

Accelerating Growth of Musical Instruments Business

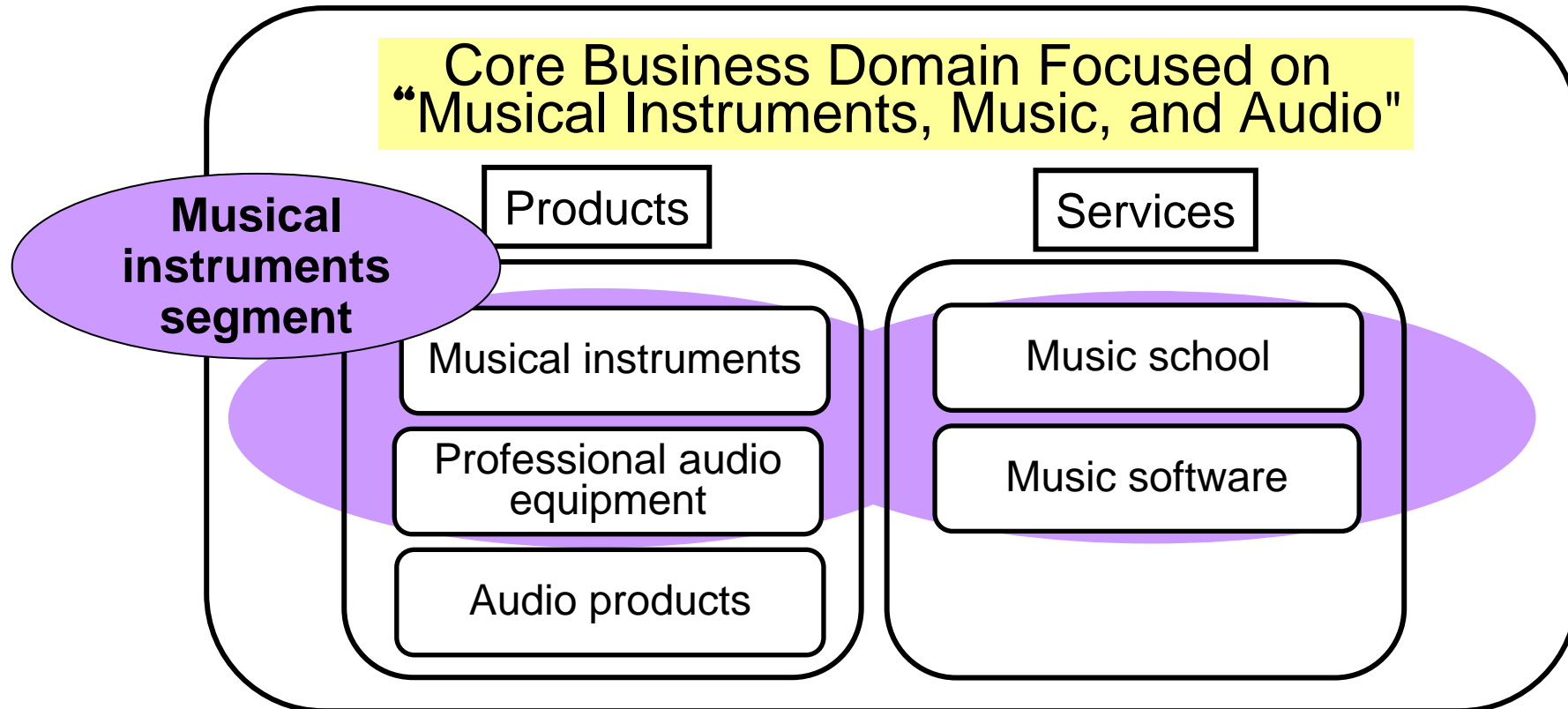
November 26, 2010



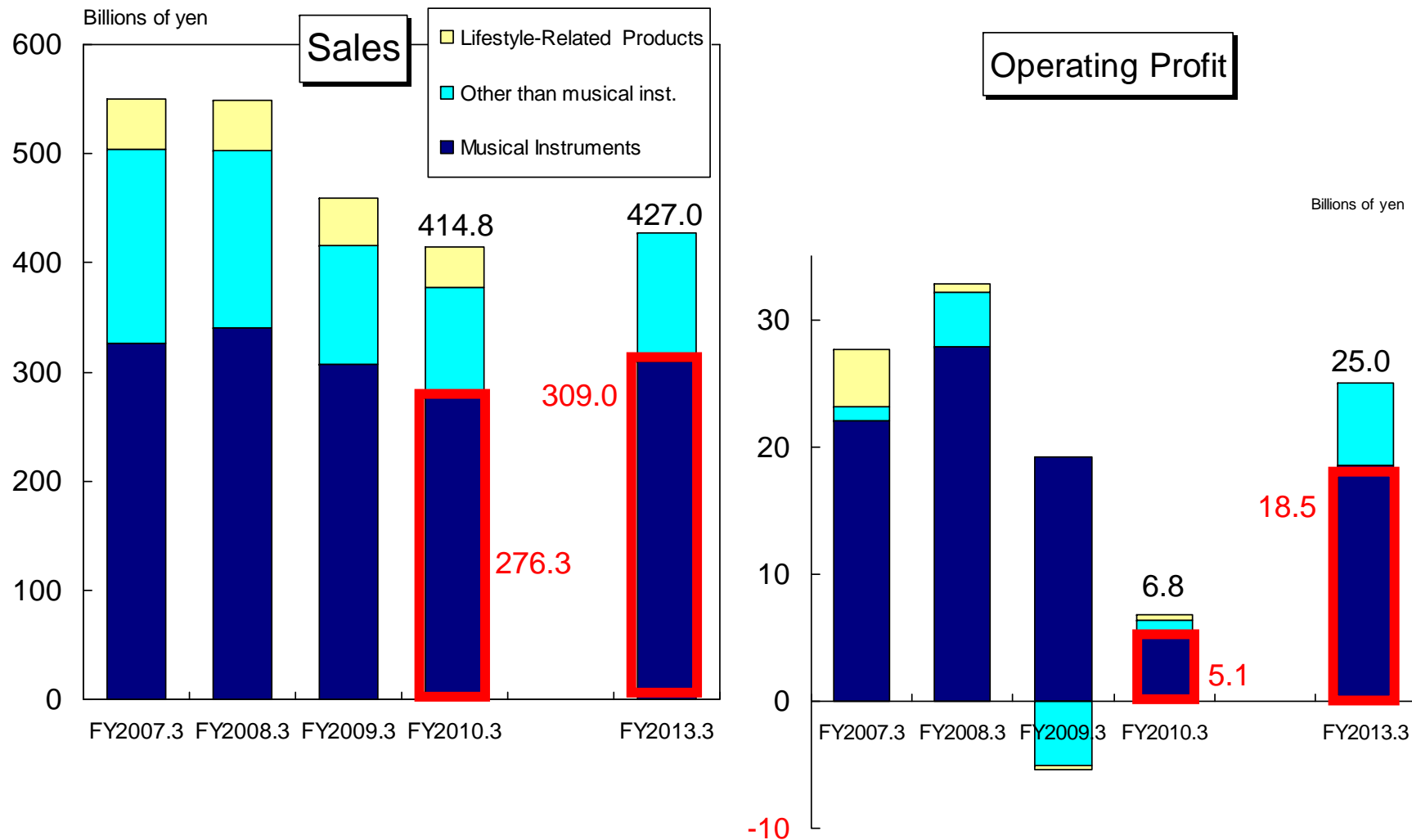
1. Positioning of musical instruments business within Yamaha
2. Musical instruments market and Yamaha's position
3. Yamaha's business strategy
 - Turning acoustic musical instruments business into profit
 - Growth in Chinese and emerging markets

**Positioning of
Musical Instruments Business
within Yamaha**

Musical Instruments Segment



Musical Instruments Segment – Sales & Operating Income



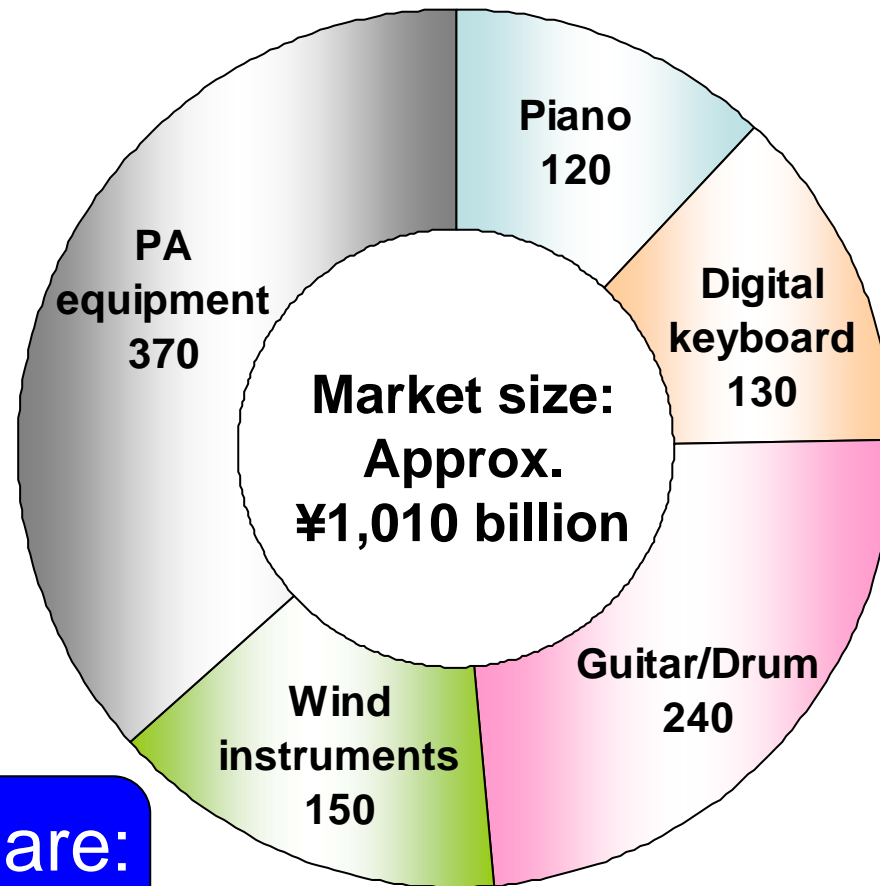
The musical instruments segment accounted for 67% of sales and 75% of operating income for the period ended March 31, 2010.

Musical Instruments Market and Yamaha's Position

Size of Global Musical Instruments Market



Estimated size of global market by product
(unit: Billions of yen, at wholesale price)



**Yamaha's share:
18%**

*Based on our own estimation.

