

YAMAHA CORPORATION
Briefing on the Musical
Instruments Business

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Outline of Today's Presentation



- I. Outline of performance in the fiscal year ended March 31, 2006 (FY2006.3) and projections for FY2007.3

- II. Progress in implementing the YSD50 Medium-term Business Plan and post-YSD50 measures

I. Outline of performance in the fiscal year ended March 31, 2006 (FY2006.3) and projections for FY2007.3

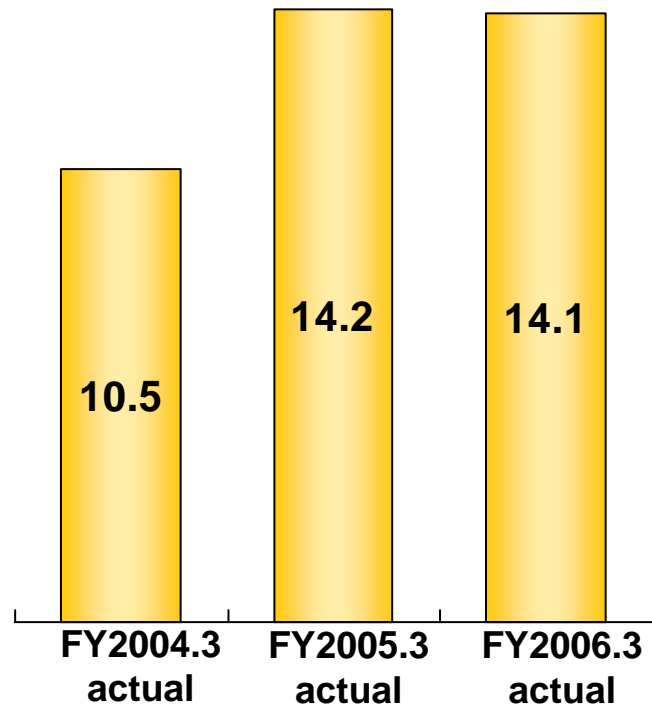
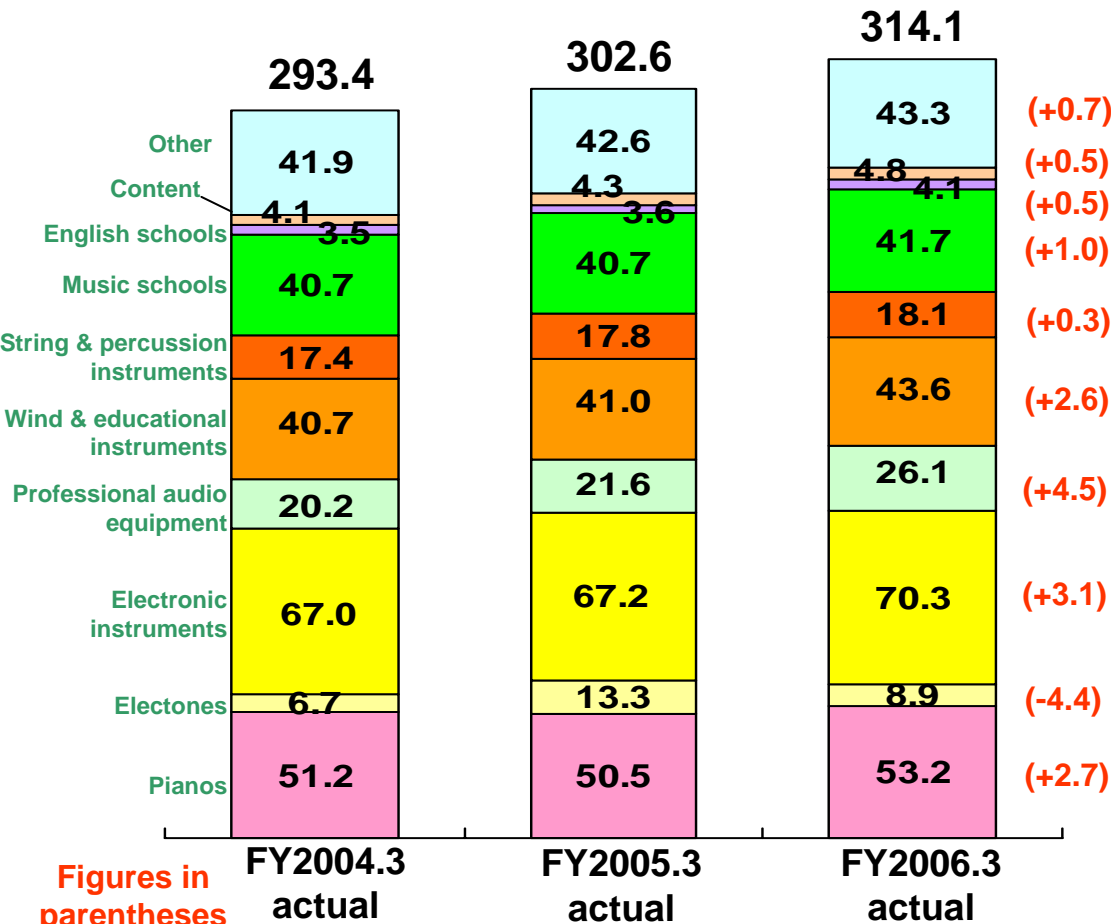
Outline of Performance in FY2006.3



Net Sales

Operating Income

Billions of yen



Figures in parentheses indicate year-on-year changes

By product: Sales of professional audio equipment, pianos, wind instruments increased. Electone sales declined year-on-year
 By region: Sales increased in Asia, Latin America
 Impact of exchange rates (year-on-year): +¥8.3 billion

