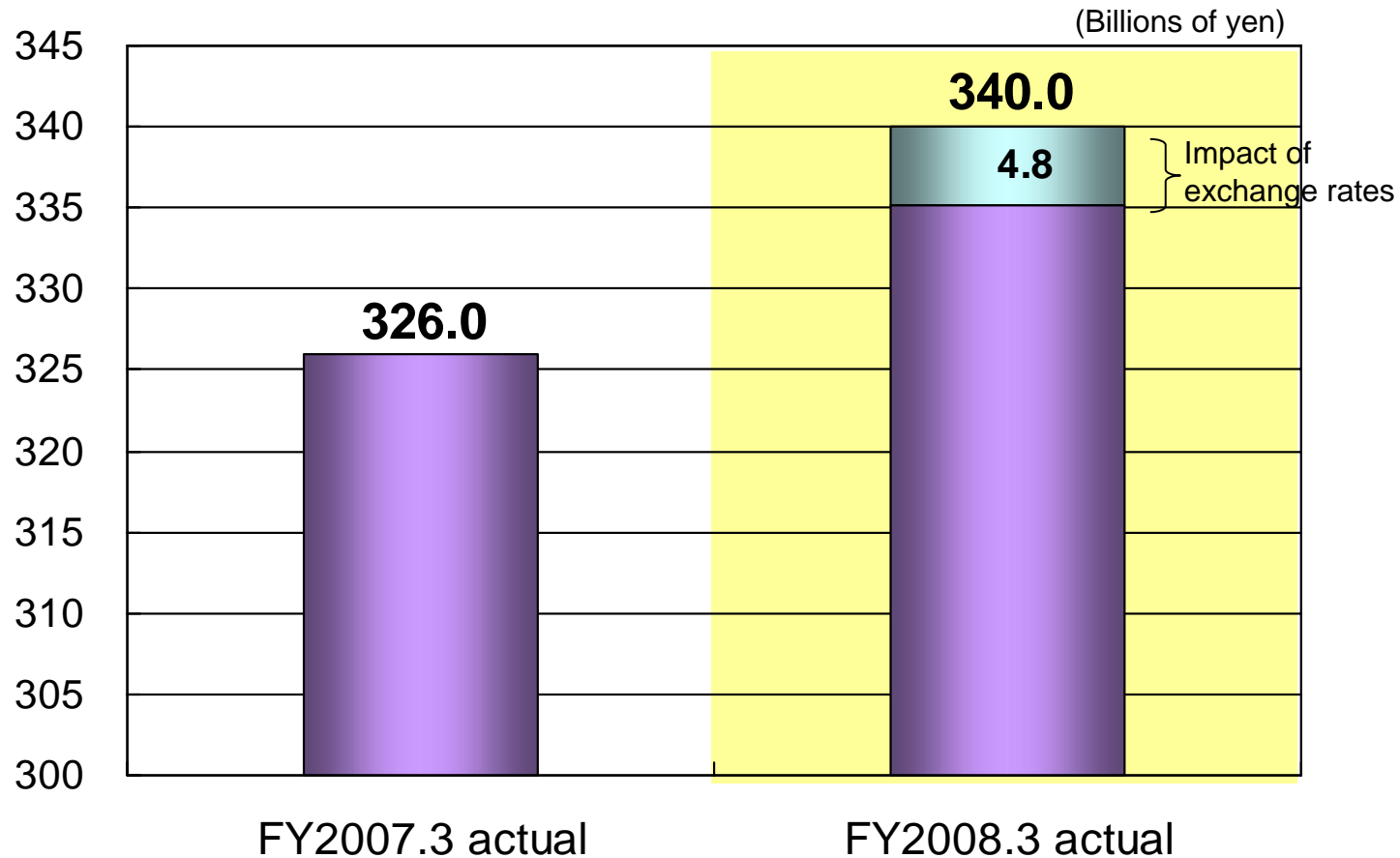
2. Progress of SCM

Policy: Achieve streamlining of operations and improvements in customer satisfaction

- Build integrated PSI system
- Implement categorized inventory control system
- Place responsibility for inventories on each business division (production side)

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Net Sales (Musical instrument business overall)

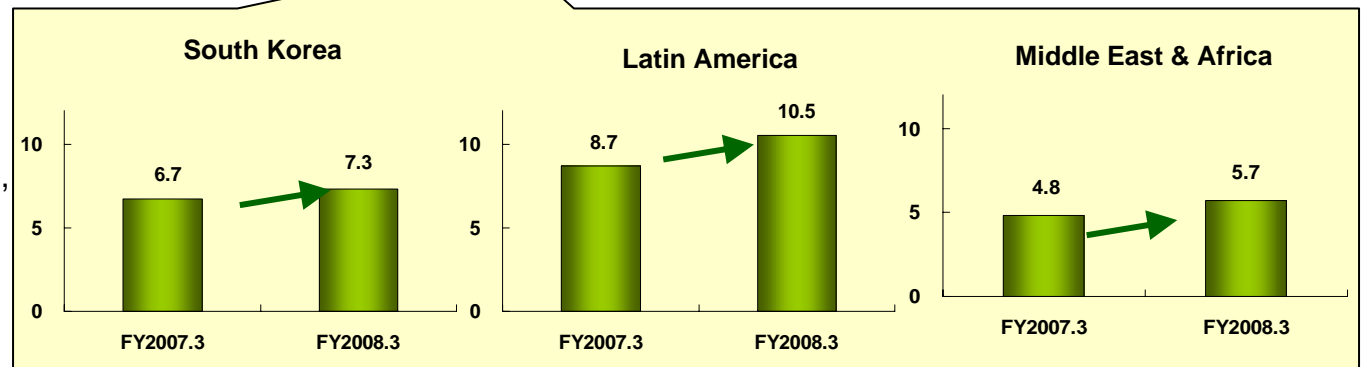
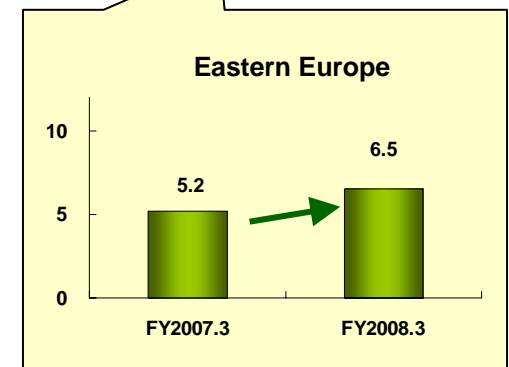
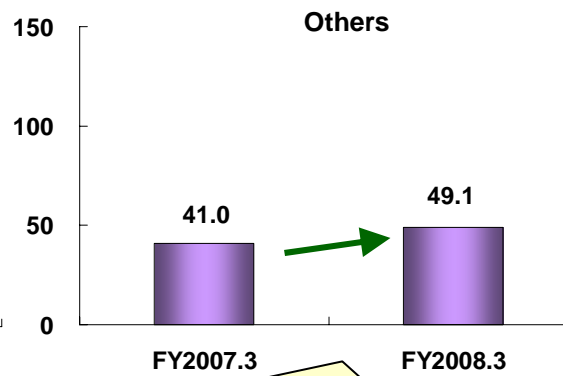
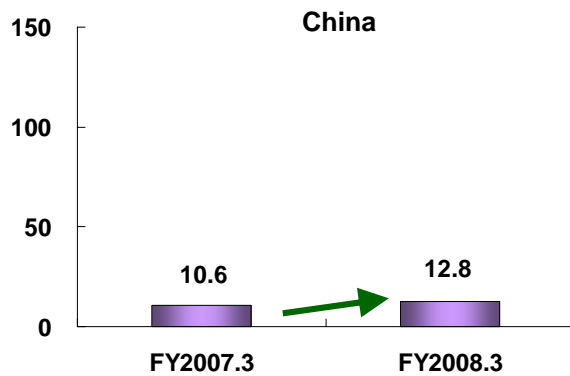
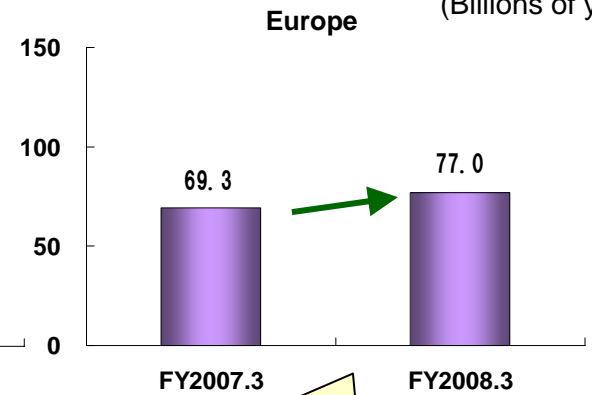
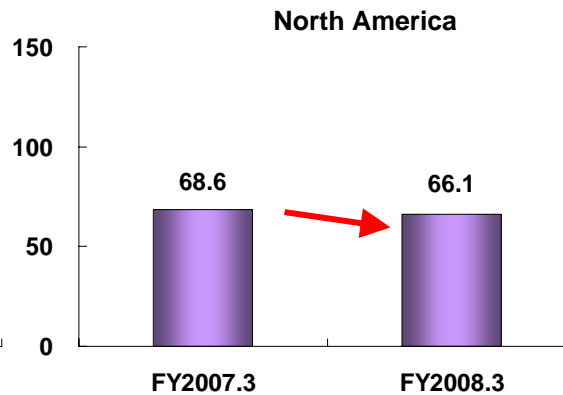
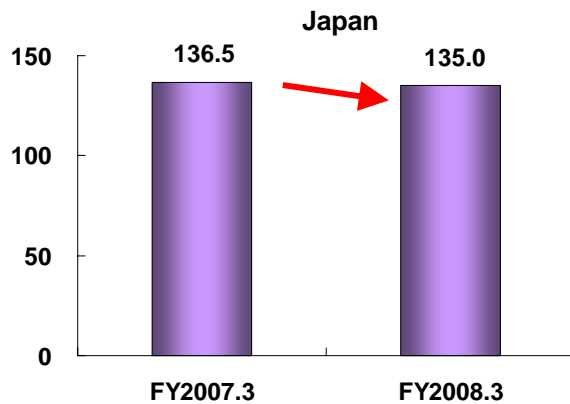