Past Trend in Musical Instruments Market



Trend in developed countries

Sign of recovery from demand contraction following economic crisis

- Increasingly low price
- Reduced public expenditure
- Cutbacks in capital expenditures by private sector
- Slow recovery in economy

Changes in distribution

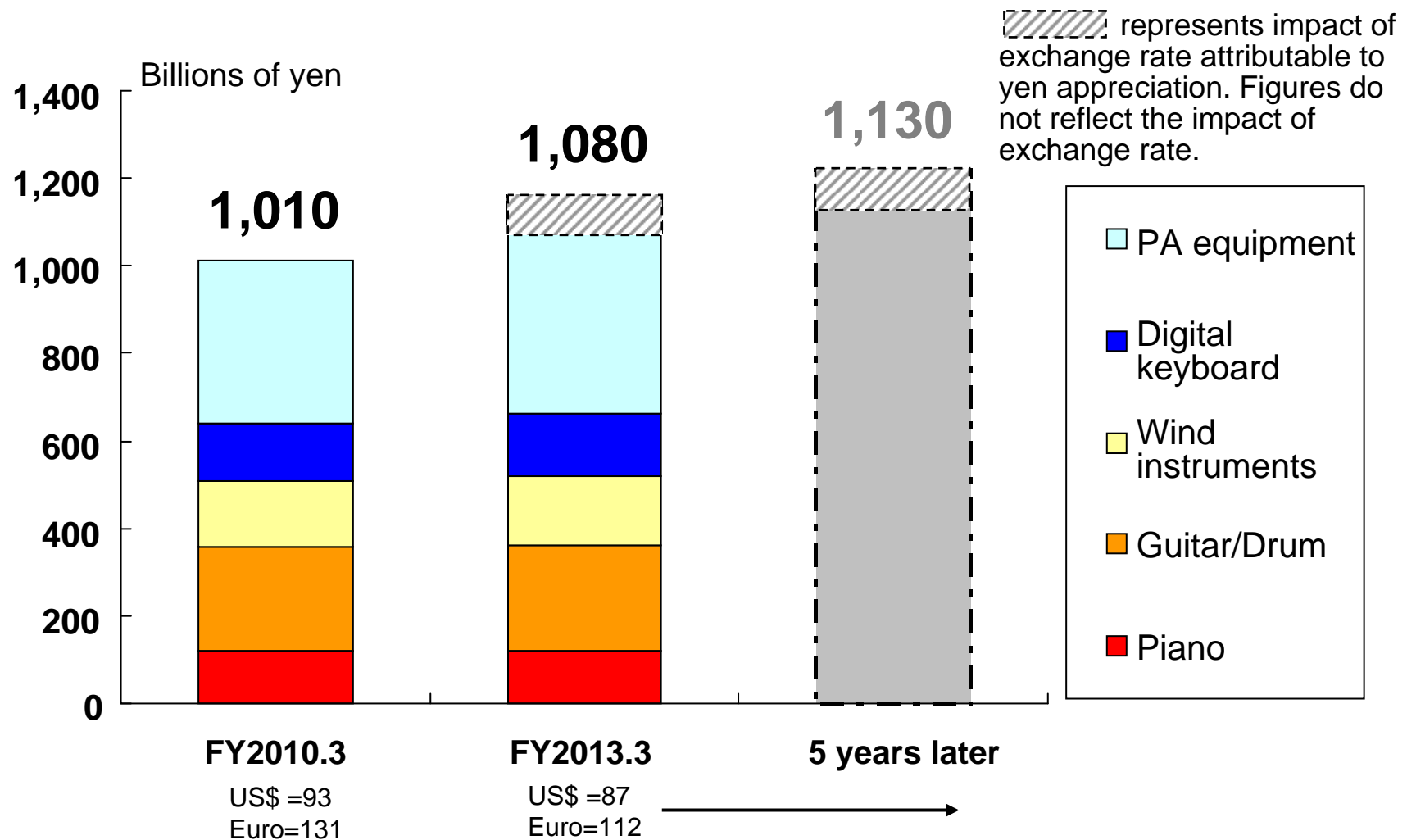
- Increasing sales through web shops
- Reducing number of specialty shops, rise of volume retailers

Trend in emerging countries

Steady increase in demand

- Small impact of economic crisis
- Growing BRICs market
- Increasing middle-income population in Asia

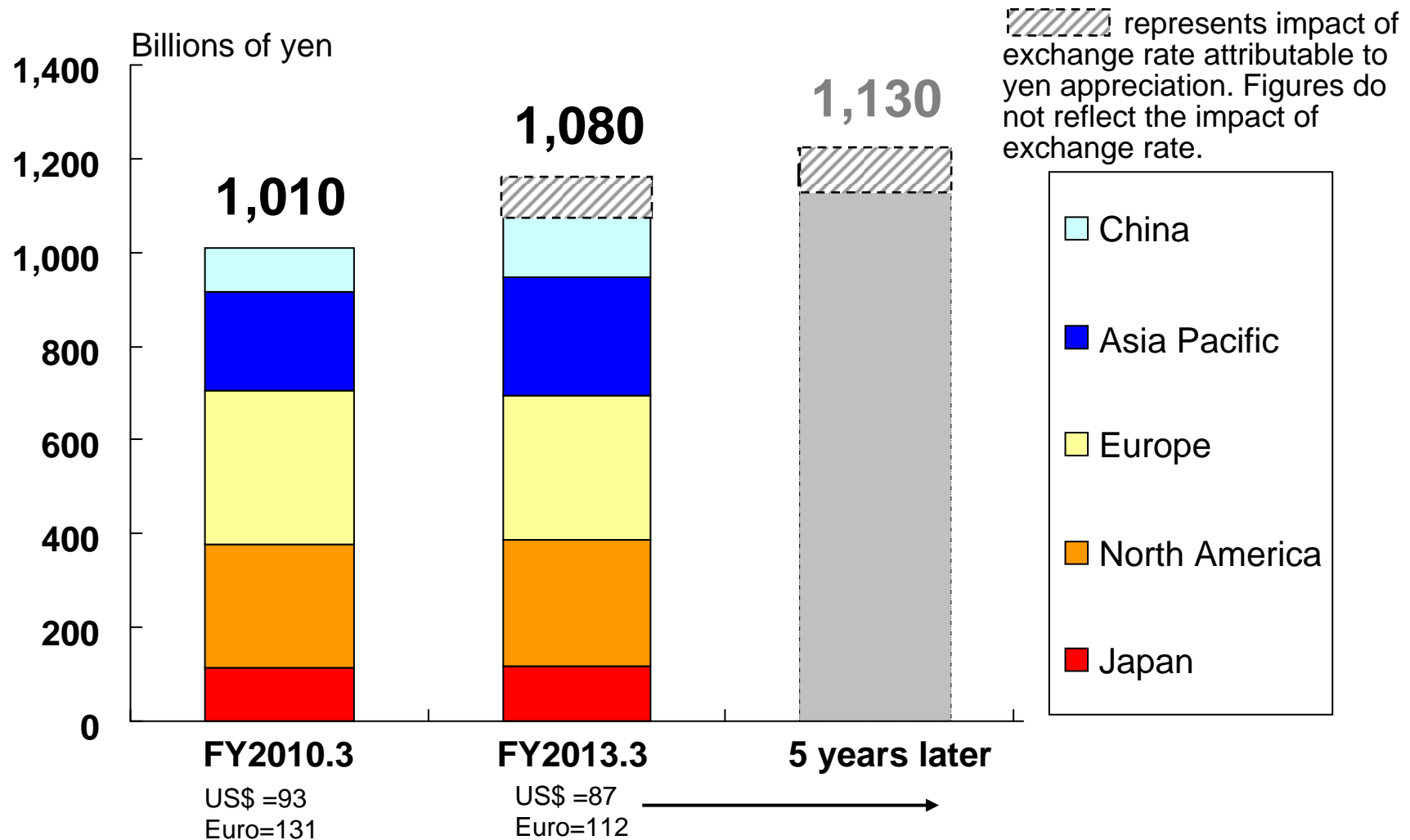
Projection of Musical Instruments Market Growth (by product group)



Estimated growth for the next 5-year period: 11.2% (2.2% per annum)

Estimated market size in 2015: ¥1,130 billion

Projection of Musical Instruments Market Growth (by region)



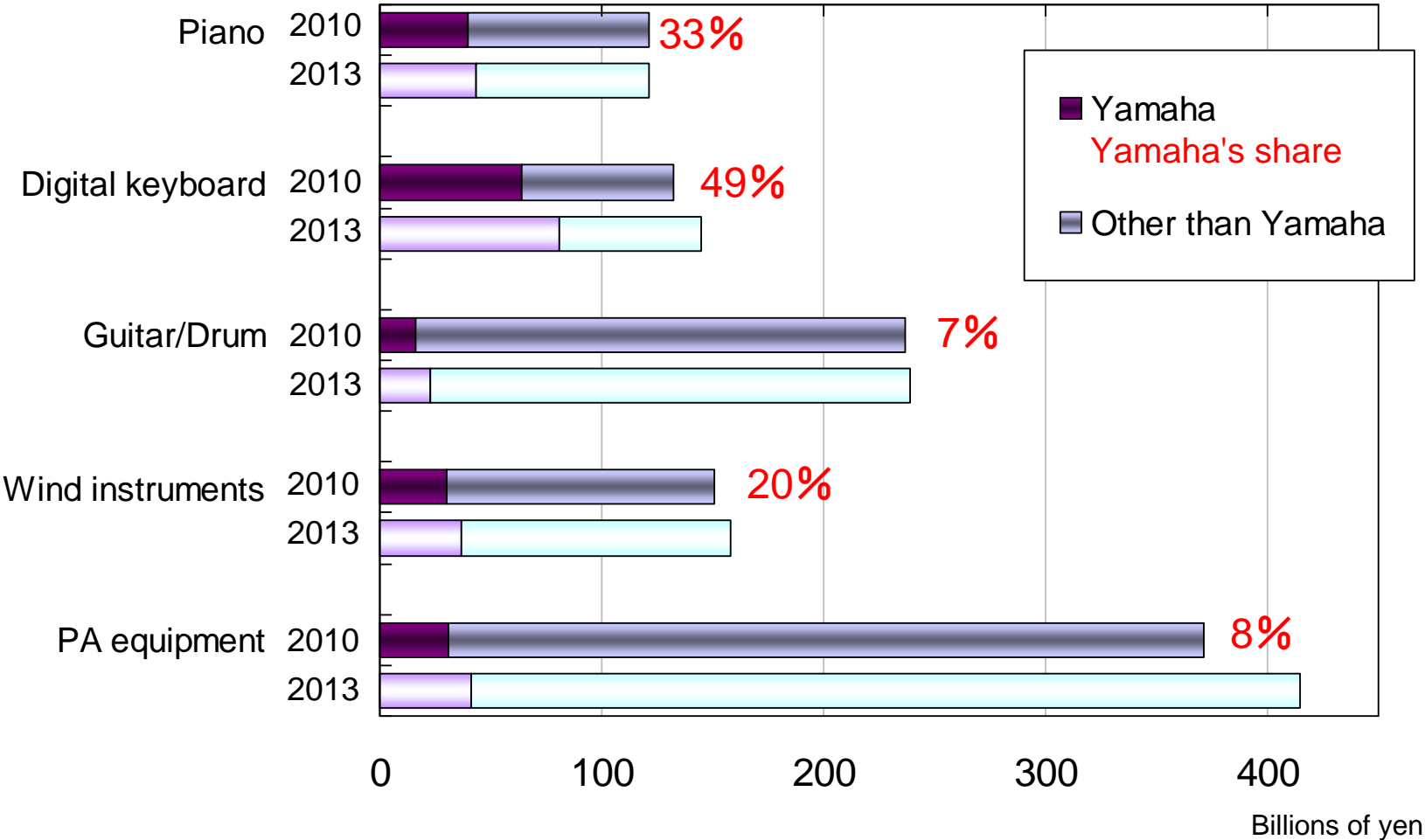
China and Asia-Pacific countries will lead the growth, while Japan, U.S., Europe, and other developed countries will remain almost flat.