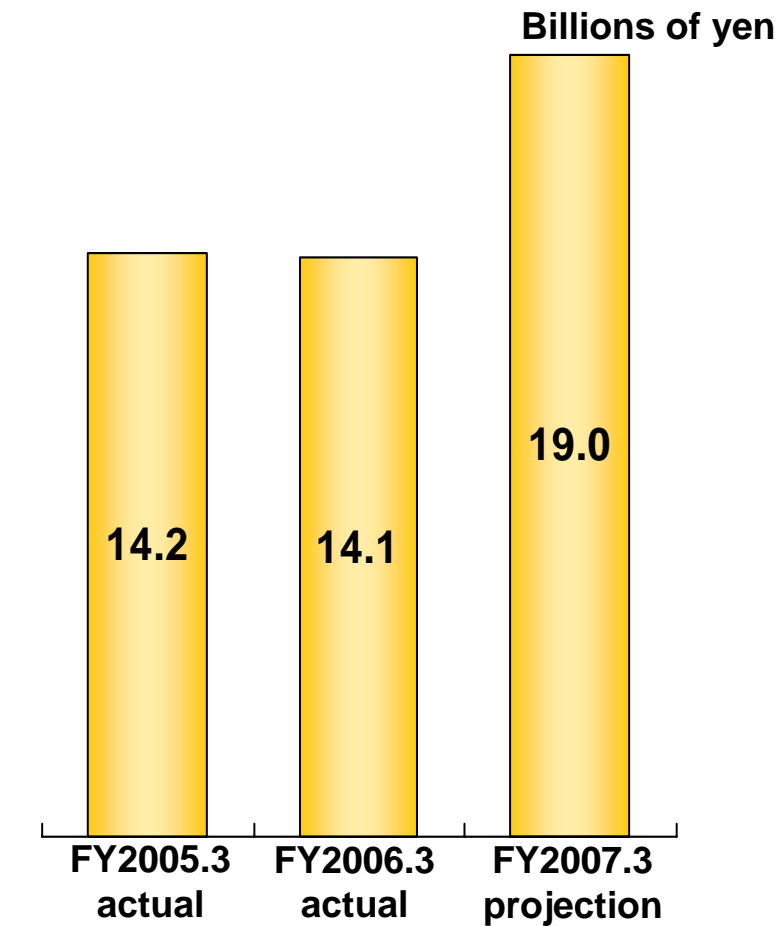
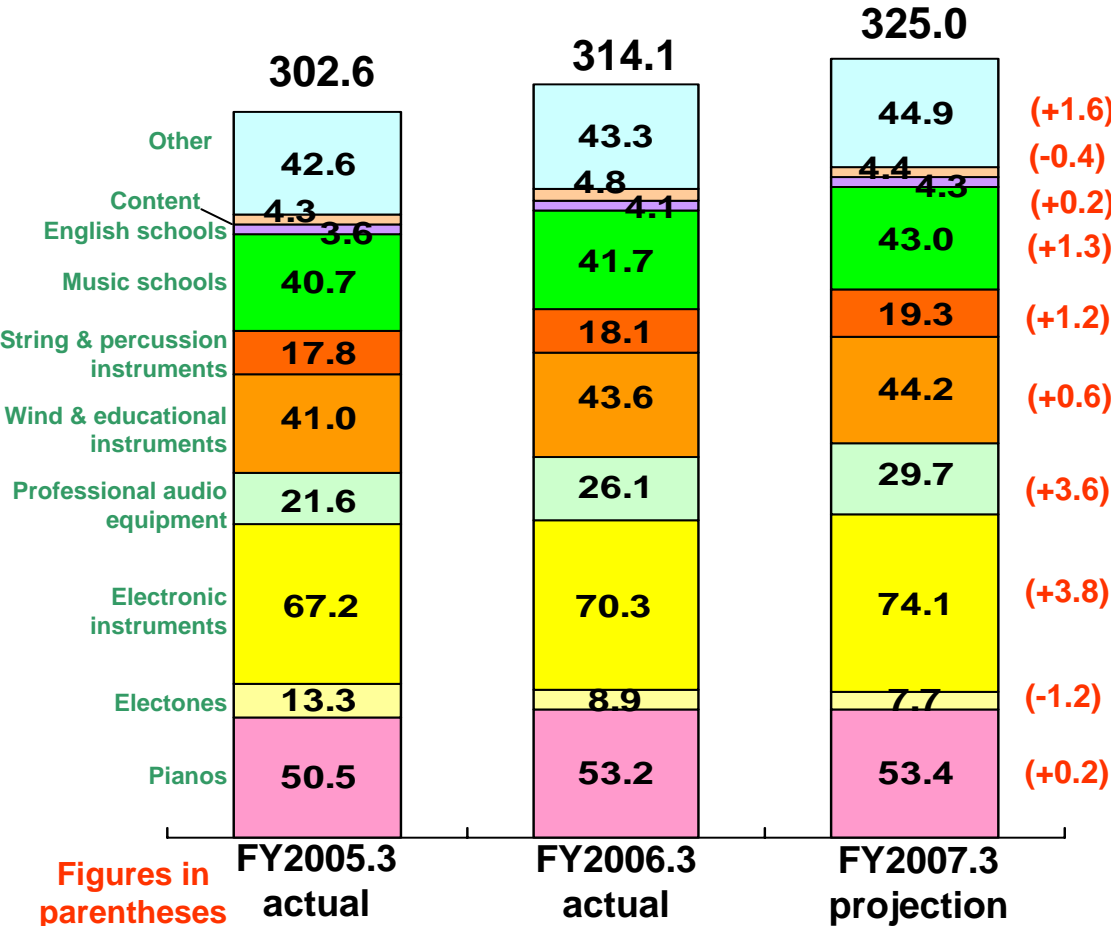
Although sales increased and cost-reduction measures progressed, results remained at the previous year's level due to underutilization of capacity caused by production cuts to reduce inventories, etc.

Forecast for FY2007.3



Net Sales

Operating Income



Figures in parentheses indicate year-on-year changes

Japan: Sales projected to fall YOY, especially for Electones
 Europe & U.S.: Sales projected to rise for professional audio equipment, guitars, etc.
 China: Sales will rise, especially for pianos
 Other Asia, Latin America: Active sales expansion in newly developing markets as well as existing markets

Income is projected to rise due to increased sales, leveling out of production as inventory is optimized at the beginning of the fiscal year, the end of anticipatory investment (expenses), and the emergence of results from cost-cutting measures.

Sales: +¥10.9 billion year-on-year

- Continue launching high added-value products such as artist model wind instruments
- Respond to polarization of demand. Speed up capacity to compete with low-priced products made in countries such as China and recapture share in the moderate-price range
- Boost professional audio equipment business by investing in infrastructure including technical support centers and speeding up product development
- Expand major sales in the North American market focusing on professional audio equipment and sales of electronic instruments and guitars through mass sales channels
- Speed up sales expansion in newly developing markets in Russia, Central and Eastern Europe, South America and Asia

Operating Income: + ¥4.9 billion year-on-year

- Increase gross profits through projected increase in sales
- Even with launch of high added-value products, respond to polarization of demand will lead to a slight drop in gross margins
- Level out of production as inventory is optimized at the beginning of the fiscal year
- Continue cost reduction measures such as improving efficiency, adding value in the process of in-house manufacturing, and boosting local procurement ratios
- Reduce SG&A expenses with the end of anticipatory investment (expenses) and more efficient management