- Increase in income of ¥14 billion overall compared with the previous year
(101% compared with initial projections; 104% of previous year)

Net Sales (By region)



(Billions of yen)



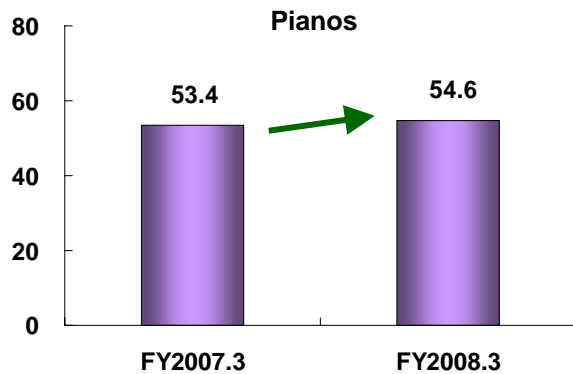
Actual year-on-year change, discounting impact of exchange rates

Japan (-1%), North America (-3%), Europe (+4%), China (+20%), Other regions (+18%)

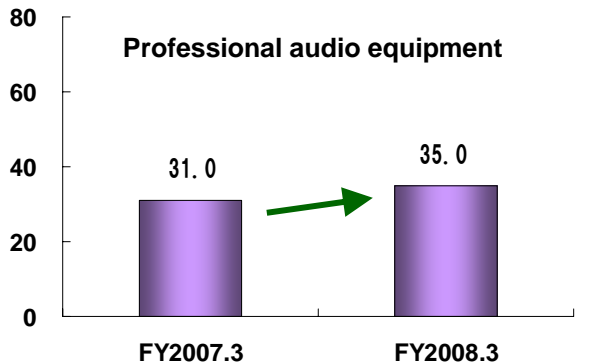
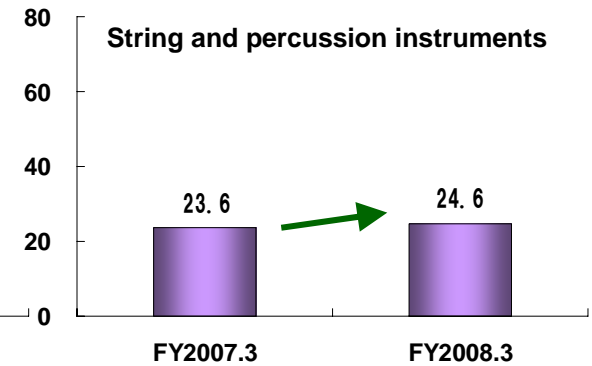
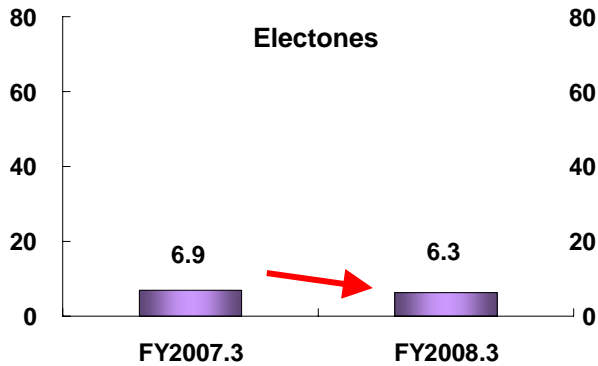
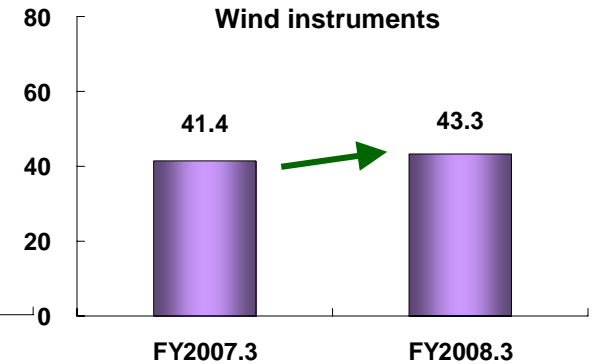
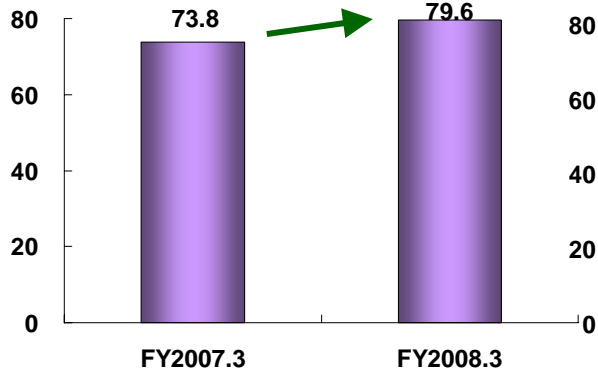
Net Sales (By product)



(Billions of yen)

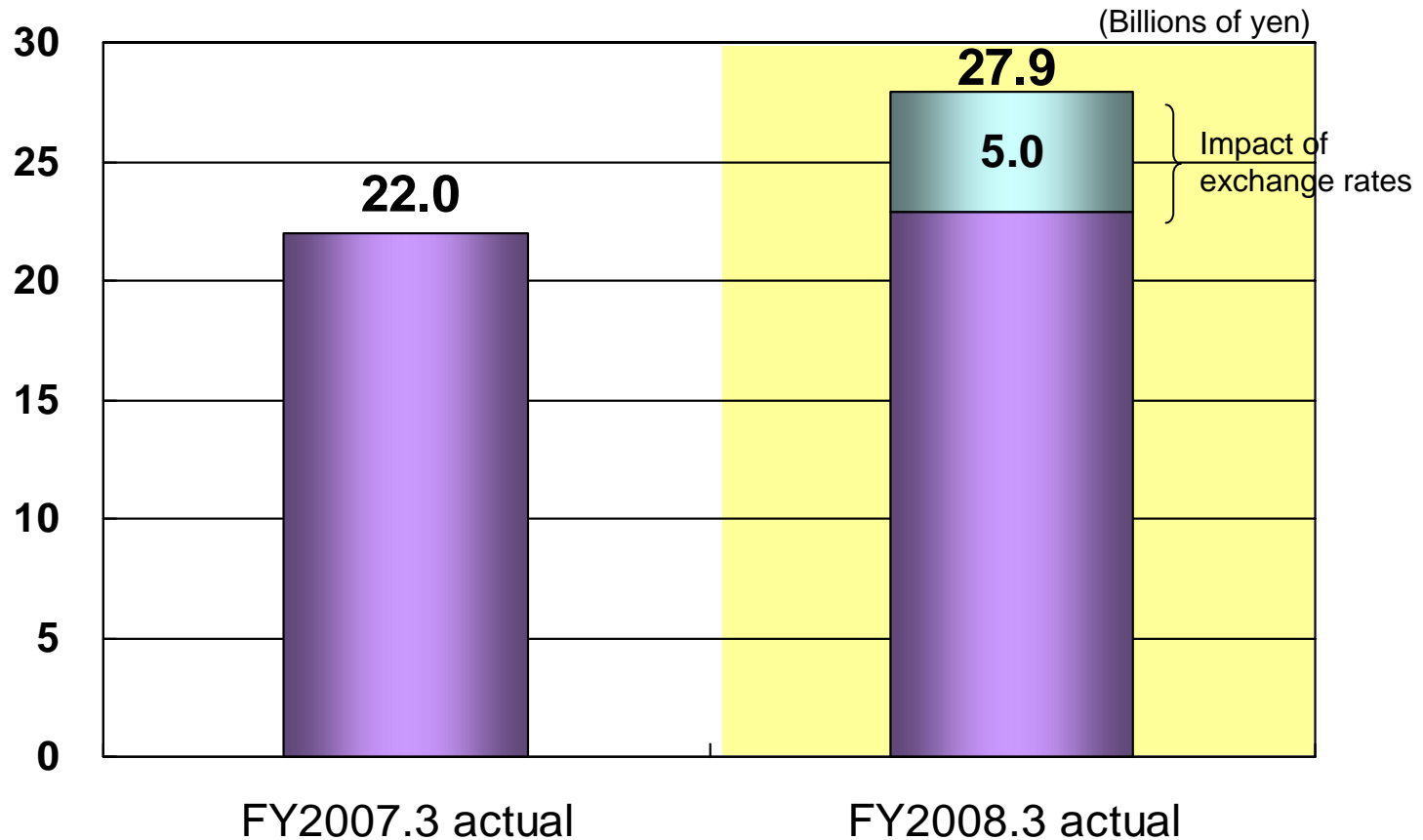


Electronic musical instruments
(excluding Electones)