Market Environment Recognition and Yamaha



Category	Share (2010)	Market Condition and Outlook
Piano	33%	The world-largest Chinese market will grow further. Sales in developed countries will gradually decrease in the future. Yamaha has the No.1 position in the global market.
Digital keyboard	49%	Demand is increasing mainly in emerging market. The electronic keyboard market is dominated by a small number of Japanese companies, incl. Casio, Roland, and Korg. Yamaha has the largest share in the world.
Guitar/ Drum	7%	The market is stable in developed countries and expanding in emerging countries. Each product category is consisted of a few leading brands and many small-sized pure-play manufacturers. Yamaha aims to increase its share focusing on electric acoustic guitar.
Wind instruments	20%	Stable market. Further growth is expected in emerging countries. Chinese manufacturers are growing fast. Yamaha has a leading position in various product categories.
PA equipment	8%	The market is growing further. Yamaha has been challenged by fierce competitors in each product category, but has advantage in terms of input devices (mixers) over them.

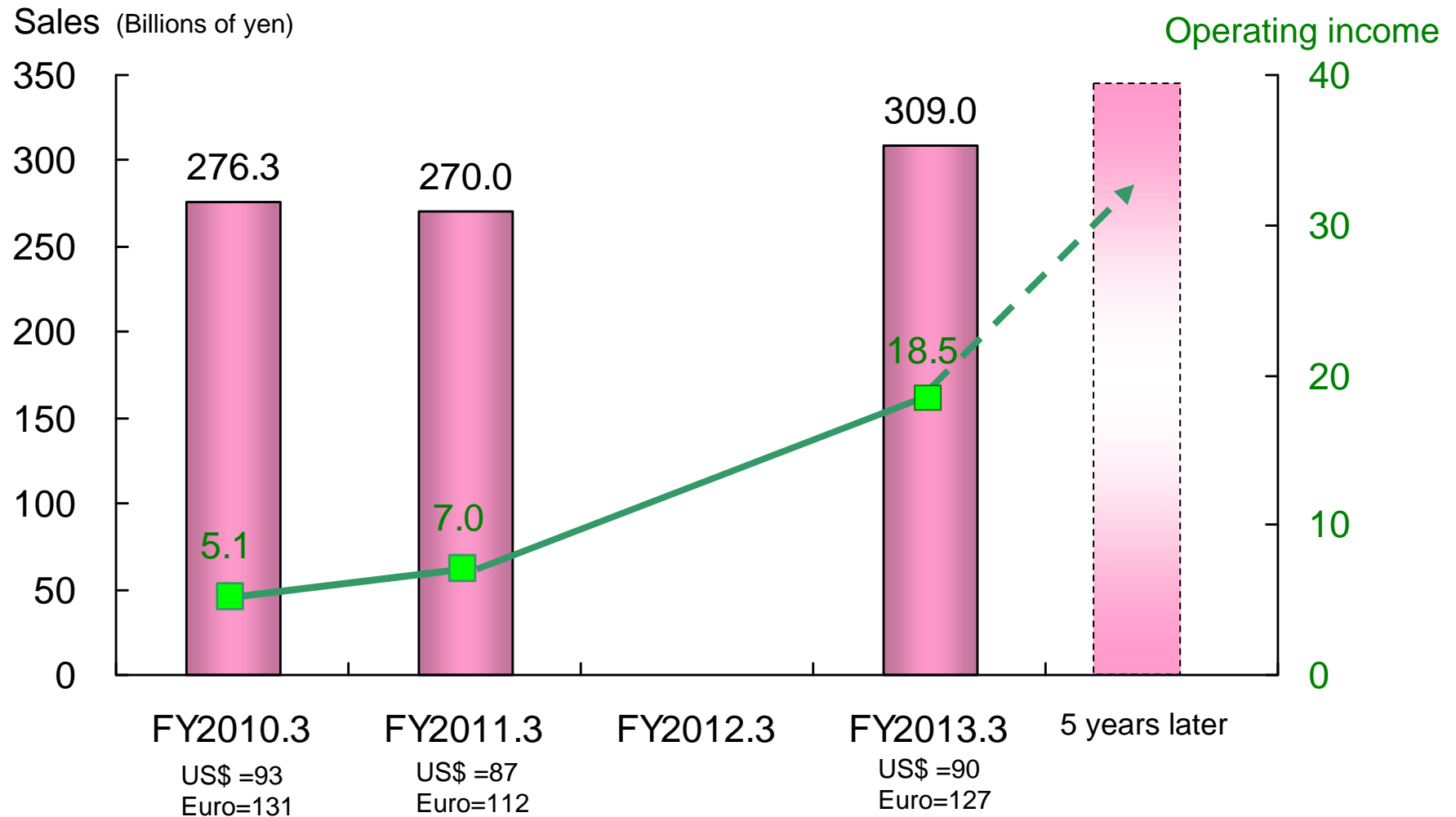
Market Size and Yamaha's Share by Product Group YAMAHA



Estimated 2010 market sizes and shares.
 Yamaha has a 23% share of the musical instruments market (excl. PA).

Yamaha's Business Strategy

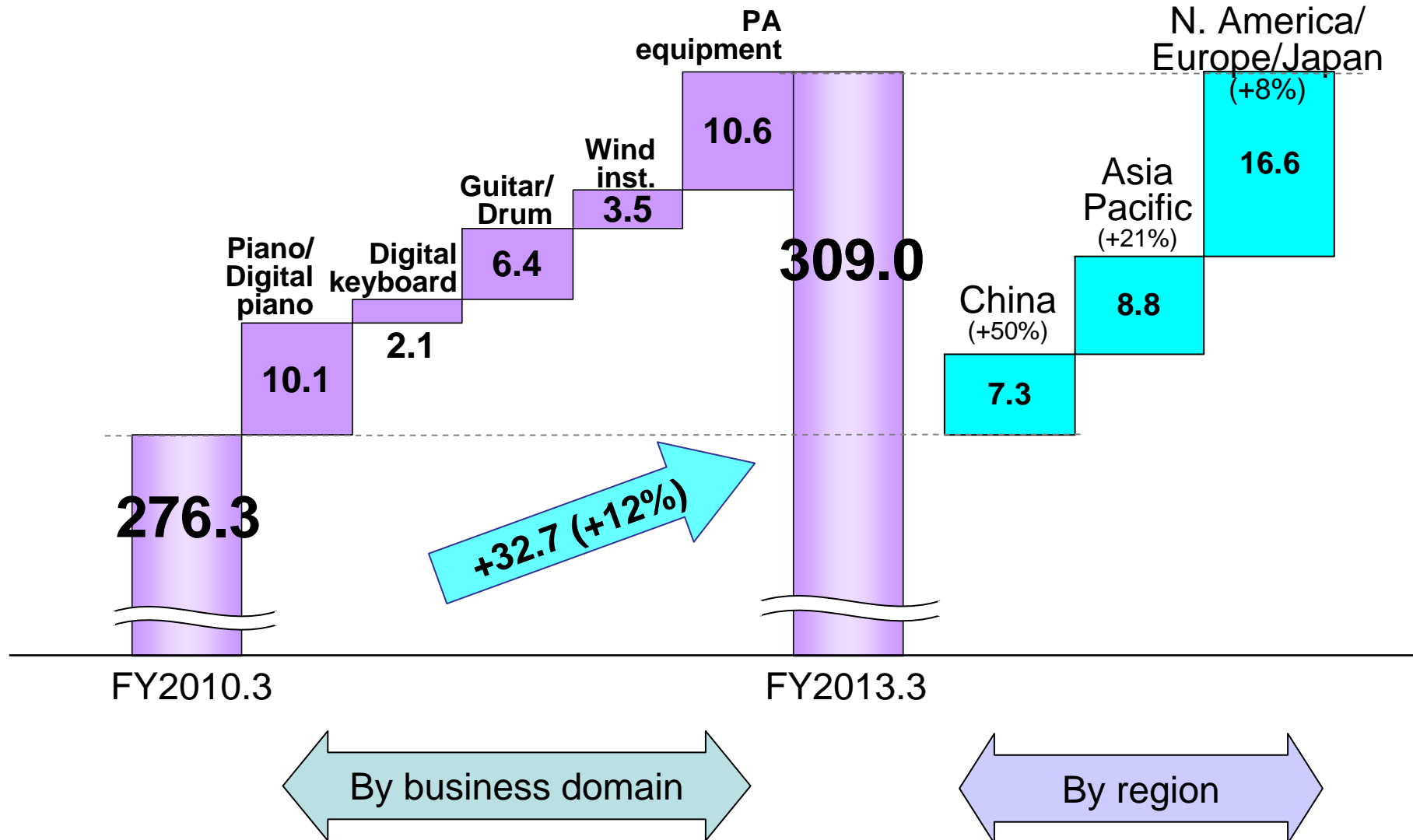
Musical Instruments Business: Medium-Term Sales & Operating Income Targets



Targeted sales growth for the next 3-year period: 12%
 Achieve operating income margin of 6% in 3 years and 10% or higher in the future.

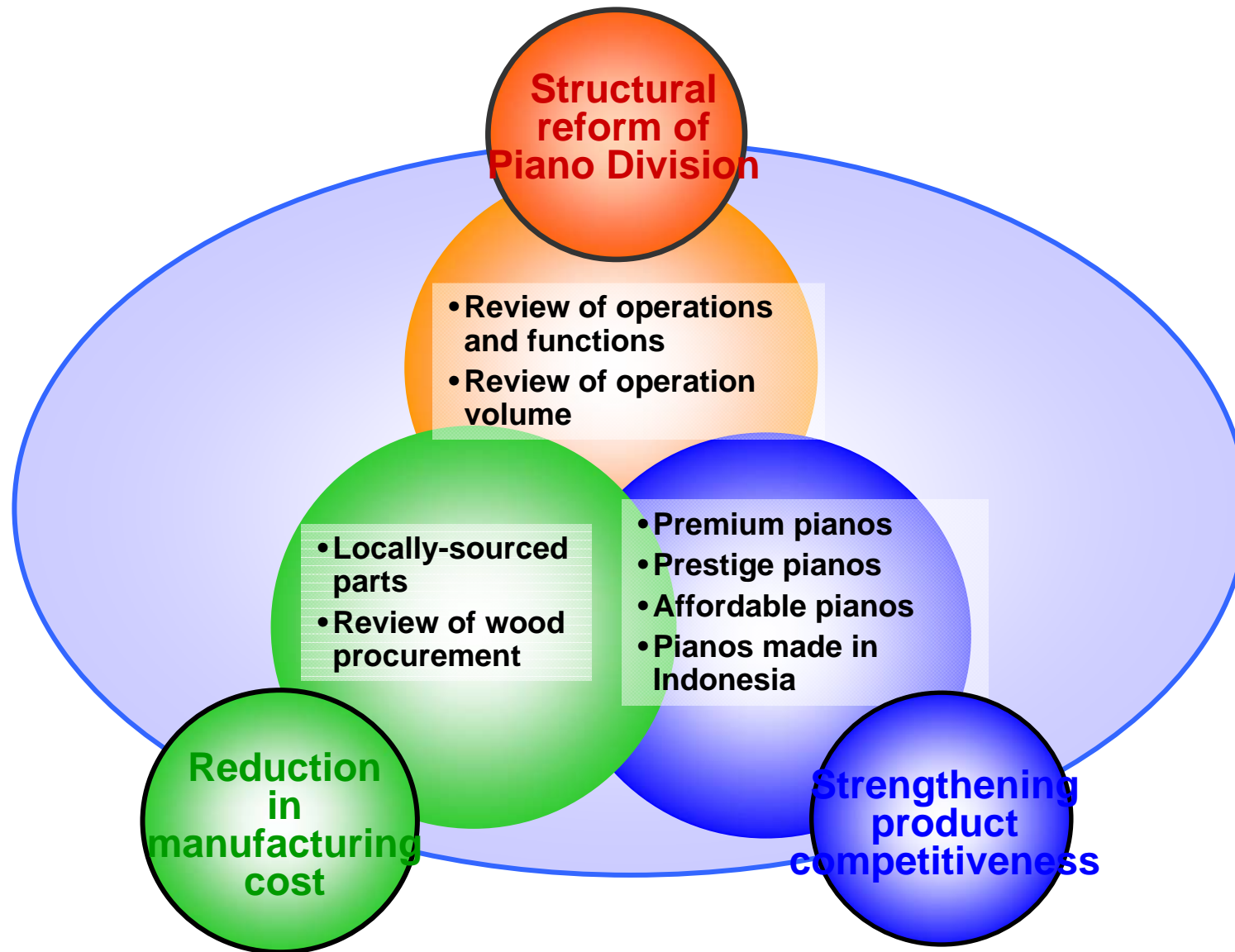
Breakdown of Changes in Sales for Medium-Term Plan