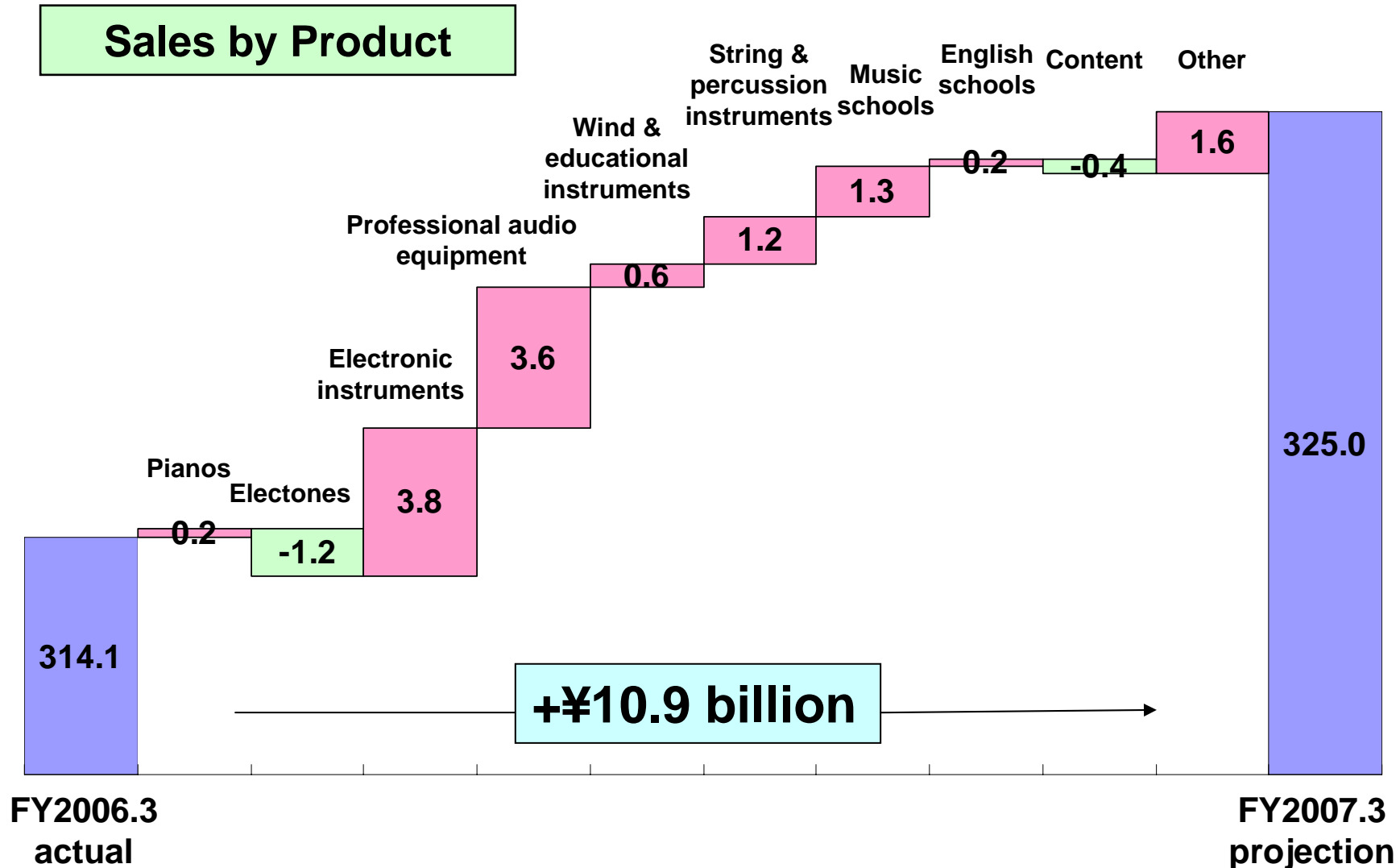
Worldwide Sales Growth by Product



Billions of yen

Change from previous year

Sales by Product

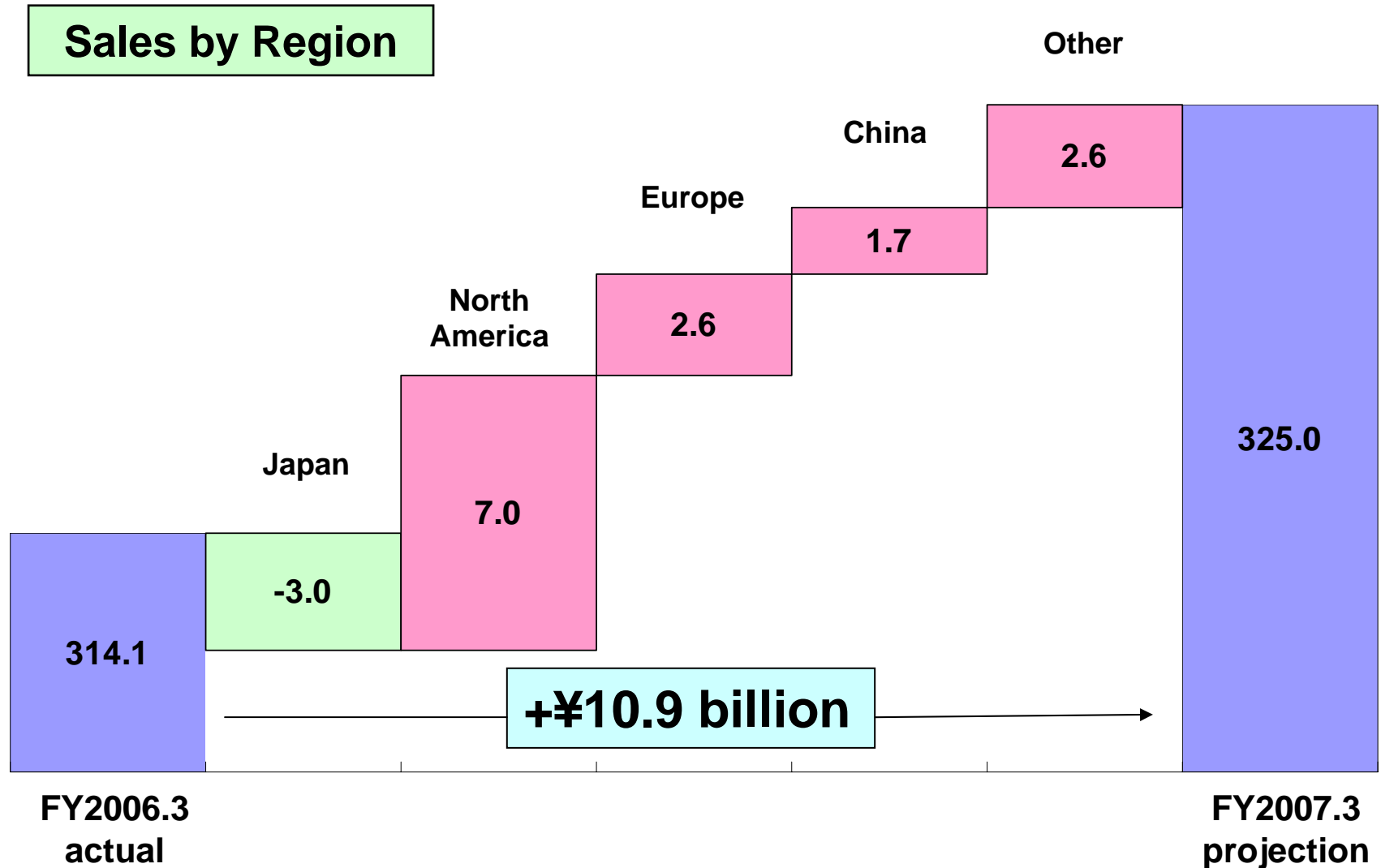


Worldwide Sales Growth by Region



Billions of yen

Change from previous year



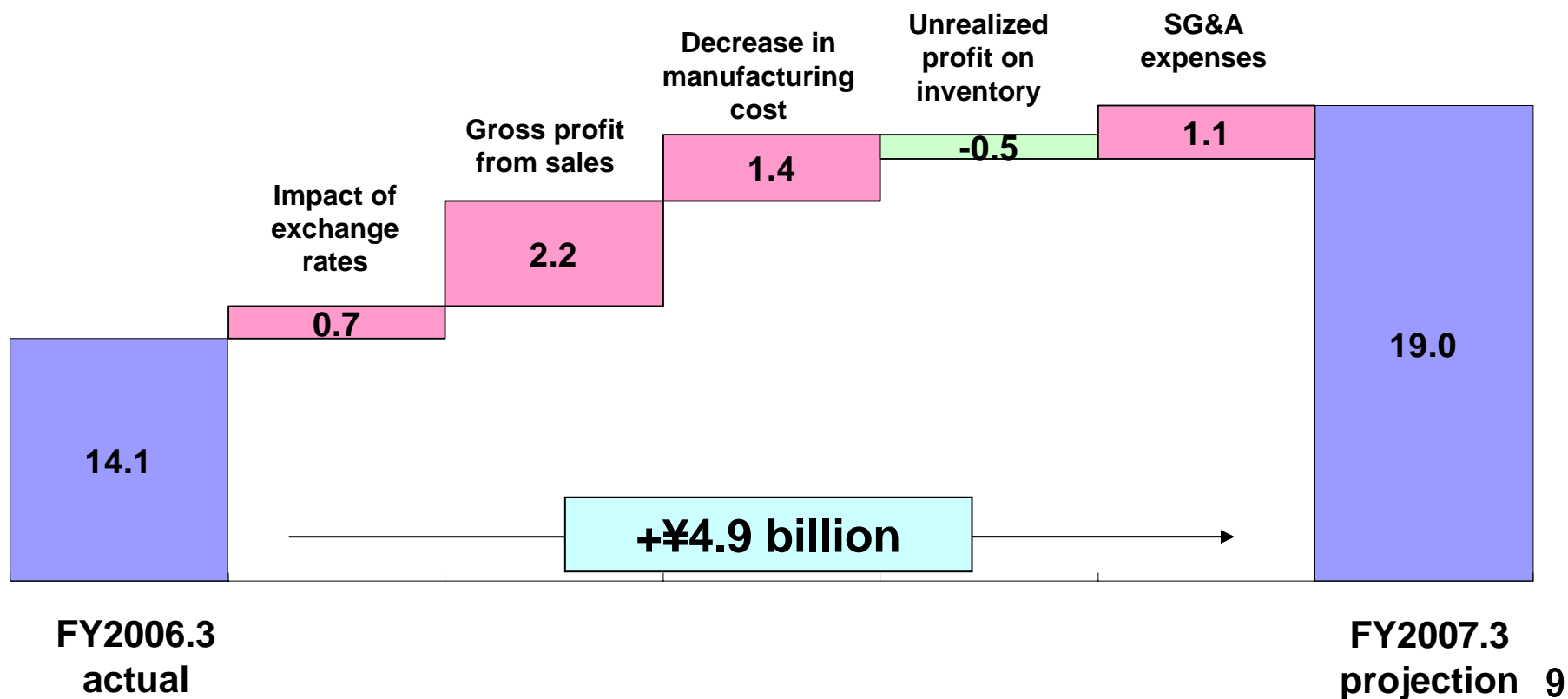
Breakdown of Operating Income



Billions of yen

Change from previous year

Operating Income



II. Progress in implementing the YSD50 Medium-term Business Plan and post-YSD50 measures

Medium-term Business Plan



Progress in implementation of the medium-term business plan and projections for FY2007.3

(Billions of yen)

	YSD50 3-year plan	FY2004.3 actual	FY2005.3 actual	FY2006.3 actual	FY2007.3 projection
Net sales		293.4	302.6	314.1	325.0
Increase	31.6		9.2	* 11.5	10.9
Operating income		10.5	14.2	14.1	19.0
Improvement	8.5		3.7	-0.1	4.9

*Including impact of exchange rates: 8.3

Initial Projections

	YSD50 3-year plan	FY2004.3 estimate	FY2005.3 projection	FY2006.3 projection	FY2007.3 projection
Net sales		296.0	303.0	317.0	334.0
Increase	38.0		7.0	14.0	17.0
Operating income		12.0	15.5	22.0	31.0
Improvement	19.0		3.5	6.5	9.0

Breakdown of Improvement in Income



Progress in increasing income and projections for FY2007.3

(Billions of yen)

Operating income	YSD50 3-year plan
Growth in sales/ improvement in gross margins	3.2
SG&A	0.0
Reforms in manufacturing	1.8
Reforms in personnel composition	3.5
Total	8.5

FY2005.3 actual	FY2006.3 actual	FY2007.3 projection
2.6	-1.4	2.0
-1.7	0.5	1.2
1.3	-0.5	1.0
1.5	1.3	0.7
3.7	-0.1	4.9

Initial Projections

Operating income	YSD50 3-year plan
Growth in sales/ improvement in gross margins	15.0
SG&A	-2.8
Reforms in manufacturing	3.2
Reforms in personnel composition	3.6
Total	19.0

FY2005.3 projection	FY2006.3 projection	FY2007.3 projection