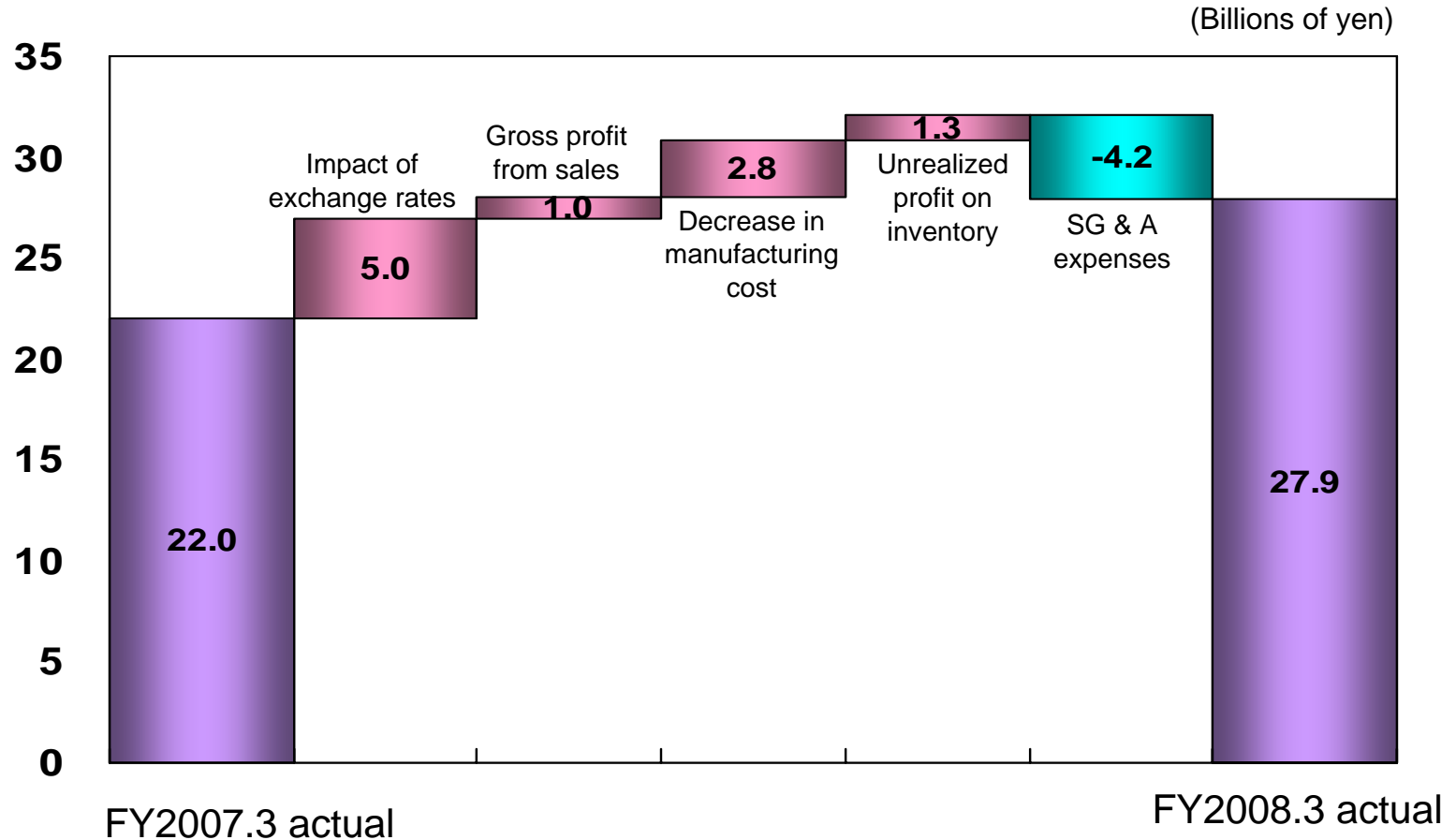
Piano unit sales	FY2007.3	FY2008.3
Japan	21,300	19,200
North America	20,400	18,300
Europe	18,800	18,700
China	18,400	24,000
Others	13,700	15,100
Total	92,600	95,300

Operating Income



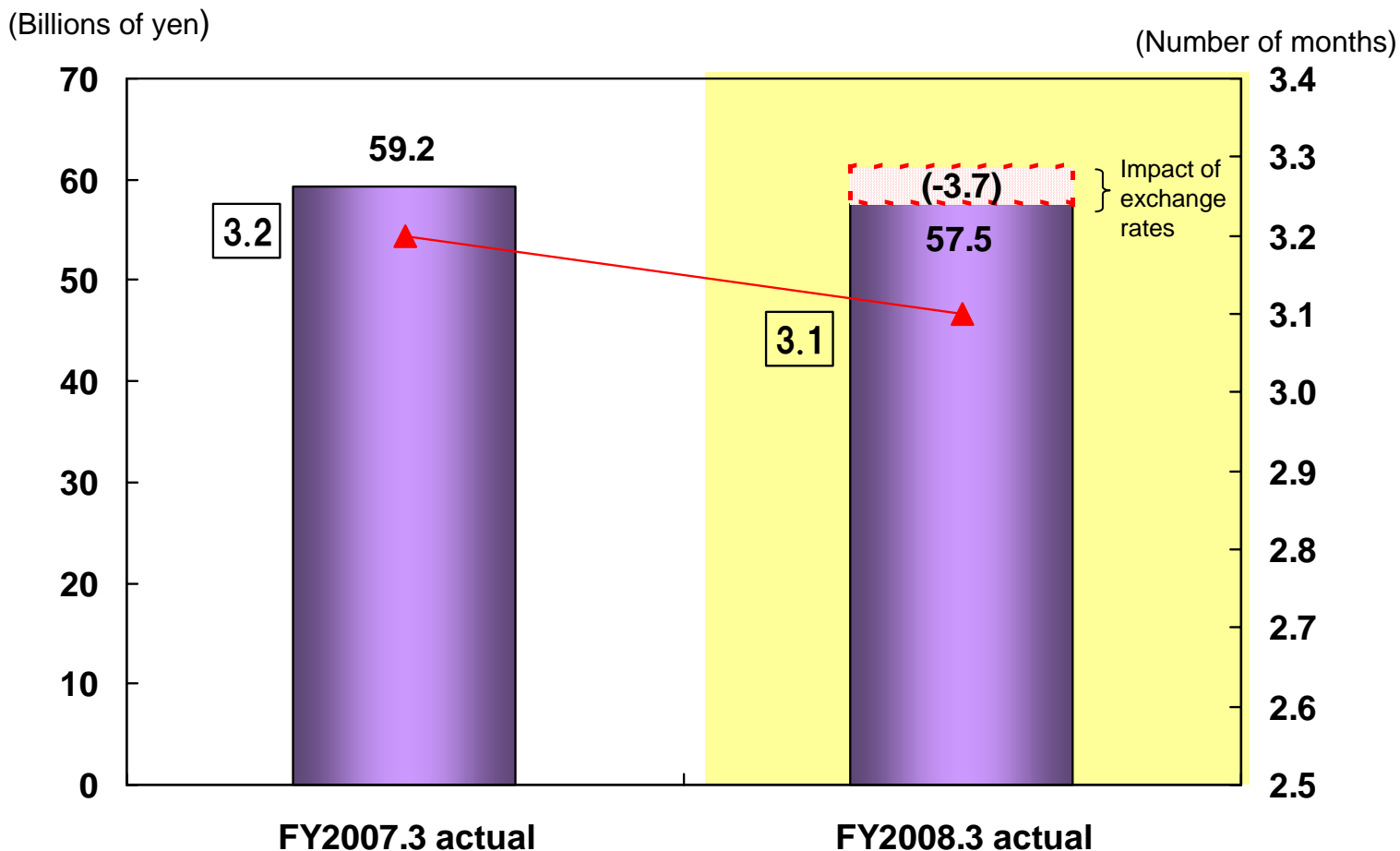
- Benefiting in part from the effects of exchange rates, an increase of ¥5.9 billion in income compared with the previous year was achieved (116% compared with initial projections; 127% of previous year)

Analysis of Operating Income



- Additional expenditures for advertising and promotional costs aimed at realizing sustainable growth

Inventories



- Although initial projections were not reached, a decrease of ¥1.7 billion and 0.1 month compared with the previous year was achieved (104% compared with initial projections; 97% of previous year)

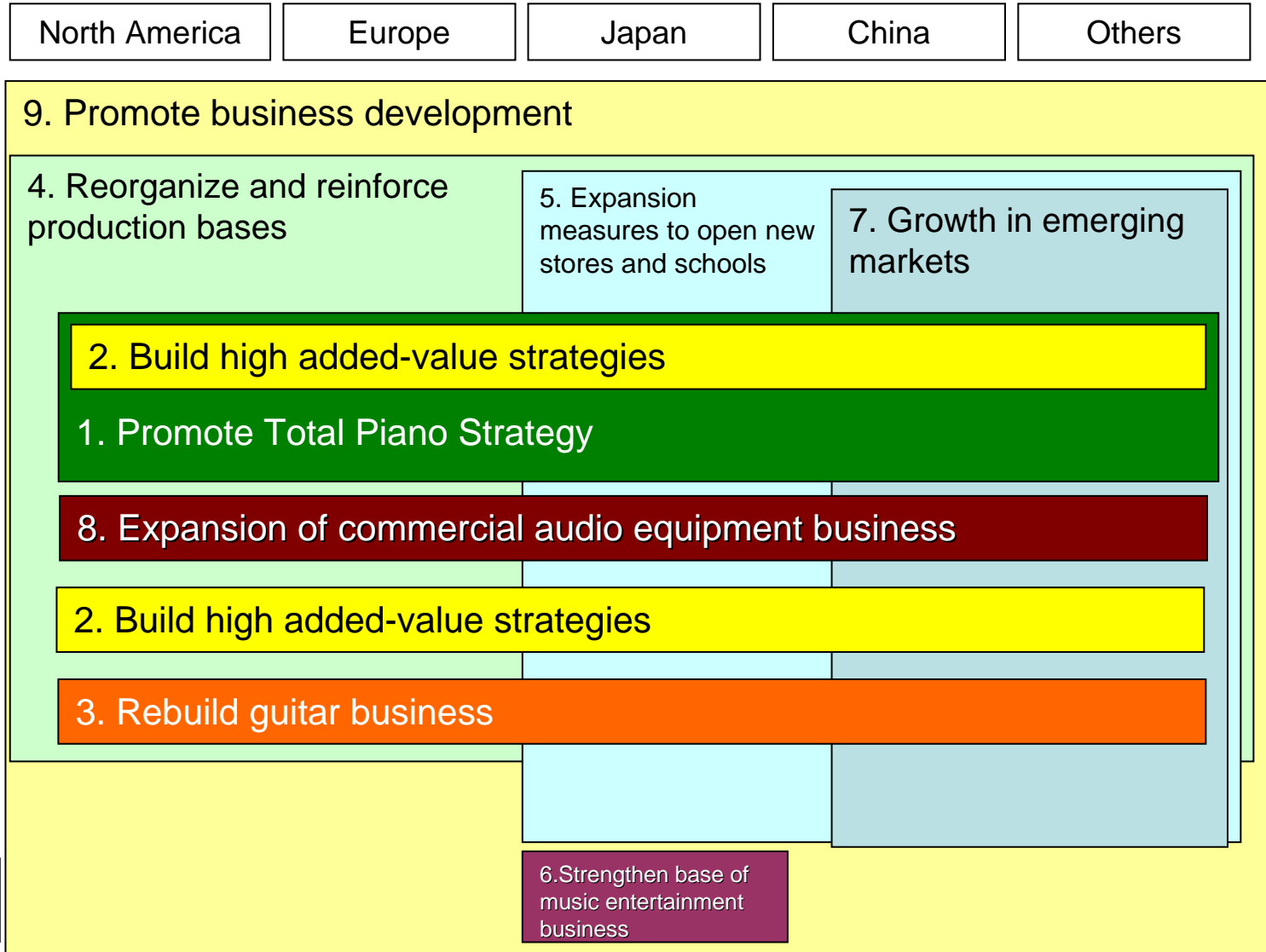
* Number of months retained in inventory = Value of ending inventory ÷ (Cost of sales for the year ÷ 12)