(unit: Billions of yen)



Turning Piano Business into Profit

Turning Piano Business into Profit



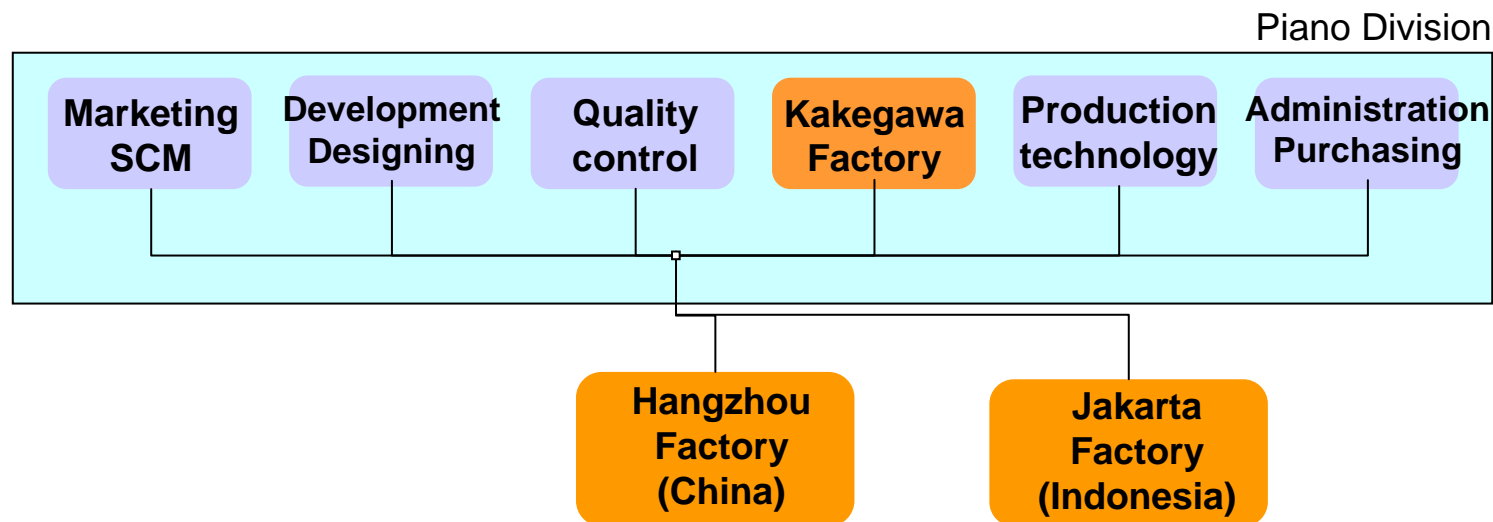
Turning Piano Business into Profit – Enhancing Operational Effectiveness



Review of Piano Division functions

Achieve equidistance between Piano Division and three factories.

- Transfer indirect functions (incl. product development) from Piano Division (HQ) to three factories.
- Piano Division should perform minimum-necessary functions.
- Enhance independence and operational efficiency of manufacturing bases.



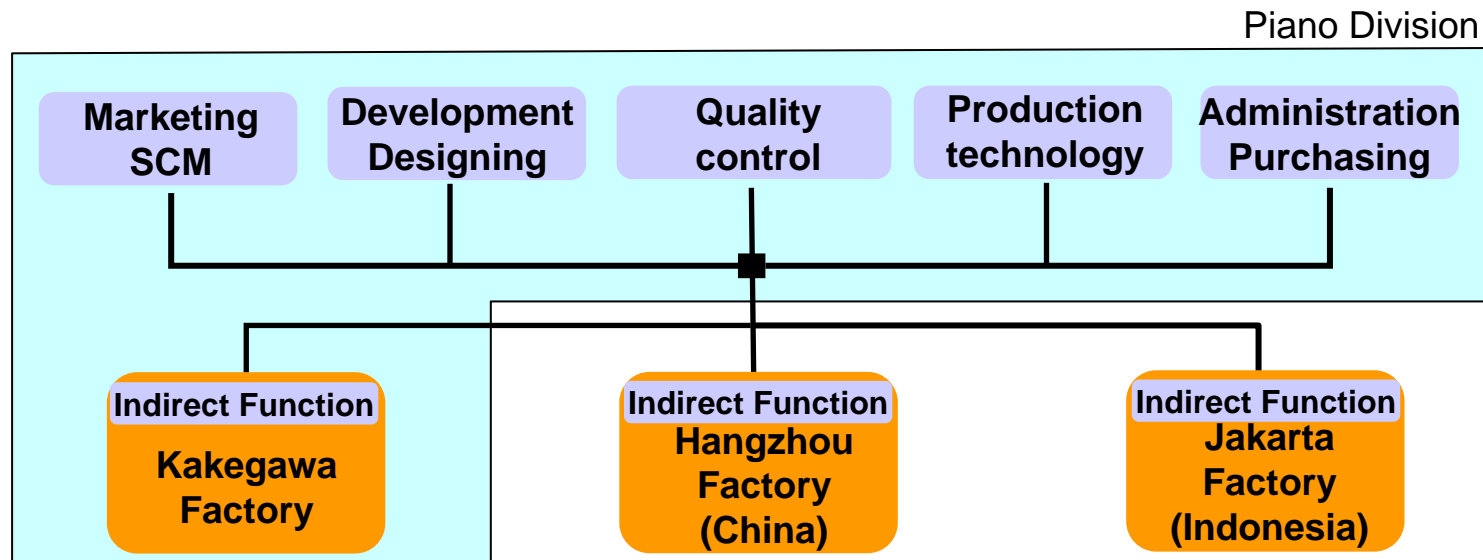
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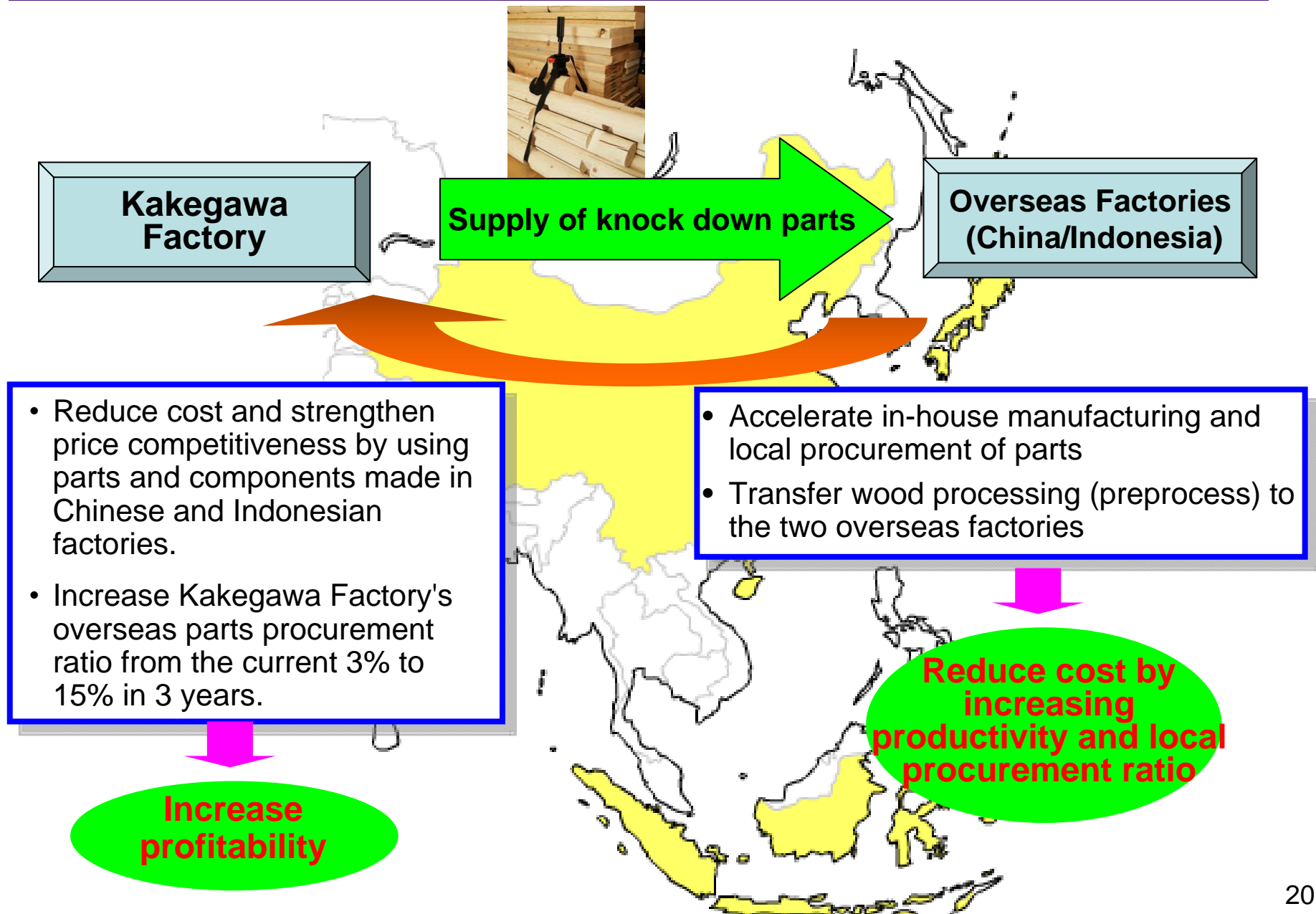
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Turning Piano Business into Profit – Manufacturing Cost Reduction