2.4	5.8	6.8
-1.5	-1.3	0.0
1.3	0.9	1.0
1.3	1.1	1.2
3.5	6.5	9.0

Positive figures show increased income, while negative figures show decreased income.
Reforms in manufacturing include impact of changes in capacity utilization and materials prices.

Growth in Sales/Improvement in Gross Margins

- Markets are changing faster than anticipated with the rise of Chinese manufacturers, emergence of lower-priced products, and expansion of mass sales channels. Sales are well below initial projections, especially for large keyboard instruments and string and percussion instruments. Even with the launch of high added-value products, overall profit margins are down.
- Professional audio equipment sales and developing markets have grown according to expectations.
- Projections for Japan have been significantly revised due to failure to meet targets for expanding Electone sales, falling demand for pianos, and delays in responding to rapid changes in the electronic piano market.

Reforms in Manufacturing

- Reforms are progressing steadily. However, due to factors such as failure to meet sales targets and loss from underutilization of capacity caused by production adjustments to reduce inventory, results of reforms have not linked through to business performance.
- Aim to produce results from manufacturing reforms through implementation of reforms based on the Toyota Production System and future manufacturing base strategy.

Reforms in Personnel Composition

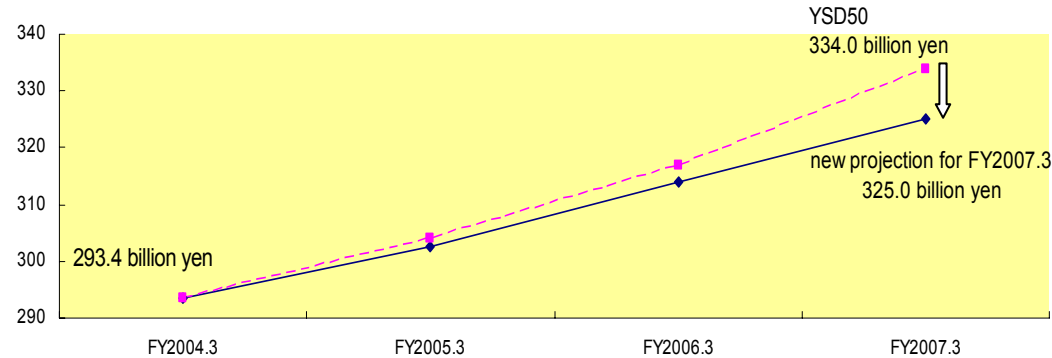
- Progressing largely in line with plans
- Recruitment for some positions brought forward to deal with the “2007 problem” (i.e. the fact that large numbers of baby-boomers will begin retiring in 2007), including the need to pass on skills.