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Map of Key Measures



* Accelerate product innovation and development: 1,2,3; Strengthen manufacturing process: 4; Strengthen marketing power: 5,6,7,8

1. Promote Total Piano Strategy



Create a lineup of pianos from the customer's perspective

- Product development: A new type of piano that is free of the distinction between acoustic and digital
 - Steady progress being made in development of New Hybrid Piano
 - ⇒ Scheduled to be unveiled in 2009
- Sales method: Offer choices that satisfy the demands of customers
 - Start preparations to set up sales system and sales network
 - ⇒ Implement new marketing approaches

Digital Piano Corner

Japan



U.K.



1. Enhance Artist Relation activities

- Transfer Artist Relation bases to sales subsidiaries
 - Shift to a system where sales subsidiary is at the core, and enhance collaboration with marketing teams
 - ⇒ Start full-scale activities united with sales personnel

- Build human relations for acoustic instruments
 - Establish Europe-wide Yamaha Piano Technicians Guild (YPTG)
 - ⇒ Promote closer ties between non-affiliated piano technicians and Yamaha
 - Joint-development with artists of custom-made wind instruments
 - ⇒ Further enhance collaboration with atelier technicians

2. Acquisition of Bösendorfer

■ Company Profile (Company name: L. Bösendorfer Klavierfabrik GmbH)

- Factory location: Outskirts of Vienna, Austria
- Date of establishment: 1828; Number of employees: 180
- Sales amount (2006): 13,533,000 euro (approx. ¥2.2 bil.)
- Piano unit sales (2006): 343 units (GP: 308; UP: 35)



■ Basic policy following acquisition

- While continuing Bösendorfer's skills in sound creation, Yamaha's management resources will be used to revive Bösendorfer and improve its brand value
- Enhance Yamaha pianos through the exchange of technology with Bösendorfer
- Achieve growth in the business by responding to the diverse needs of customers of premium pianos
 - 1) Yamaha and Bösendorfer shall firmly maintain their own distinctive characteristics in sound creation
 - 2) Yamaha's hybrid piano technology will be used in pianos made by both Yamaha and Bösendorfer
 - 3) Synergy in Artist Relation activities
- Expand the networks in the musical instruments and music industries



3. Rebuild Guitar Business



1. Strengthen structure of guitar business

- Improve stability of quality and manufacturing skills
 - Launch “Project to promote operational reforms” to undertake revision of operational processes
 - Manufacturing reforms are moving forward at production bases in Japan, Indonesia, and China
- ⇒ Revisions and reforms continue to be carried out



3. Rebuild Guitar Business



2. Product development focusing on electric-acoustic guitars

- Strengthen product development
 - Launch project team and focus the resources of the entire Group on development of elemental technologies
 - ⇒ Accelerate development of wood processing, pick-up, DSP
 - Strengthen Yamaha Artist Service Hollywood (YASH)
(Enhance collaboration with R&D, Artist Relation, and Sales)
 - ⇒ Gain high evaluation of Acoustic Resonance Transducer (A.R.T.) and Acoustic Resonance Enhancement (A.R.E.) technologies



3. Rebuild Guitar Business



3. Increase the share of North American market to drive growth in sales

- Focus marketing efforts on North American market
- Start developing outstanding dealers through programs promoting exhibits



Bases: 45 (53 stores) ⇒ 60 dealers

Net Sales (Year-on-year): \$1.6 million ⇒ \$ 2 million (124%)



4. Reorganize and Reinforce Production Bases



Reinforce mother functions with the aim of strengthening production bases

- Japan: Aim for mother factory functions and develop added value
 - Pianos: Redesign of layout of the upright piano process at Kakegawa is proceeding on schedule
 - ⇒ Preparation to move Hamamatsu grand piano factory to Kakegawa
 - PA and electronic musical instruments: Preparations for introducing processes formerly handled externally in order to reinforce mother functions at Toyooka
 - ⇒ Begin introduction of the processes and production of New Hybrid Piano at Toyooka
 - Wind, string, and percussion instruments: Begin in-house production of tympanis and high-end drums
 - ⇒ Expand lineup of products to be produced within Yamaha

Kakegawa factory
(Pianos)



Toyooka factory
(PA; electronic musical instruments; wind, string, and percussion instruments)



4. Reorganize and Reinforce Production Bases

Develop successor products resulting from reorganization of production bases and establish supply system for these products

- **Indonesia: Strengthen supply and manufacturing capabilities**
 - Yamaha Indonesia: First stage of expansion of floorspace for pianos is completed
 - ⇒ Second stage of expansion of floorspace and undertaking of processes that had been carried out externally
 - YMMI: Enhance management structure and strengthen guitar manufacturing capabilities
 - ⇒ Build structure for increasing production of guitars
 - YMMA (electronic musical instruments), YMPI (wind and educational instruments): Preparation for incorporating added value and increasing production
 - ⇒ Further progress to be made in activities to achieve improvement

Yamaha Indonesia
(Pianos)



4. Reorganize and Reinforce Production Bases



Develop successor products resulting from reorganization of production bases and establish supply system for these products

- **China: Aim for quality, cost control, and supply capability**
 - Hangzhou Yamaha: Construction completed on second building (increase production of pianos and guitars); supply pianos to North America
 - ⇒ Begin construction of third building
 - Xiaoshan Yamaha: Undertake production of wind instruments on factory grounds; supply wind instruments to North America
 - ⇒ Reorganize processes (Preparation for transferring control of piano parts to Hangzhou; undertake prior stage for wind instruments)
 - Tianjin Yamaha: Undertake efforts to continue reducing costs for electronic musical instruments; incorporate added value
 - ⇒ Continue to reinforce manufacturing structure
 - Guangzhou Yamaha: Dissolve joint venture, consolidate production at Hangzhou

Hangzhou Yamaha (Pianos, guitars)



Xiaoshan Yamaha (Wind instruments)

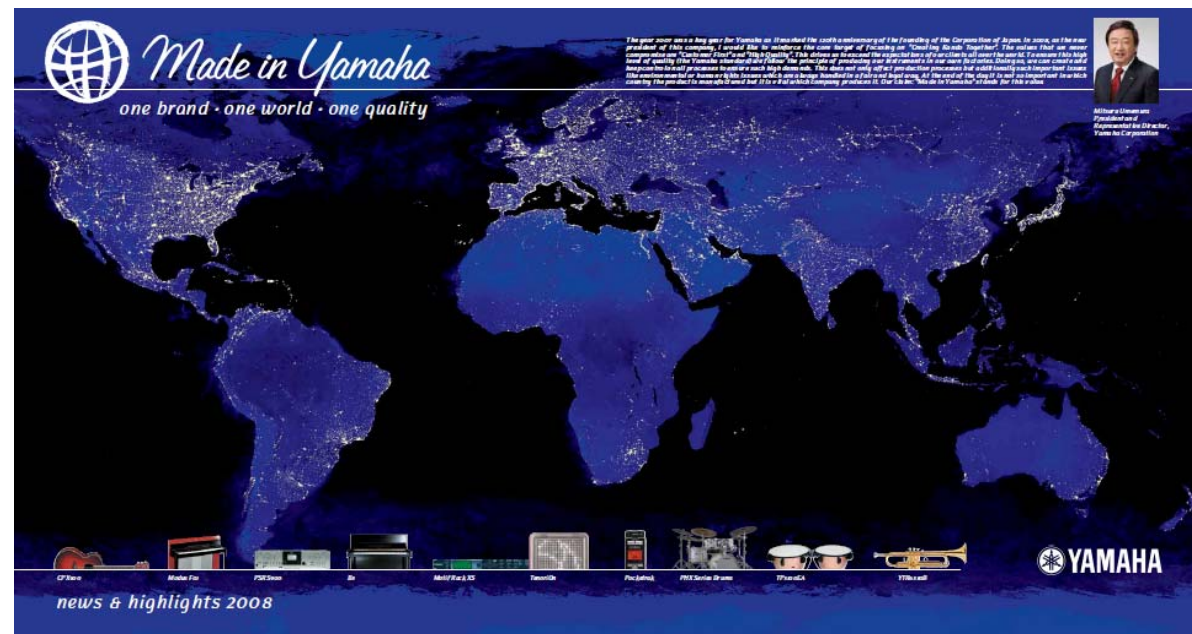


4. Reorganize and Reinforce Production Bases

Spreading the philosophy about production

- Entire Group: Thorough implementation of quality-oriented creed
 - In order to realize the high quality demanded by the “Yamaha Standard,” it is necessary to achieve high quality in every aspect of the production process based on the philosophy of “Our products must be made in our own factories,” while giving every possible consideration to the global environment and the rights of our workers.