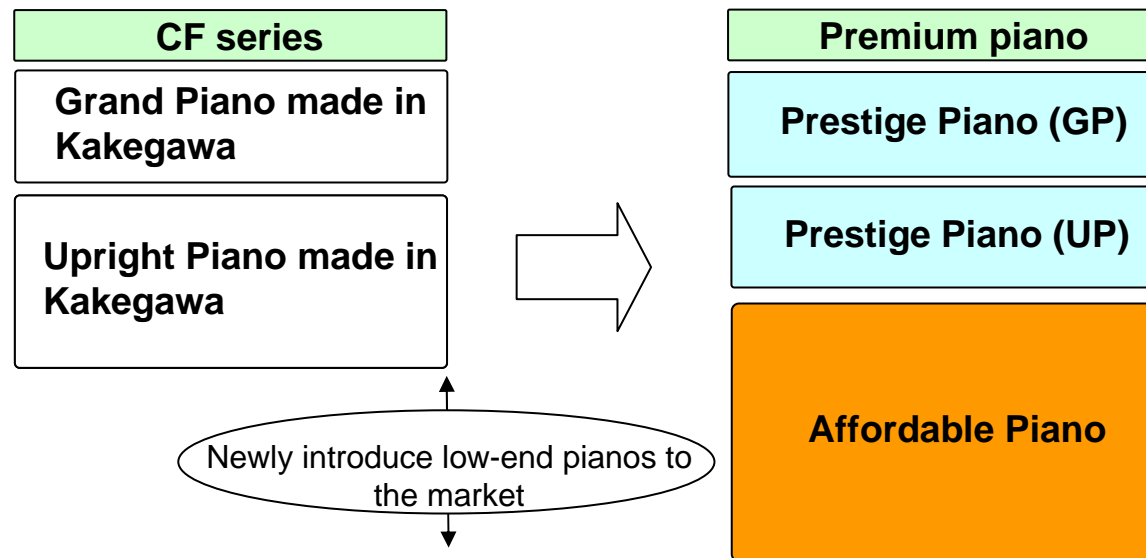


Enhancing Product Competitiveness and Increasing Profitability of Kakegawa Factory

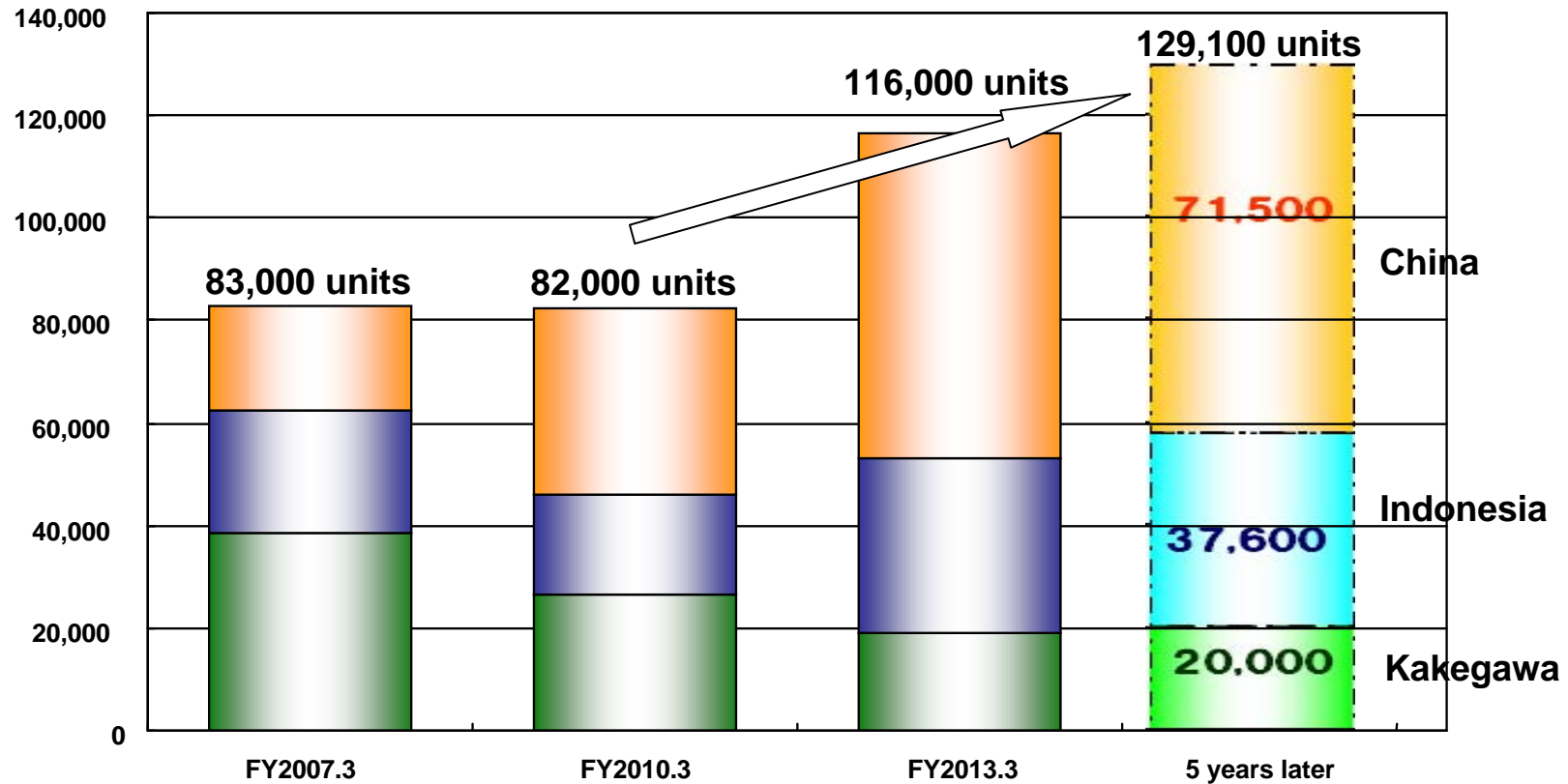


Respond to polarizing demand for “individual preferences-oriented” and “price-oriented”

- **Flagship model "CFX"** → **Premium Piano series**
- **Development of new products with attributes inherited from CFX** → **Prestige Piano series**
- **Use of low-cost parts made in overseas factories** → **Affordable Piano**



Turning Piano Business into Profitability – Manufacturing Base Strategy



Partial review of the medium-term plan – Change in the production volume at Kakegawa from 18,000 units to 20,000 units in March 2013.

Increase the ratio of overseas production (primarily China) → 130,000 units
Keep the production volume of Kakegawa at 20,000 units in 5 years

Increasing Piano Business Profitability



Improve the Operating Income by ¥5 billion from FY2010.3 to FY2013.3

Effect of consolidating Japanese Factories: ¥0.8 billion

Logistics cost
Energy cost

Lowering Kakegawa's breakeven point: ¥2.6 billion

Greater use of overseas manufactured parts
Disposition of unprofitable models
Improvement of productivity

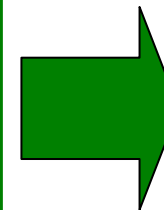
Effect of production increase: ¥1.6 billion

Increase production in China/Indonesia
(In-house manufacturing of parts at overseas factories)
Increase production of high-grade GPs

Piano Business – Numerical Targets



	FY2010.3 Result	FY2013.3 Target
Sales (Billions of yen)	40.3	45.0
Operating income	negative	+0



Target for the 5th year
50
Operating income margin 5%

Strengthening Profitability of Wind Instruments Business

Strengthening Profitability of Wind Instruments Business



Implement manufacturing reform ahead of the original schedule

Accelerate cost reduction efforts

- Consolidate domestic manufacturing bases (To be completed in FY03/2012)
- Transfer processes to overseas production bases
- Increase the number of material sources (Increase use of overseas materials)



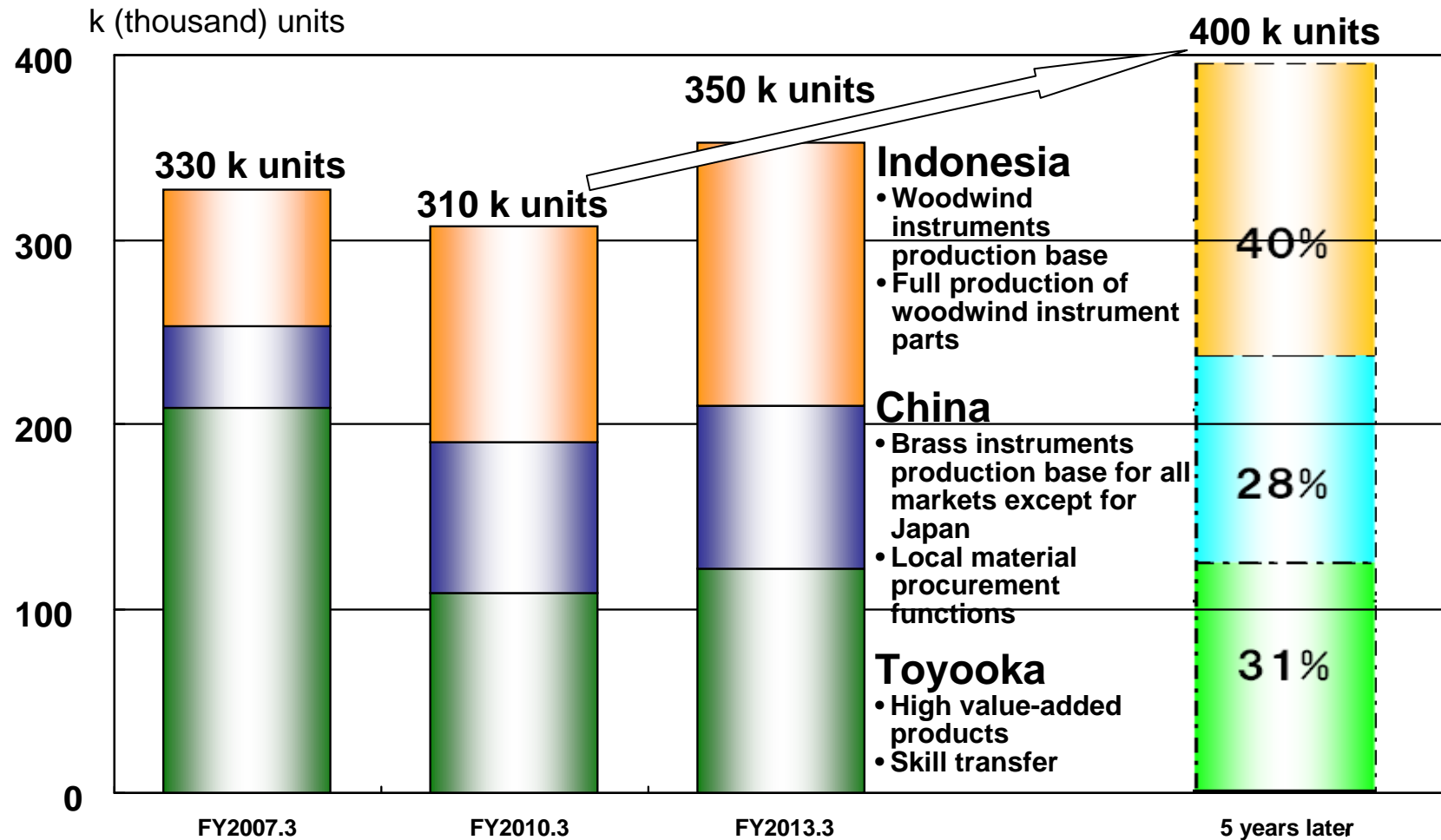
Increase market competitiveness & profitability