Worldwide Sales Growth by Product: YSD50 vs. New Projections for FY2007.3

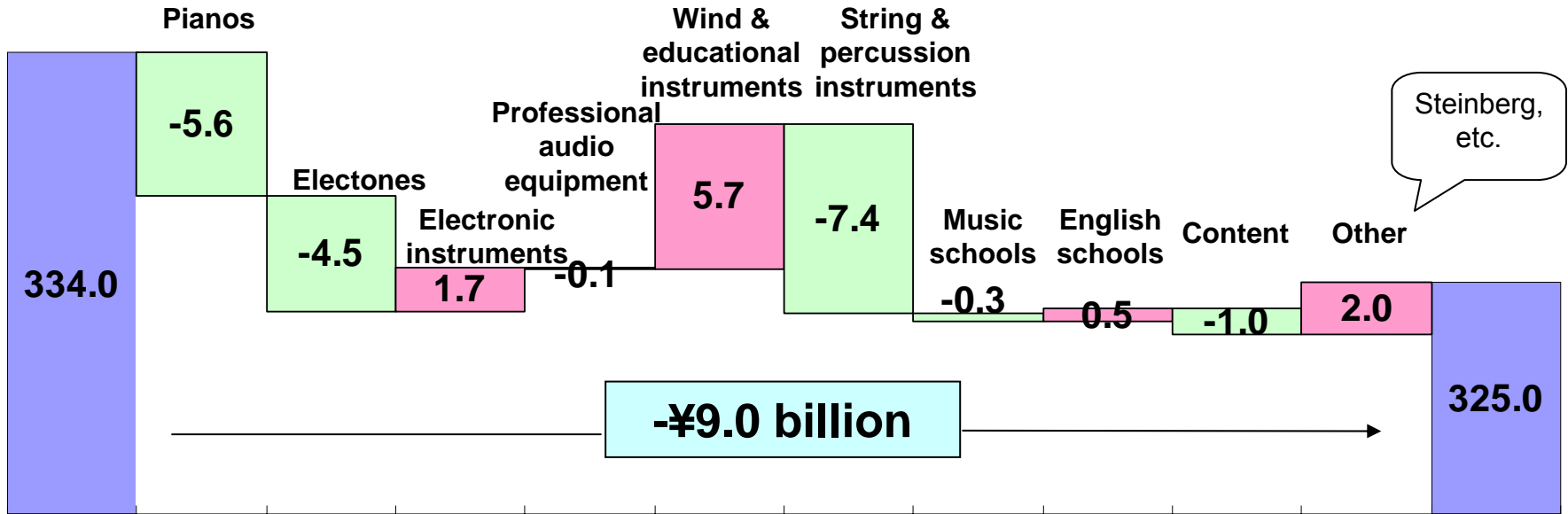


The gap between YSD50 targets and new projection for FY2007.3

Sales by Product in
FY2007.3



Billions of yen



YSD50

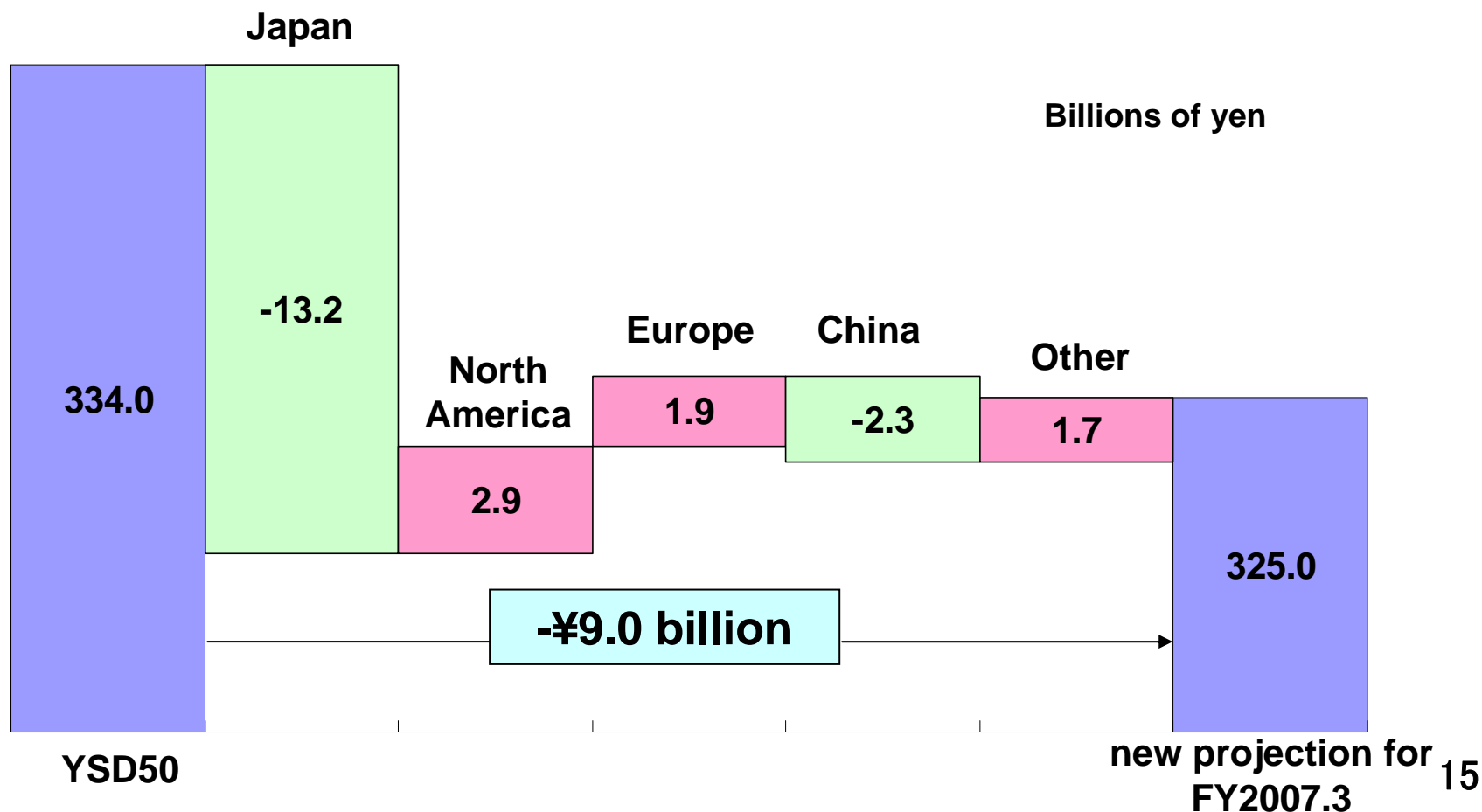
new projection for
FY2007.3 14

Worldwide Sales Growth by Region: YSD50 vs. New Projections for FY2007.3



The gap between YSD50 targets and new projection for FY2007.3

Sales by Region in FY2007.3



Sales Growth in the Japanese Market



■ Significant revision of sales plans for keyboard instruments and guitars

- Marketing efforts appealed to young people with the aim of increasing the number of Electone players, but could not generate extra sales.
- Unit sales of acoustic pianos declined. Plans to lift average unit sales price by selling more grand pianos did not progress as expected.
- Delays in responding to rapid changes in the electronic piano market. Now responding with new products.
- Plans to expand sales of guitars, where Yamaha has a small market share, made no progress due to uncompetitive products.