It is clearly expressed in the words “Made in Yamaha” that what is important is not the country where the product is made, but the company where the product is made.



The year never was a big year for Yamaha as it marked the 50th anniversary of the founding of the Corporation of Japan. In 1957, as the new president of this company, I would like to introduce the concept of "Smiling Again, Together". The notion that we never compromise on "Quality, Cost and Time to Market" is the basis to succeed in the global market. To ensure the high level of quality the Yamaha standards follow the principle of producing your own products in our own factories. Doing so, we can control all the processes from the start to the end. This does not only help in producing products that will surely meet customer needs, but also ensure that the products are made in our own factories. In the end of the day, it is not the country where the product is made but the company where it is made that counts. One 50th, Yamaha is proud to be a 100-year-old company.

Mitsuru Uemura
President and
Executive Director,
Yamaha Corporation

CP3000 Model F10 PSR-S3000 S1 MHSF6 & S5 Tascam P105JMK P105 Series Drums TFWA20A TFWA20B

news & highlights 2008

YAMAHA

5. Expansion Measures to Open New Stores and Schools



1. Promote store strategies that respond to the needs of customers

- Japan: Build business with a focus on stores capable of pulling in customers
 - Remodeling of subsidiary retail stores is in progress
 - ⇒ A store with a music school is scheduled to open in a shopping mall in Tsukuba
 - ⇒ Establish Grand Piano Salons under direct management in Osaka (April) and Fukuoka (May), as well as Sapporo and Nagoya
- China: Set up highly-refined, appealing displays of pianos
 - Further expand the number of “Yamaha Piano Corners”
100 (+34 over previous year) ⇒ 120 stores (+20)
- Other Regions (Asia Pacific): Establish market superiority through differentiation from other stores and displays
 - Open “Music Square” comprehensive retail stores and “BEATSPOT” Yamaha combo product corners
22 (+22 over previous year) ⇒ 45 stores (+23)
3 (+2 over previous year) ⇒ 4 locations (+1)

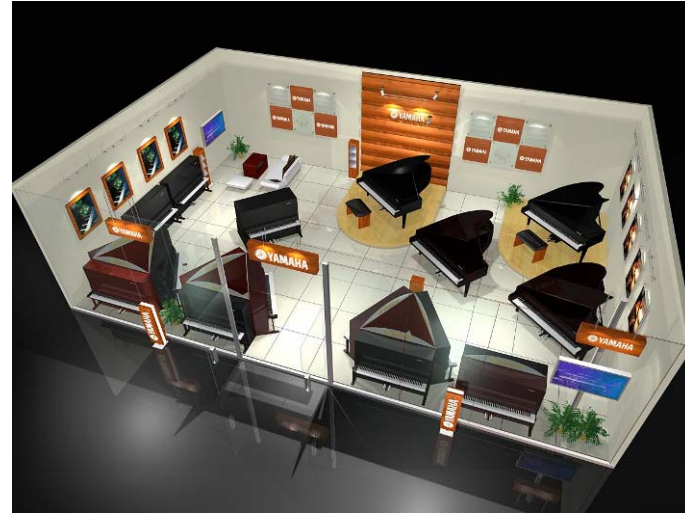
5. Expansion Measures to Open New Stores and Schools



Japan: “Grand Piano Salon”



China: “Yamaha Piano Corner”



Asia Pacific: “Music Square”



Asia Pacific: “BEATSPOT”



5. Expansion Measures to Open New Stores and Schools



2. Create a school environment that is appreciated by customers

- Japan: Carry forward strategies preparations throughout the country
 - UniStyle (Yamaha Music Schools): 75(+12 over previous year) ⇒ 95 locations (+20)
 - Core 100 (Schools for adults): 89 (+5 over previous year) ⇒ 110 locations (+21)
- China: Expansion in three major metropolitan areas (Beijing, Shanghai, and Guangzhou)
 - Centers under direct management: 3 (+2 over previous year) ⇒ Turn them into model centers
 - In-store music schools: 6 (no increase over previous year) ⇒ 13 locations (+7)
- Other Regions (Asia Pacific): Get started by establishing model schools in stores under direct management
 - Yamaha Music Schools: 22 (+22 over previous year) ⇒ 45 locations (+23)
 - Contempo Music Salon (Pop music) /Piacere Music Club (Adults):
1 (no increase over previous year) ⇒ 2 locations (+1) / 0 ⇒ 1 location (+1)

5. Expansion Measures to Open New Stores and Schools



Japan: “UniStyle”



Japan: “School for adults”



China: “Yamaha Music School”



Asia Pacific: “Yamaha Music School”



Asia Pacific: “Contempo Music Club”



Asia Pacific: “Piacere Music Salon”

6. Strengthen Base of Music Entertainment Business

Developing music entertainment into a core business

Strengthen Business Base

- Realign and integrate music entertainment businesses under Yamaha Music Entertainment Holding, Inc.



6. Strengthen Base of Music Entertainment Business



Developing music entertainment into a core business

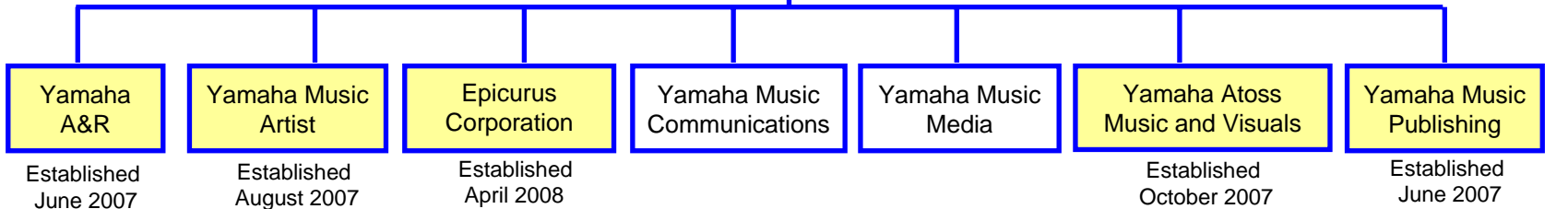
Expansion of Operations

- Companies established based on their functions



Yamaha Music Entertainment Holdings, Inc.

Established June 2007



Incubation
Artist management

- Planning, running musical events (Audio/lighting equipment, etc.)
- Discovering new artists through events, Internet communities, etc.
- Production and labels

Marketing

- Package sales of CD, DVD, etc.
- Production and labels
- Planning, production, and sale of sheet music, magazines, etc.
- Distribution to mobile phones, PCs, MUMA, etc.

Music publications

- Acquisition, management, and use of music copyrights
- Management and use of recording masters

7. Growth in Emerging Markets



Actively invest in emerging markets

- China (including Hong Kong): FY2009.3: 969 million RMB for musical instruments and 102 million RMB for AV equipment
 - FY2008.3: Achieved 120% year on year growth (piano unit sales reached 23,973)
 - ⇒ Plans call for double-digit growth in FY2009.3 (Sales target of 27,830 pianos)
- Russia: FY2009.3: ¥4.4 billion for musical instruments and ¥3.0 billion for AV equipment
 - Established sales subsidiary in September 2007
 - ⇒ Started full-scale business operations in April 2008
- India: FY2010.3: ¥2.2 billion for musical instruments and ¥400 million for AV equipment
 - Began preparations for establishing sales subsidiary
 - ⇒ Registration of company completed in March 2008, with full-scale business operations to begin in October 2008

8. Expansion of Commercial Audio Equipment Business



1. Progressing towards becoming a system solutions provider

- Maintain No. 1 position for digital mixers
 - Secure 80% share of the sales value of the Live Sound Reinforcement and Engineer Installed Sound (EIS) markets
- Strengthen business for output-type products



(Billions of yen)

Sales value	FY2008.3	FY2009.3 projection
Processors (Year-on-Year)	0.9 (118%)	1.35 (150%)
Power amplifiers (Year-on-Year)	0.62 (127%)	1.46 (235%)
Speakers (Year-on-Year)	0.29 (145%)	0.55 (190%)
Total (Year-on-Year)	1.81 (125%)	3.36 (186%)

8. Expansion of Commercial Audio Equipment Business



2. Accelerate growth of Commercial Audio (CA) business

■ Expand scale of business

■ Strengthen platform for CA business

- ⇒ Promote alliance with NEXO - Begin shipping NEXO brand DSP amplifiers
- ⇒ Merger of Fuji Sound and Yamaha Sound Technologies to form new company Yamaha Sound System set to take place in January 2009
- ⇒ Establish Europe-wide CA marketing organization



■ Preparation for full-scale entry into Commercial Installed Sound (CIS) market

- ⇒ Begin full scale shipment of products for the CIS market

9. Promote Business Development



Promote active approach to strategic M&A and business alliances

- Strengthen functions at every management level by setting up responsible organization
 - Place dedicated team in Corporate Planning Division in September 2007
 - ⇒ Enhance the team's capabilities by increasing personnel
- Look into and then establish optimal partnerships
 - Finalized acquisition of Bösendorfer in January 2008
 - ⇒ Continue following up on existing issues and uncover new issues