- Drastically boost sales in China
- Regain share in the U.S & European markets
- Introduce lower-cost models



New Xiaoshan Factory →

Wind Instruments Business – Manufacturing Base Strategy



Increase overseas production to achieve 400 k units/year in 5 years

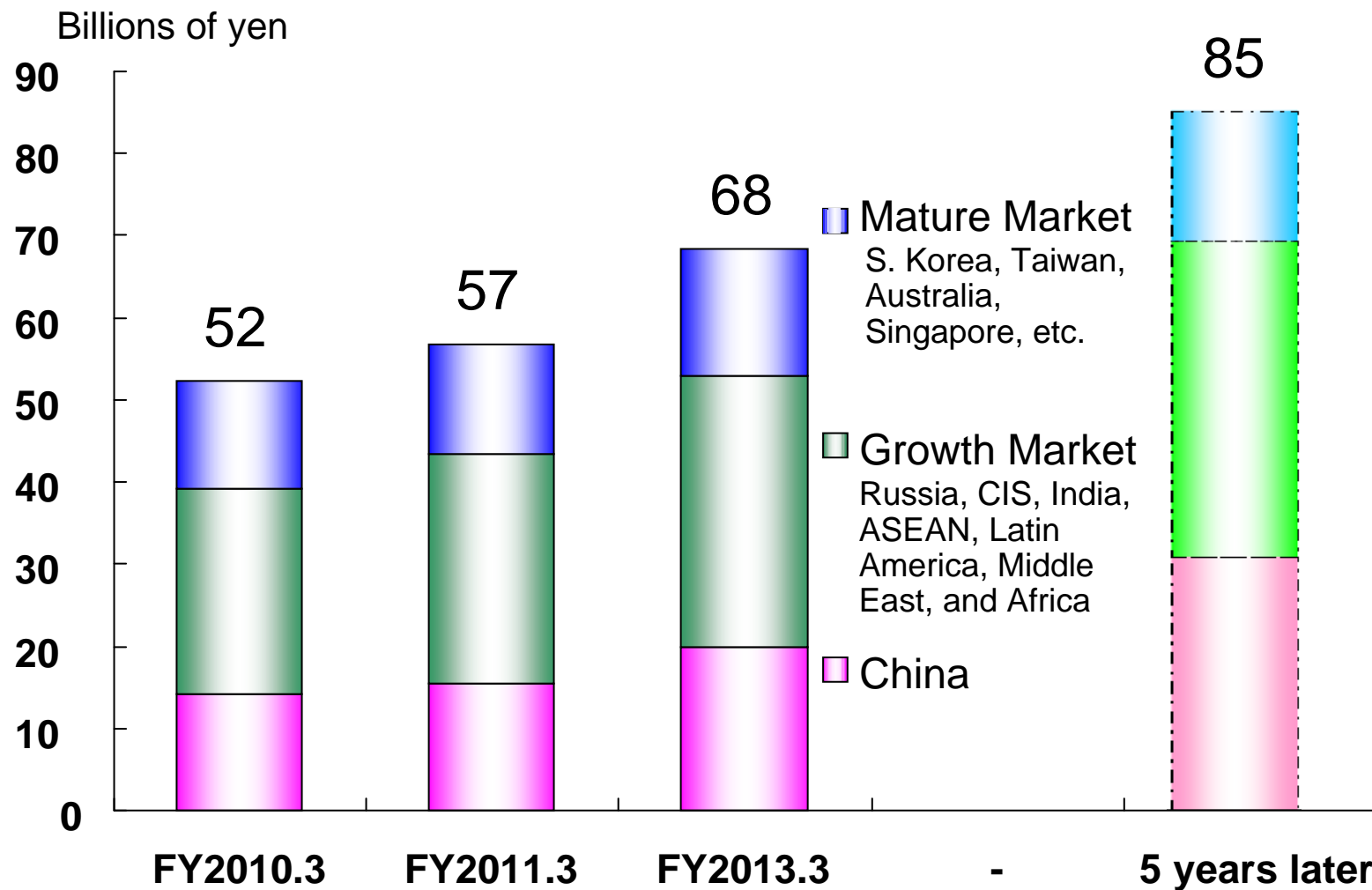
Wind Instruments Business – Numerical Targets



	FY2010.3 Results	FY2013.3 Plan	
Sales (Billion of yen)	31.0	34.5	Target for the 5th year
Operating income margin	3%	10%	
			36.0
			>10%

Growth in Chinese Market

Musical Instruments Segment Sales Plan for China and Emerging Countries

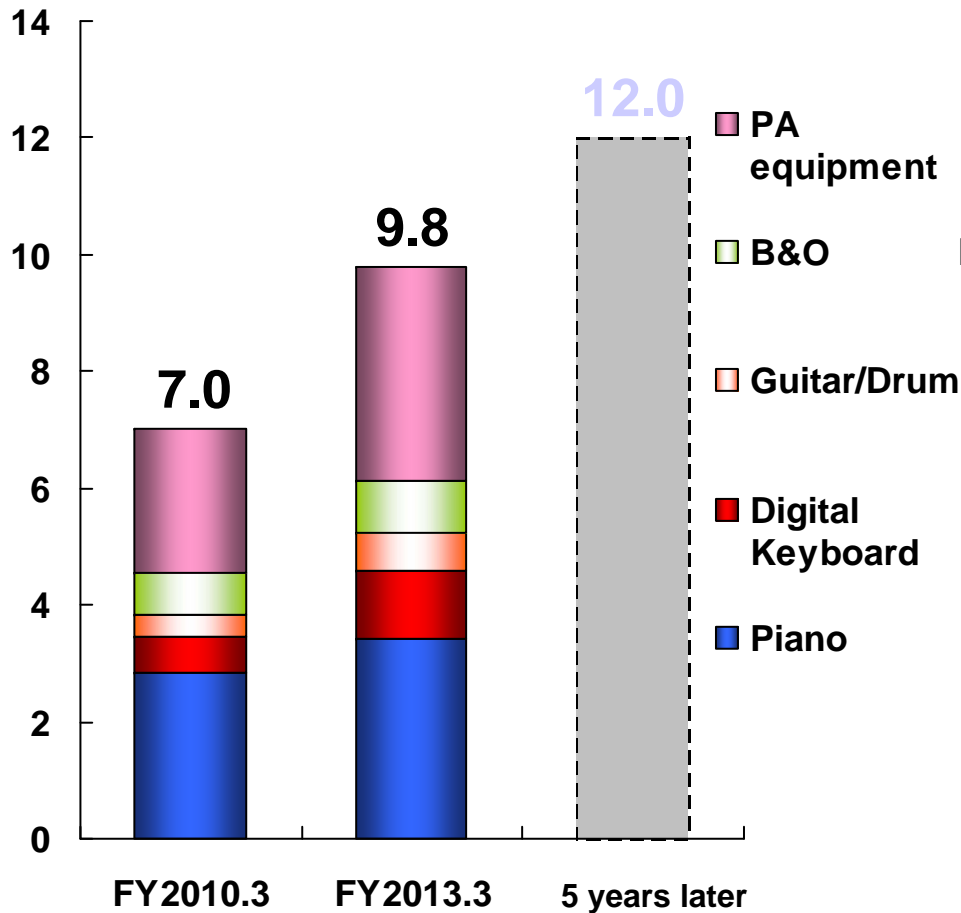


Achieve a 30% growth in 3 years and a 60% growth in 5 years.

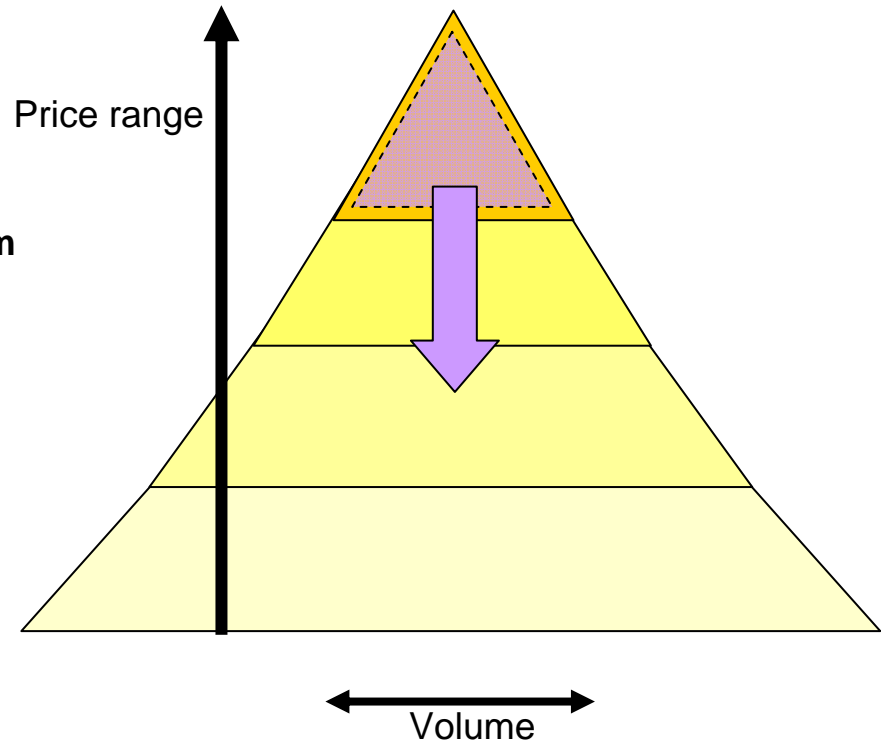
Chinese Musical Instruments Market



Billions of RMB



Domains covered by Yamaha



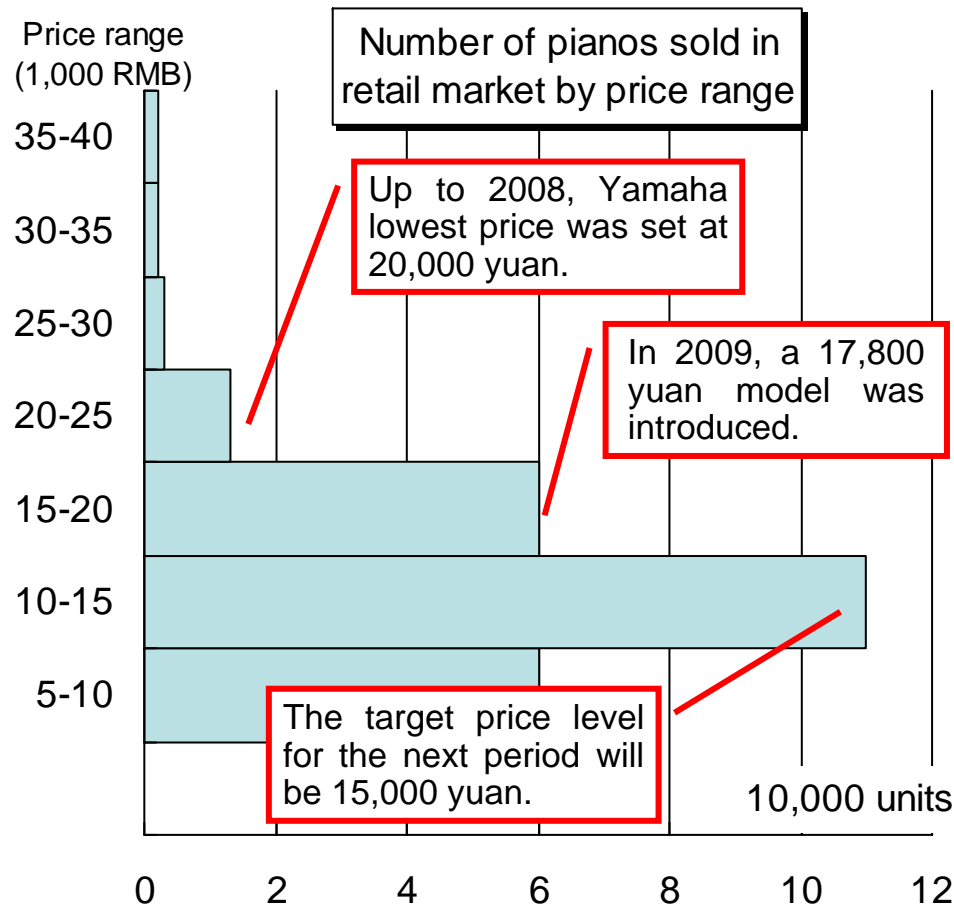
The market is led by piano products: As of 2010, 40% of the market is accounted for by piano products.