■ Increase in sales of high added-value wind instruments

- Measures to stimulate demand were successful, leading to increased unit sales and a higher proportion of customized products.

■ Business expansion to match customer lifestyles

- Continued investment in shift from conventional outdoor sales approach to actively pulling customers into stores.
- Opened 47 “Unistyle” suburban music schools, aiming at 200 within 4 years. Recruitment activities have succeeded in rising child enrolments to 420,000.

■ Development of new customer groups

- More than 100,000 students enrolled in music lessons for adults.
- Instrument rental business maintaining steady growth.



Yamaha Tokai's new Hamamatsu Store opened in March 2006

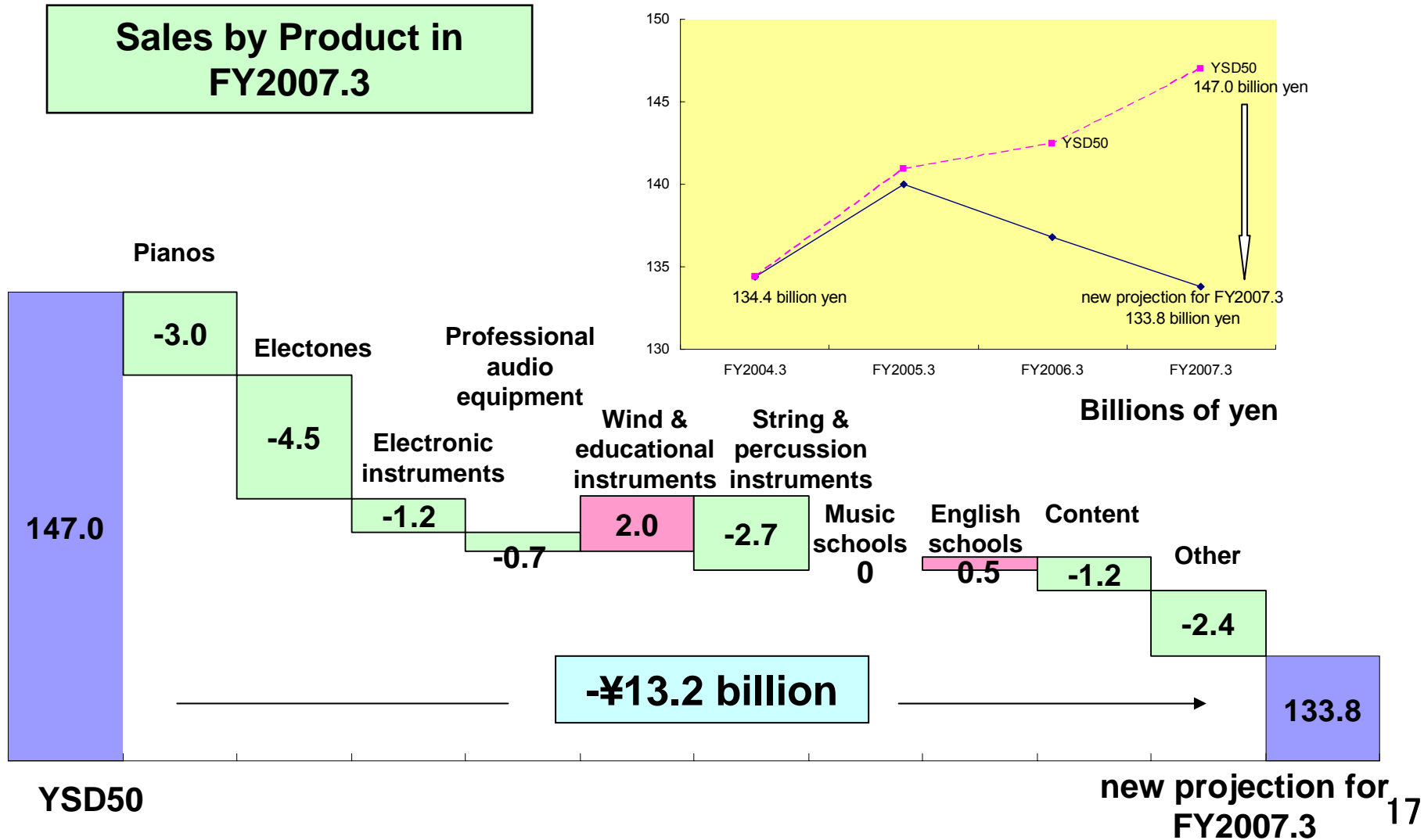


Music lessons for adults

Sales Growth in the Japanese Market



The gap between YSD50 targets and new projection for FY2007.3



■ Revise sales plans for acoustic pianos and guitars – aim for recovery through launch of new products

- Noticeable market shift toward large musical instrument stores and mass sales channels – respond with new products
- Proportion of low-priced pianos sold increasing due to rise of Chinese manufacturers – change approach to make up for declining acoustic piano sales with new electronic pianos
- Largest market for guitars, yet sales are flat in spite of ambitious sales plans – aim to catch up through mass sales channels



Yamaha Artist Services
(New York)

■ Development and sales of high added-value products are proceeding – continue with further new product development

- Develop artist model wind instruments through artist service centers



Xeno Artist Model:
YTR-9445CHS

■ Accelerate growth of professional audio business

- Established Yamaha Commercial Audio Systems Inc.
- Started distribution of Nexo S.A. products in North America.