Model 290 Imperial

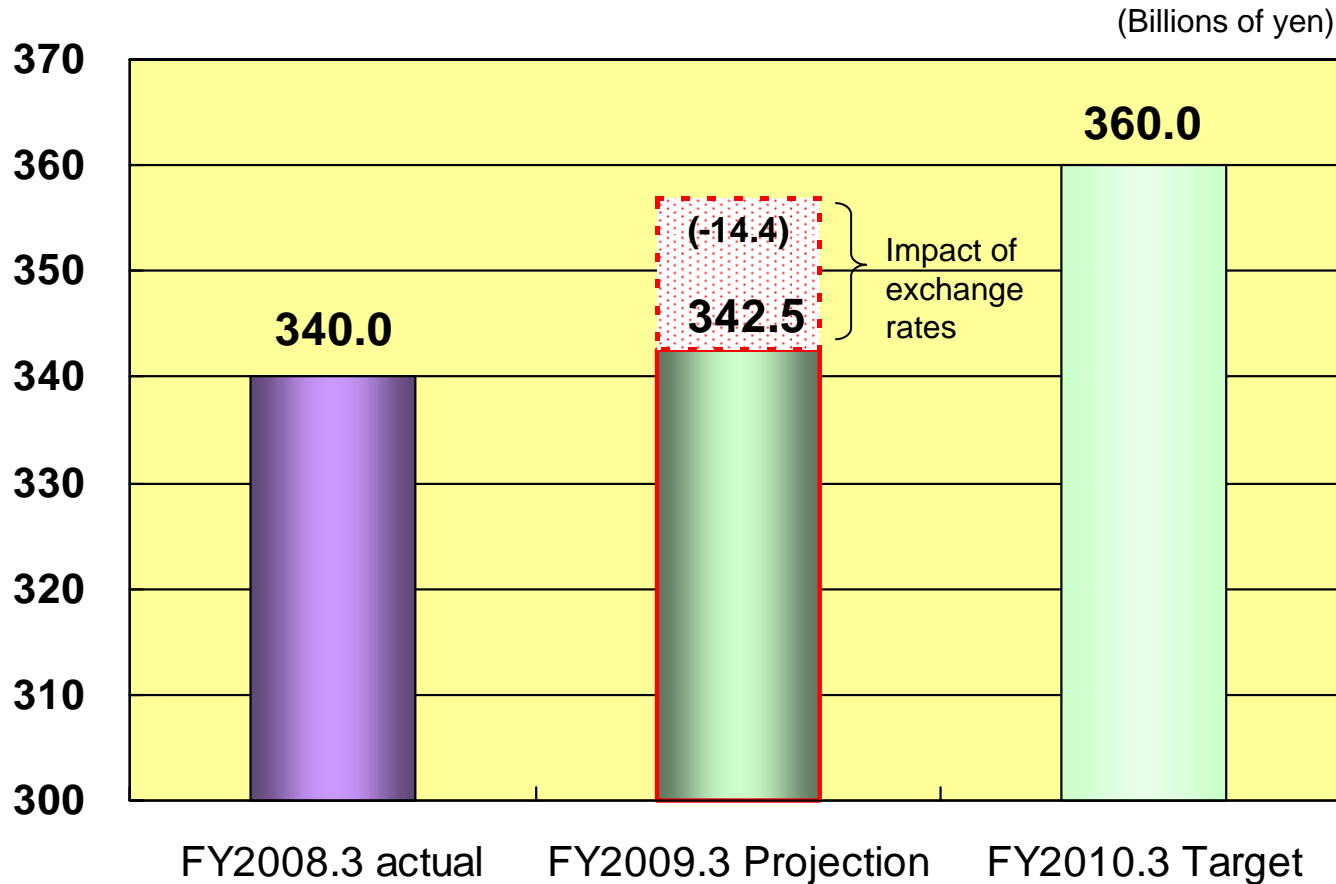


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- **Projections for the Second Year**

Net Sales (Musical instrument business overall)

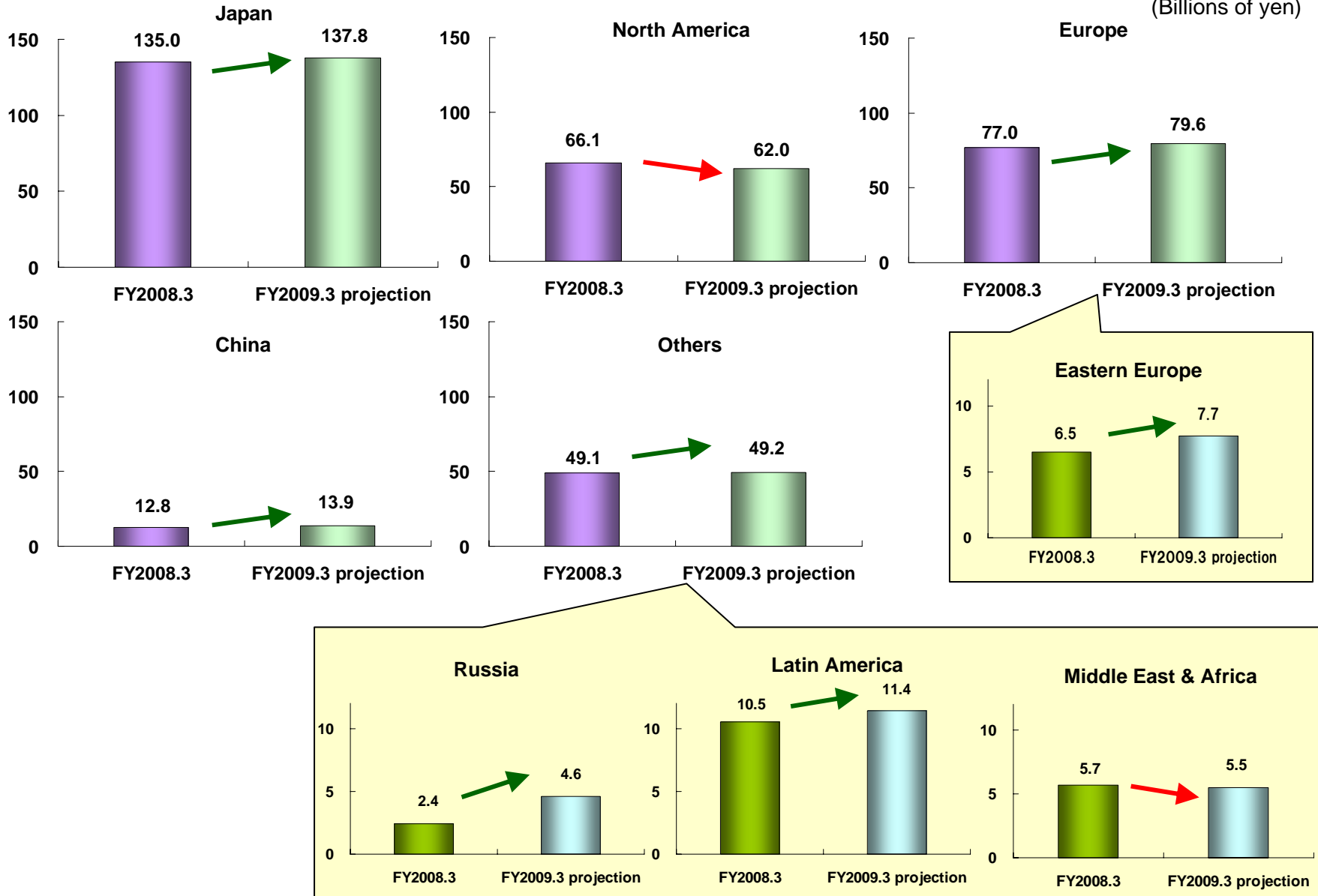


- Increase in income of ¥2.5 billion compared with the previous year is projected (101% of previous year)

Net Sales (By region)