The market has a pyramid structure with a wide base. The bottom part is dominated by Chinese local manufacturer.

Growth Strategy: Promoting Market-Tailored Products

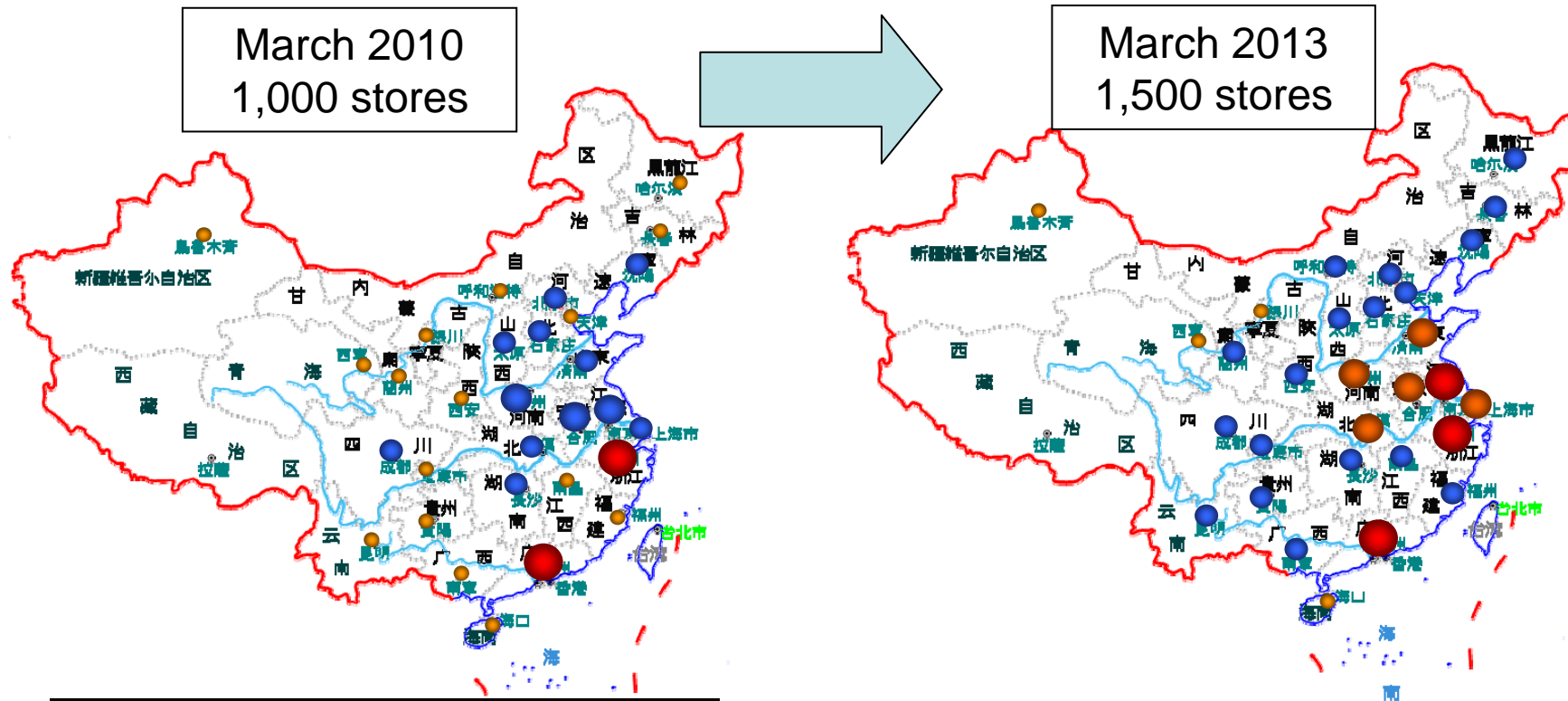


Increase sales of musical instruments segment to 1.5 billion yuan in 3 years and 2.3 billion yuan in 5 years.



There is a plan to introduce China-exclusive models by making use of local manufacturing bases.

Growth Strategy: Expansion of Sales Network YAMAHA



	2010	→	2013
Piano	350		500
Wind instruments	170		260
Digital keyboard	250		500
Others	230		240
Total	1,000		1,500

In local cities, Yamaha aims to open a general musical instruments store as a starting point. In large cities, Yamaha will expand and upgrade specialty stores.

Yamaha in Growing Chinese Market



Projection of market growth (number of units)

Market	(1,000 units)	2010	2013	5 years later	
	Piano	250	280		300
	Digital piano	100	140		160
	Portable keyboard	370	460		530
	Guitar	500	670		800
	Wind instruments	310	370		430

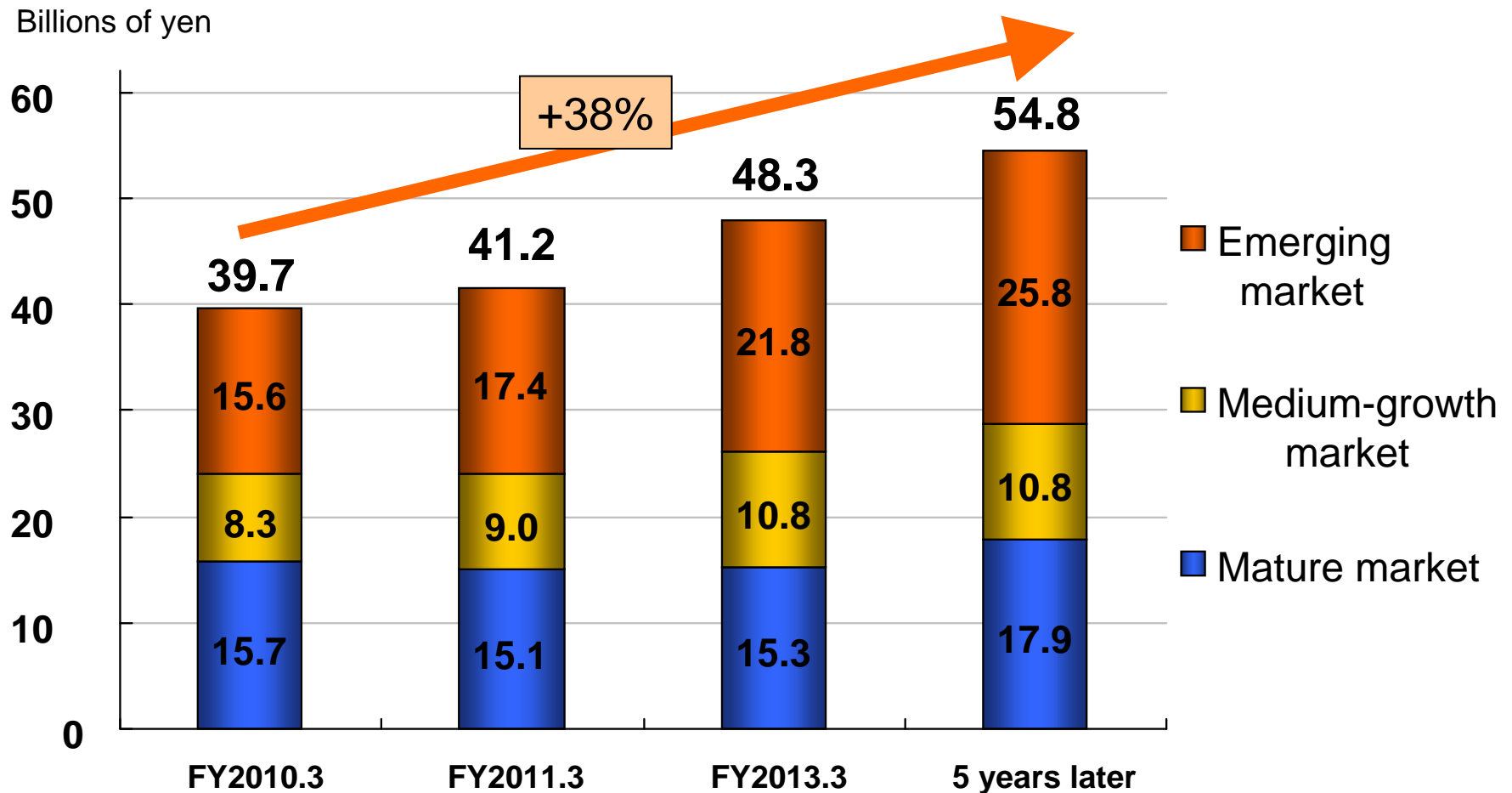
Yamaha	(1,000 units)	2010	2013	5 years later	
	Piano	32	50		65
	Digital piano	22	40		60
	Portable keyboard	112	180		300
	Guitar	13	50		100
	Wind instruments	17	30		50