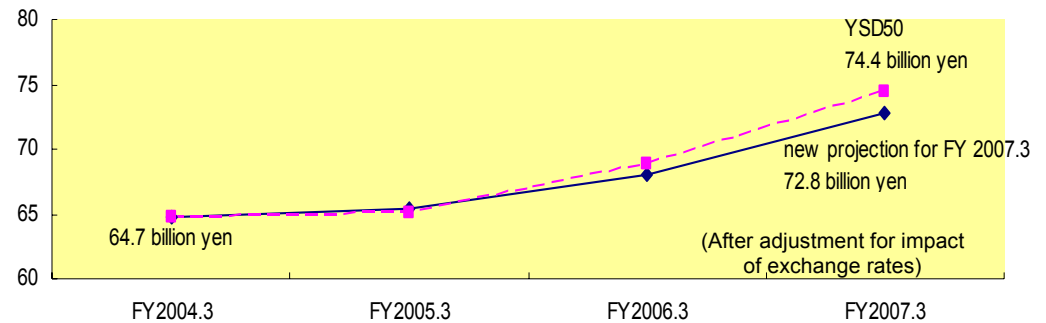


Sales Growth in the North American Market

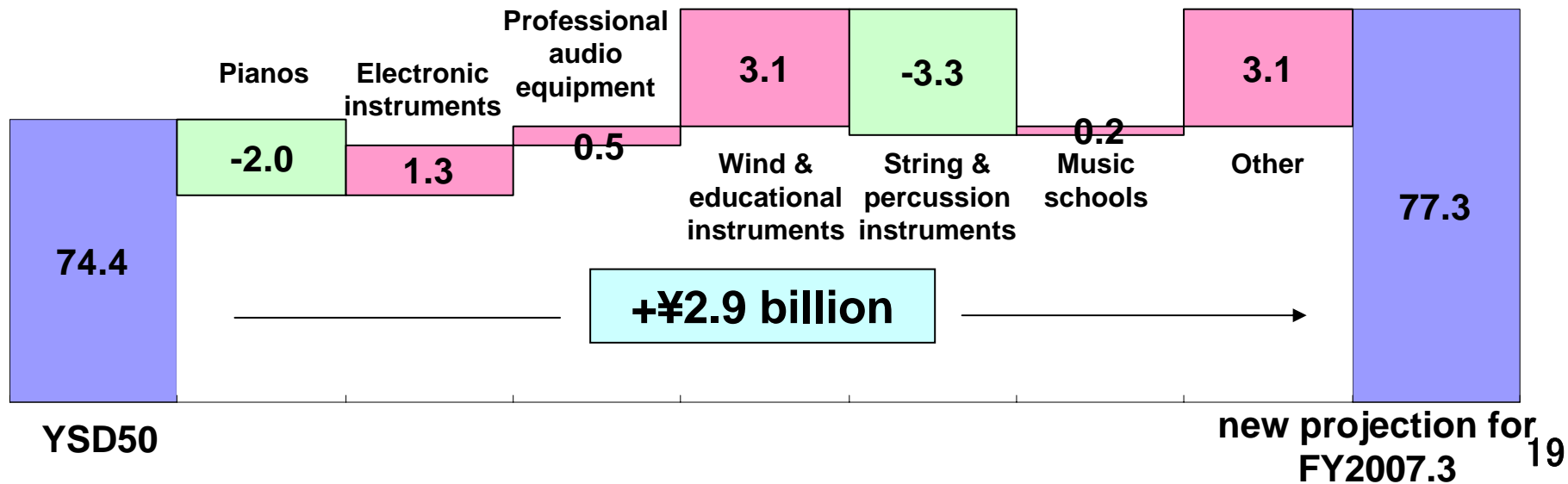


The gap between YSD50 targets and new projection for FY2007.3

Sales by Product in FY2007.3



Billions of yen



Sales Growth in the European Market



- **Fierce competition in wind instrument sales due to rise of Chinese manufactures and expansion of house brands – revise product and sales plans**
 - Planning to compete through launch of YAMAHA brand products made in our manufacturing plants in China and Indonesia

- **Piano sales remain robust – launch new products to compete with Chinese-made pianos, which are expanding their share in the moderate-price range**
 - Launch upright piano made in our Indonesian plant to compete in the moderate-price range
 - Further strengthen marketing efforts for high added-value products such as Silent Pianos

- **Continue to enhance sales systems in growth markets**
 - Established YMCE branch in Poland (August 2004)
 - Set up representative office in Moscow (September 2005)
 - Making preparations for direct sales in the expanded EU (Czech Republic, Slovakia, Hungary, Slovenia)



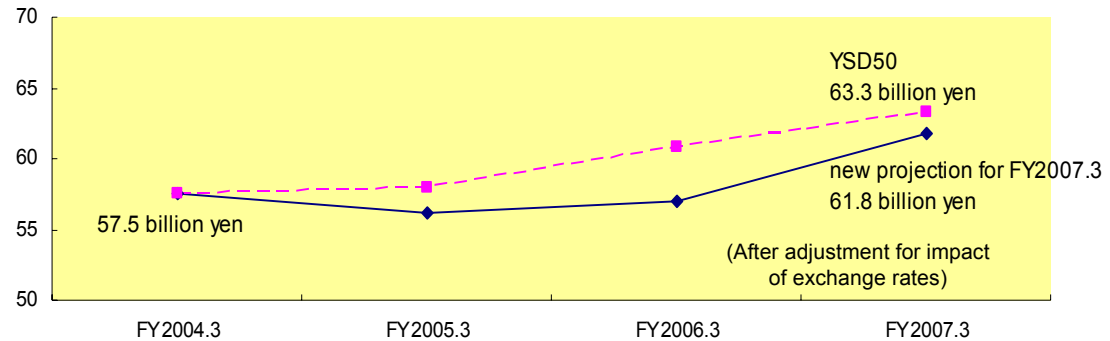
Upright piano b2

Sales Growth in the European Market

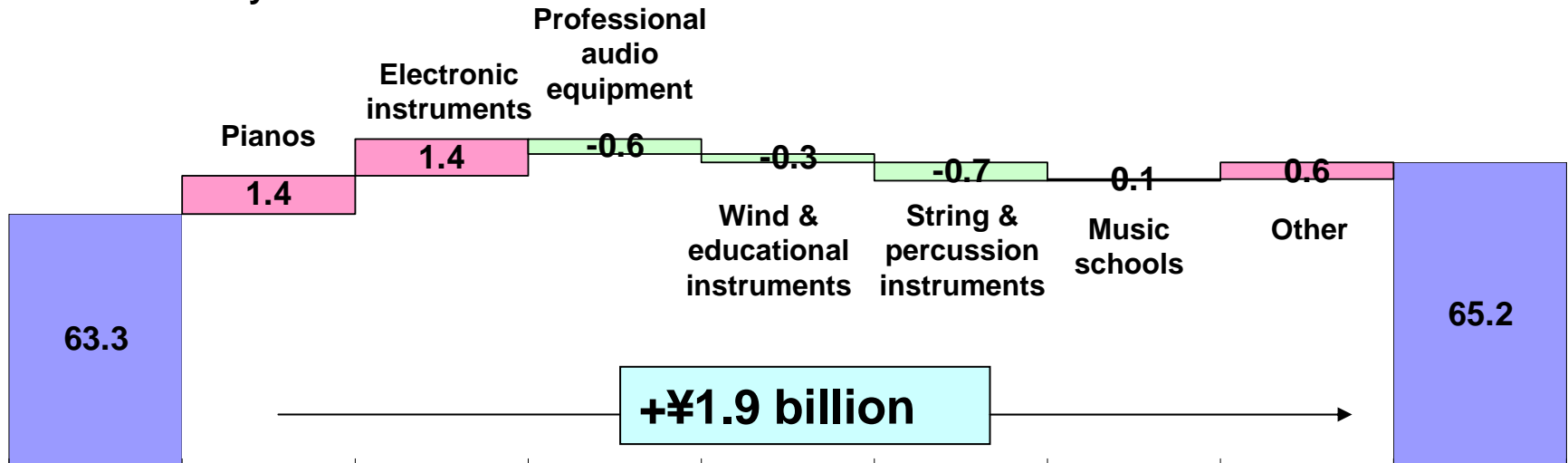


The gap between YSD50 targets and new projection for FY2007.3

Sales by Product in FY2007.3



Billions of yen



YSD50

new projection for
FY2007.3 21

■ Initial projections revised downward, aiming for sales of ¥10 billion in FY2007.3