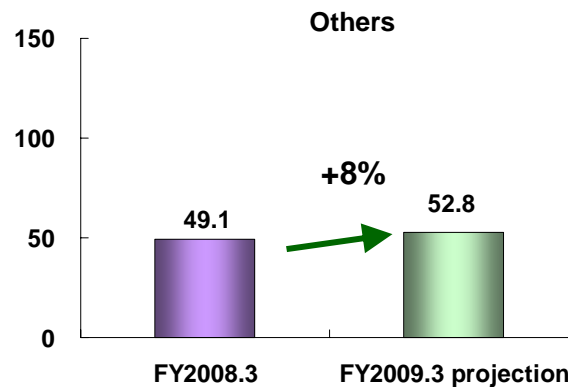
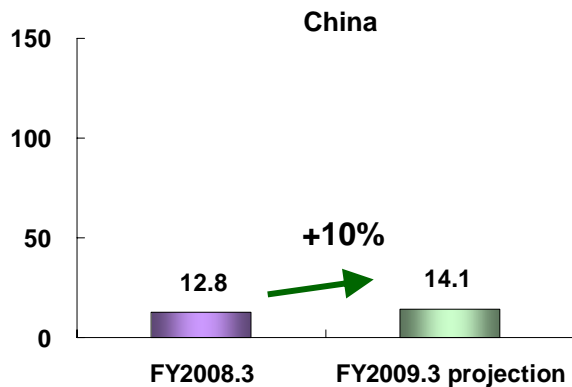
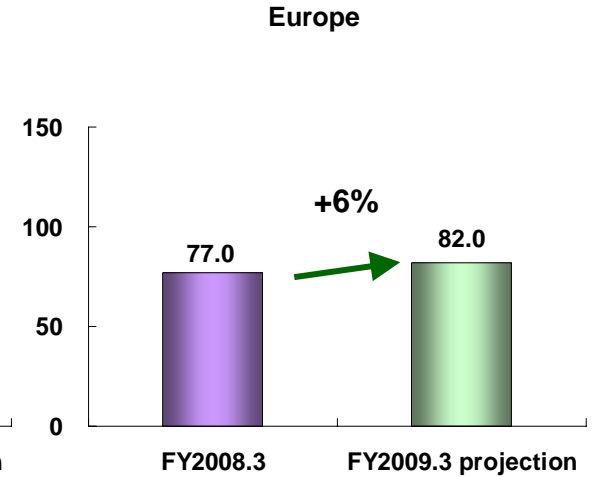
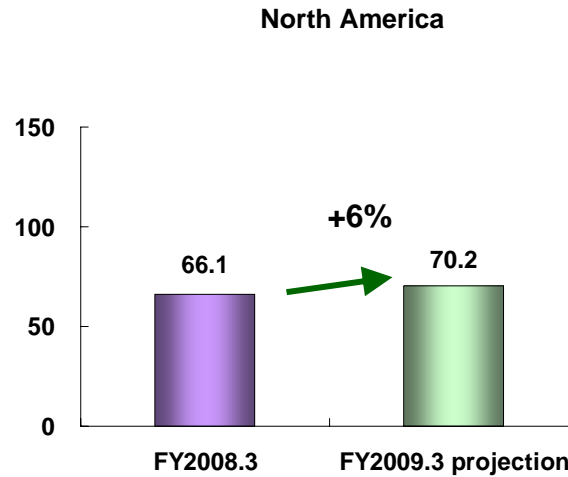
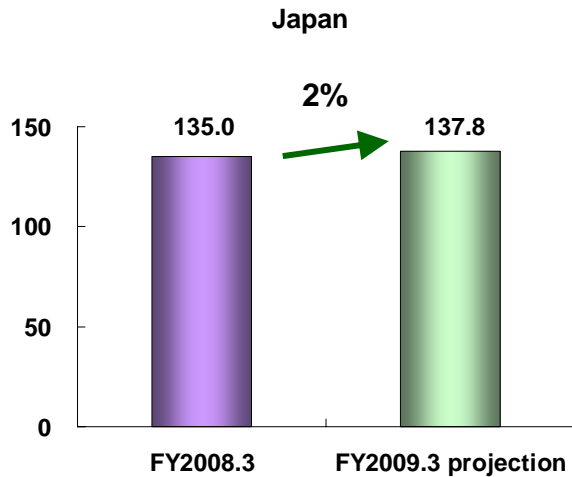
(Billions of yen)



Net Sales (By region: excluding impact of exchange rates)



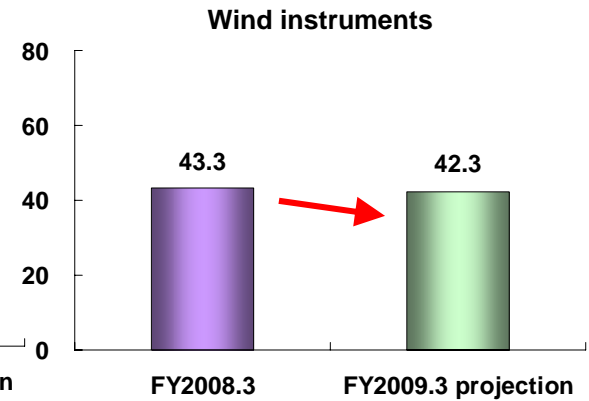
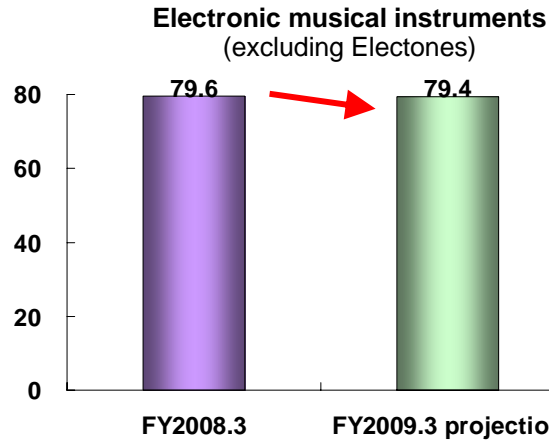
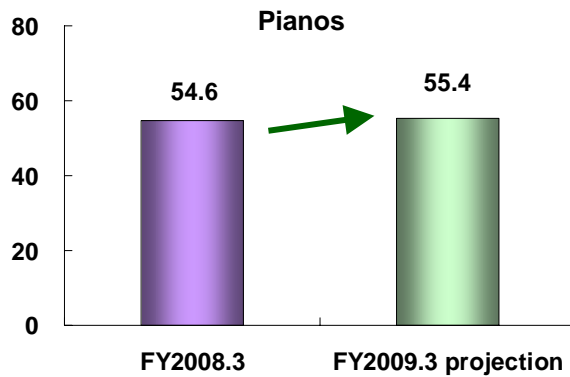
(Billions of yen)



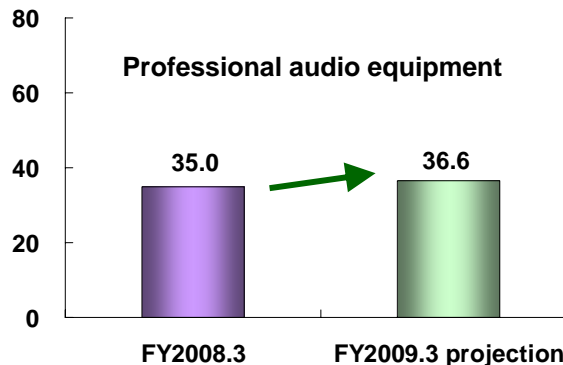
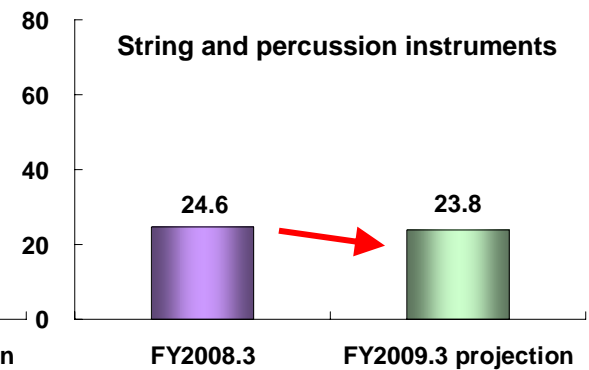
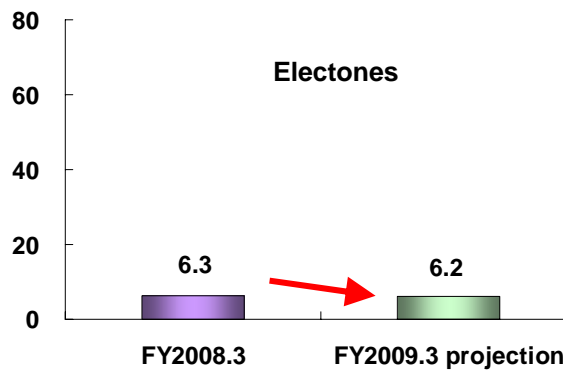
Net Sales (By product)



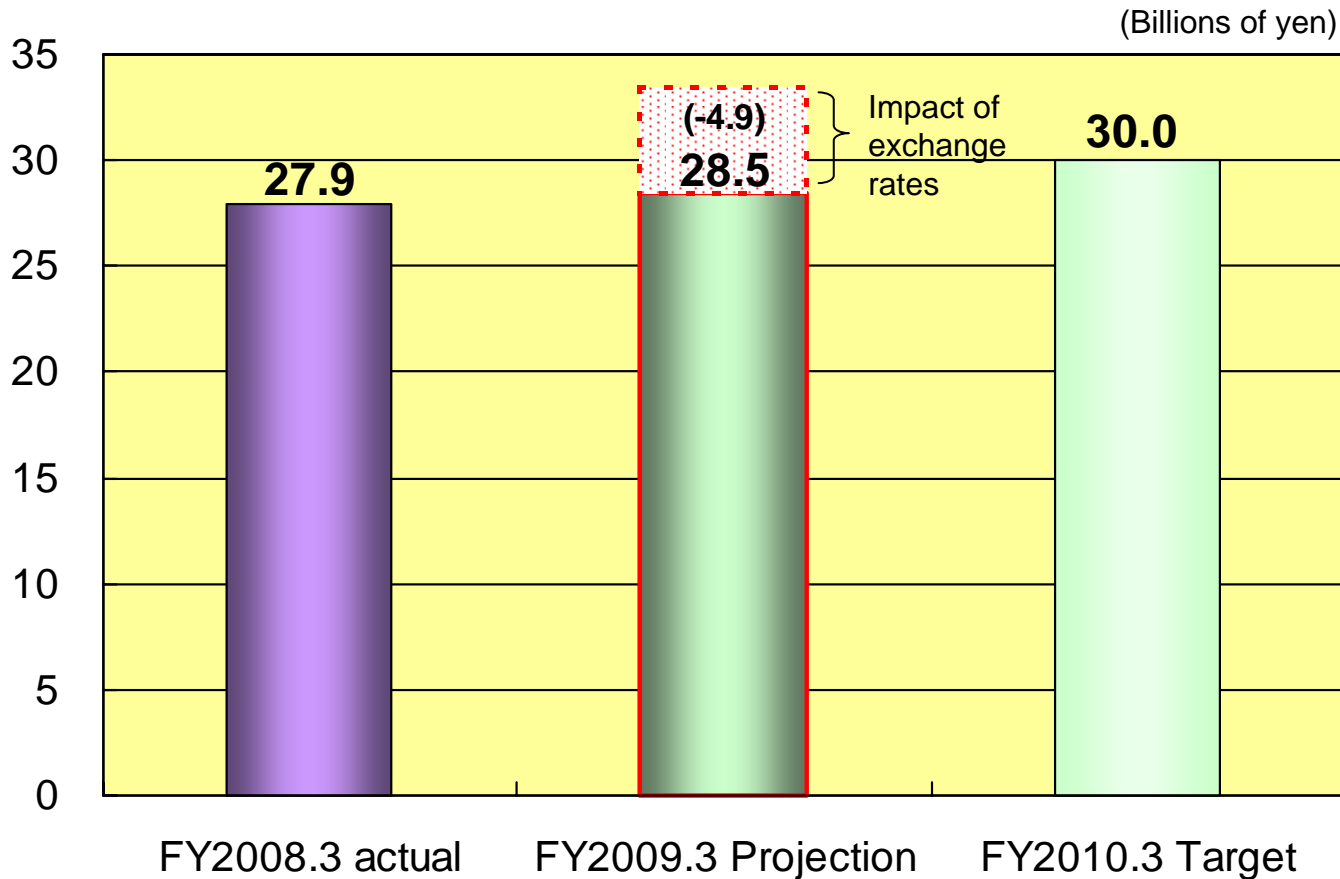
(Billions of yen)