Growth in Other Emerging Countries

Sales Plan for Other Regions



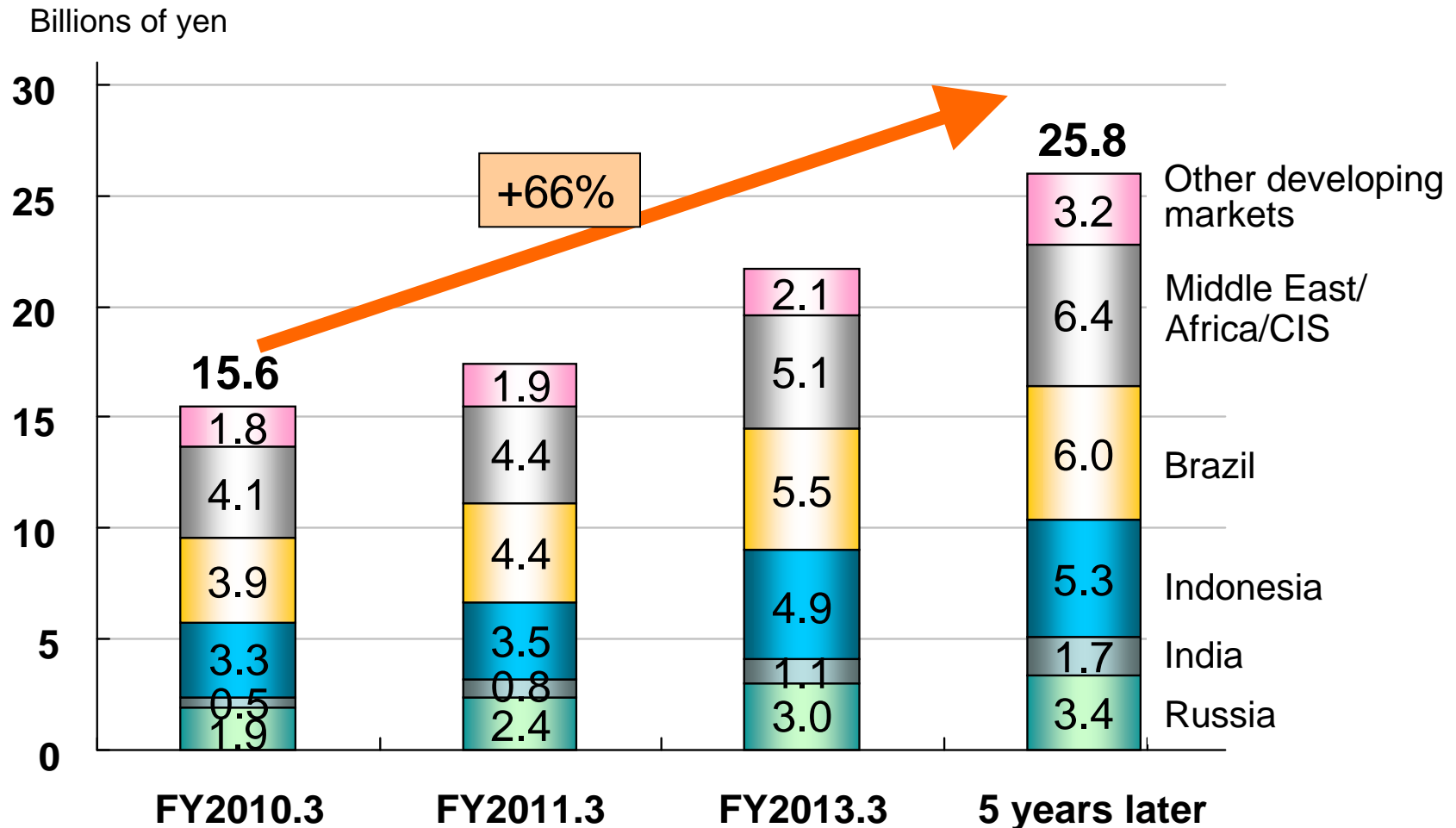
In the next 5 years, "emerging market" will account for 48% of total sales in the Asia-Pacific region.



Sales Plan for Emerging Countries



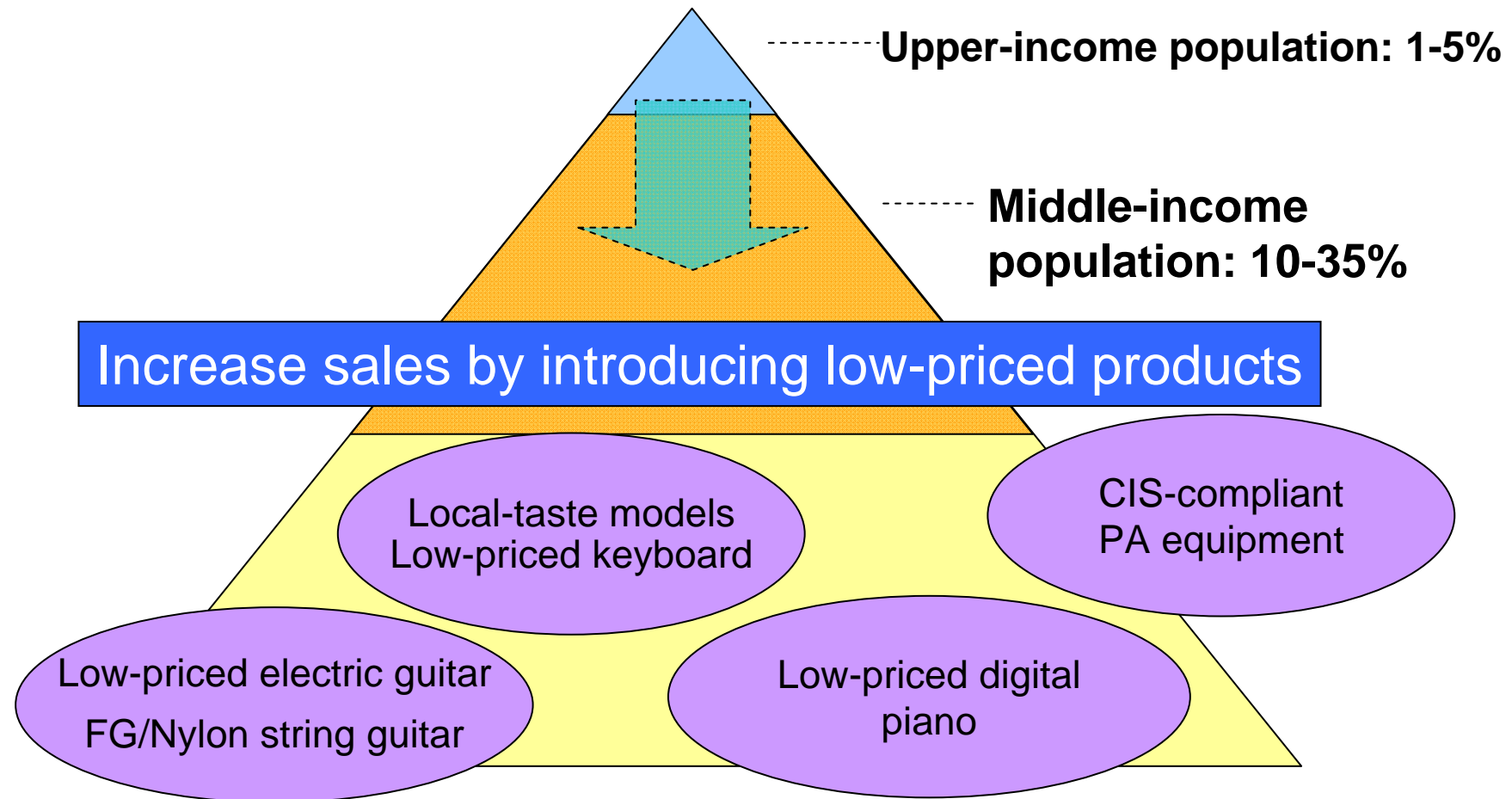
In emerging markets, achieve a growth rate of 40% in 3 years and 66% in 5 years.



Increasing Middle-Income Population



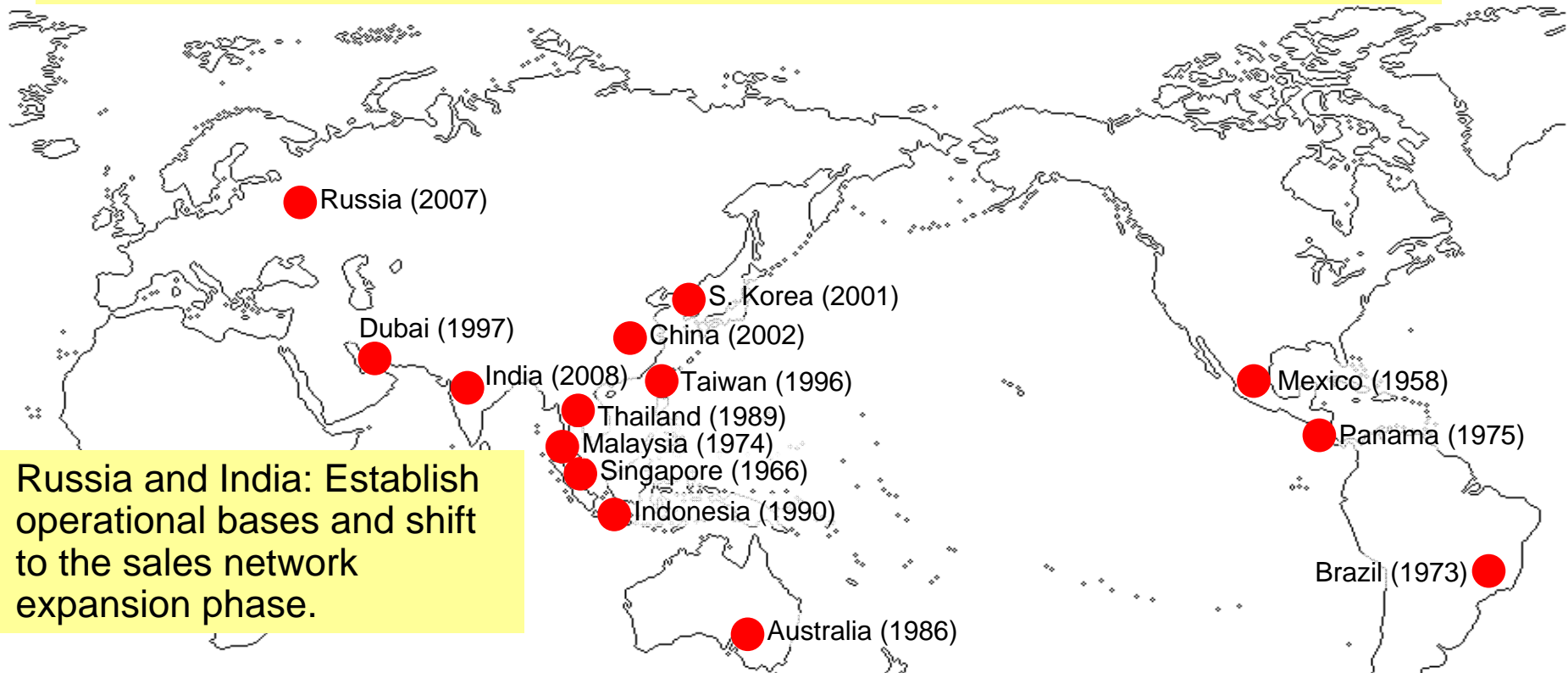
Middle-income population is rising in rapidly-growing emerging countries.



Yamaha's Presence in Emerging Markets



Completion of operational base establishment in every emerging market ⇒ Shift to the full profit-maximization phase



Russia and India: Establish operational bases and shift to the sales network expansion phase.

- Increase the number of sales base in emerging countries from 2,000 sites in 2010 to 3,400 in 2013 to 4,400 in 5 years.
- Strengthen music promotion activities by increasing the number of music school students from 130,000 in 2010 to 180,000 in 2013 to 200,000 in 5 years.
- Support various music activities for the youth.

Key Points of Strategies for China and Emerging Countries – Wrap up



- Introduce strategic products to the expanding middle-income population
 - Shift the primary target of product development from developed countries to China and emerging markets.
 - Develop new piano models that target most selling price range in China.
 - Low-price guitars and local-taste PKs for emerging countries
 - Wind instruments that can compete with Chinese products
- Expand sales network
- Increase the number of people who play music, using Yamaha music schools
 - Attract middle-income population by deploying the Yamaha Business Model

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 the economic conditions surrounding our business, demand trends, and the value of key currencies, such as the U.S. dollar and the euro.



YAMAHA

CREATING 'KANDO' TOGETHER