Piano unit sales	FY2008.3	FY2009.3
Japan	19,200	20,000
North America	18,300	21,200
Europe	18,700	20,200
China	24,000	27,800
Others	15,100	15,400
Total	95,300	104,600

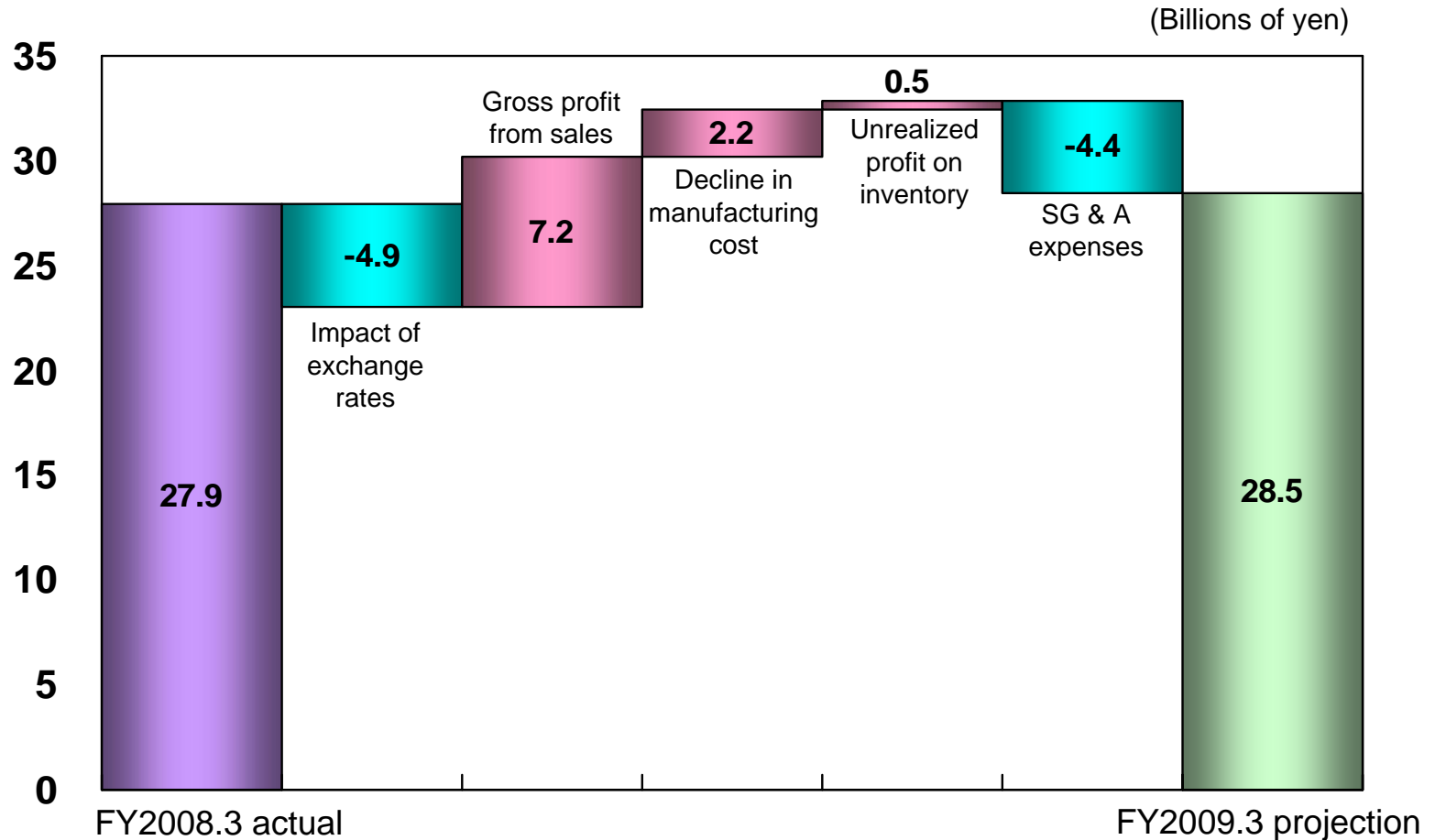


Operating Income



- An increase in income of ¥600 million is projected compared with the previous fiscal year (102% of previous year)

Analysis of Operating Income



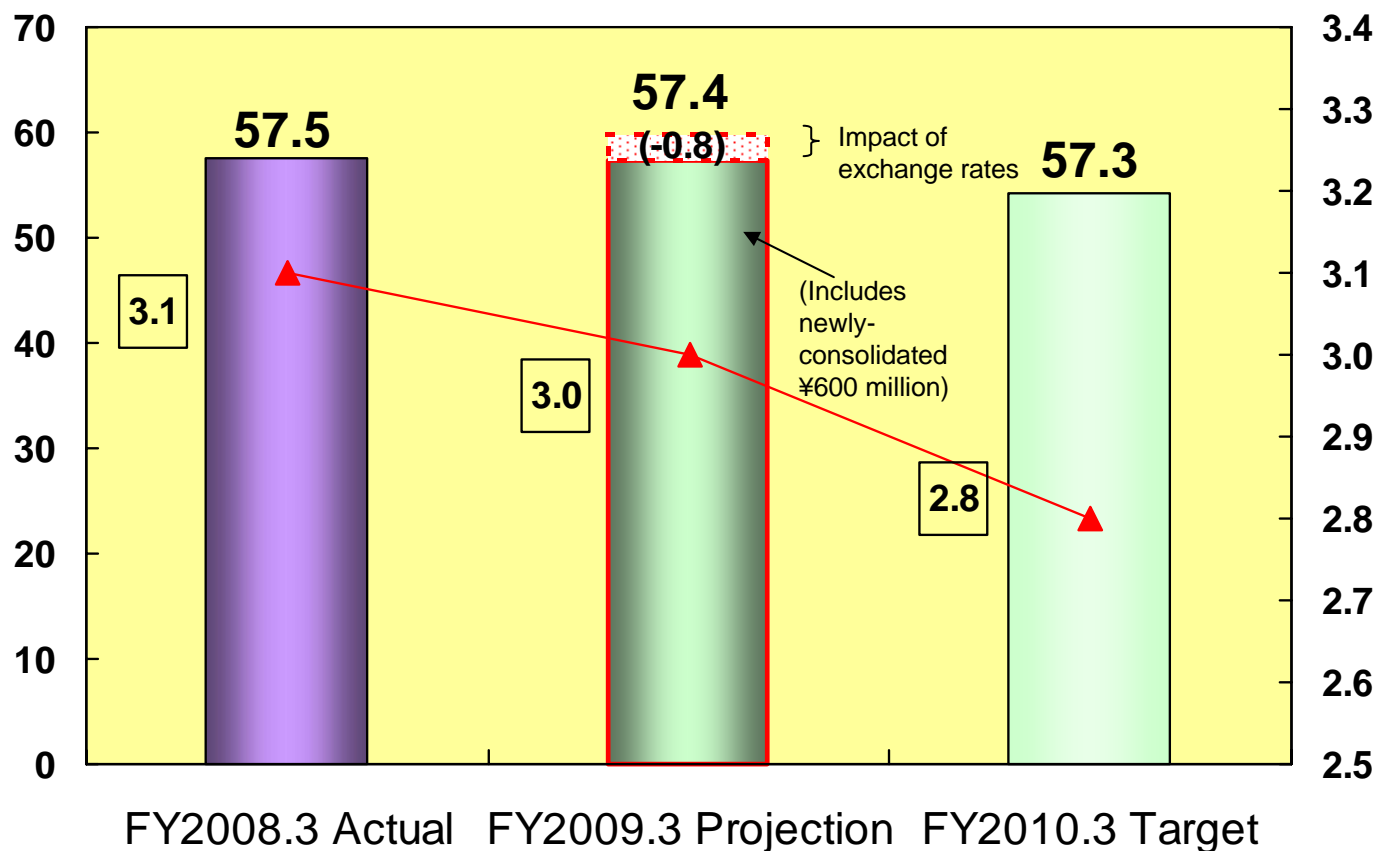
- Expected impact of exchange rates and increase in SG & A expenses due to new consolidations and write-offs resulting from projected benefit obligations are included

Inventories



(Billions of yen)

(Number of months)



- Projections call for a ¥100 million, 0.1 month decrease in inventory compared with the previous year

* Number of months retained in inventory = Value of ending inventory ÷ (Cost of sales for the year ÷ 12)



YAMAHA

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In this report, the figures forecast for the Company's future performance have been calculated on the basis of information currently available to Yamaha and the Yamaha Group.

Forecasts are, therefore, subject to risks and uncertainties. Accordingly, actual performance may differ greatly from our predictions depending on changes in our operating and economic conditions, demand trends, and the value of key currencies, such as the U.S. dollar and the euro.