- Although sales are below initial projections, infrastructure is steadily being improved
- FY2004.3 sales: ¥6.5 billion; FY2006.3 sales ¥8.9 billion; FY2007.3 projected sales: ¥10.6 billion
- Growth in demand for pianos is slower than initial estimates

■ Continue key policies

- Improve business infrastructure and establish sales network
- Opened Yamaha music school in Shanghai under our direct management (October 2005)
- Enhance manufacturing strengths at Hangzhou Yamaha



Hangzhou plant, China



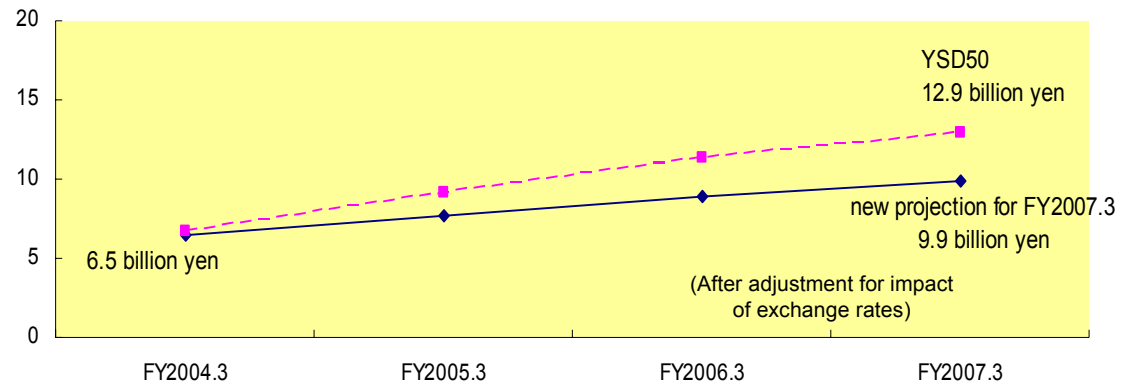
Yamaha's Shanghai center (music school)

Sales Growth in the Chinese Market

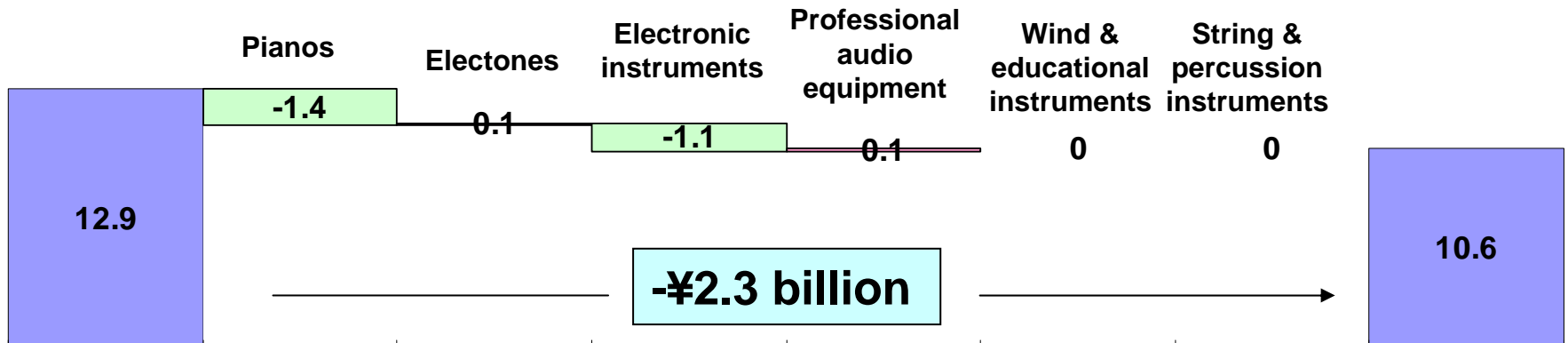


The gap between YSD50 targets and new projection for FY2007.3

Sales by Product in FY2007.3



Billions of yen



YSD50

new projection for
FY2007.3 23

YSD50 targets vs. new sales projections for FY2007.3

- **Korea: ¥5.6 billion -> ¥6.0 billion; + ¥0.4 billion** (150% of FY2004.3 sales)
 - As total demand for pianos declines, expand market share by strengthening brand and artist relations
 - Established Yamaha Artist Services Seoul (November 2005)
 - Expand music schools
- **The Gulf States: ¥3.8 billion -> ¥4.3 billion; + ¥0.5 billion** (143% of FY2004.3 sales)
 - Step up marketing in major markets, including Iran, UAE, Saudi Arabia
 - Strengthen sales base in markets under development, including CIS and Kazakhstan
- **Russia and Central/Eastern Europe and other:**
¥5.9 billion -> ¥5.9 billion; on target (144% of FY2004.3 sales)
 - Established Moscow representative office (September 2005); expand sales by developing marketing base
 - Expand direct sales using branches in Poland and Austria as bases
- **India: ¥2.1 billion -> ¥2.1 billion; on target** (191% of FY2004.3 sales)
 - Build sales network in response to opening up of market

Sales Growth in the Professional Audio Equipment Market



■ Sales in line with initial plan

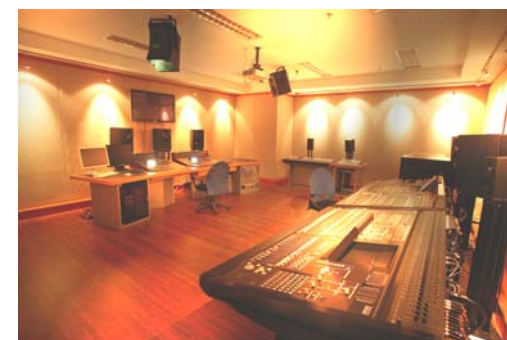
- Sales growing in line with initial plan, from ¥20.2 billion in FY2004.3 to ¥29.7 billion (projected) in FY2007.3
- Establishment of infrastructure such as support centers is progressing steadily
- Will continue with proactive product planning focusing on North America, our largest market

■ Transition from mixer manufacturer to solutions provider

- Maintain No.1 position for mixers
- Offer network systems integrating mixers, amps, speakers and processors
- Build global support structure (pre- and after-sales support)
- Shift to project-based business and direct marketing
- Achieve results through M&A strategy
 - Steinberg
 - NEXO



M7CL Digital Mixer

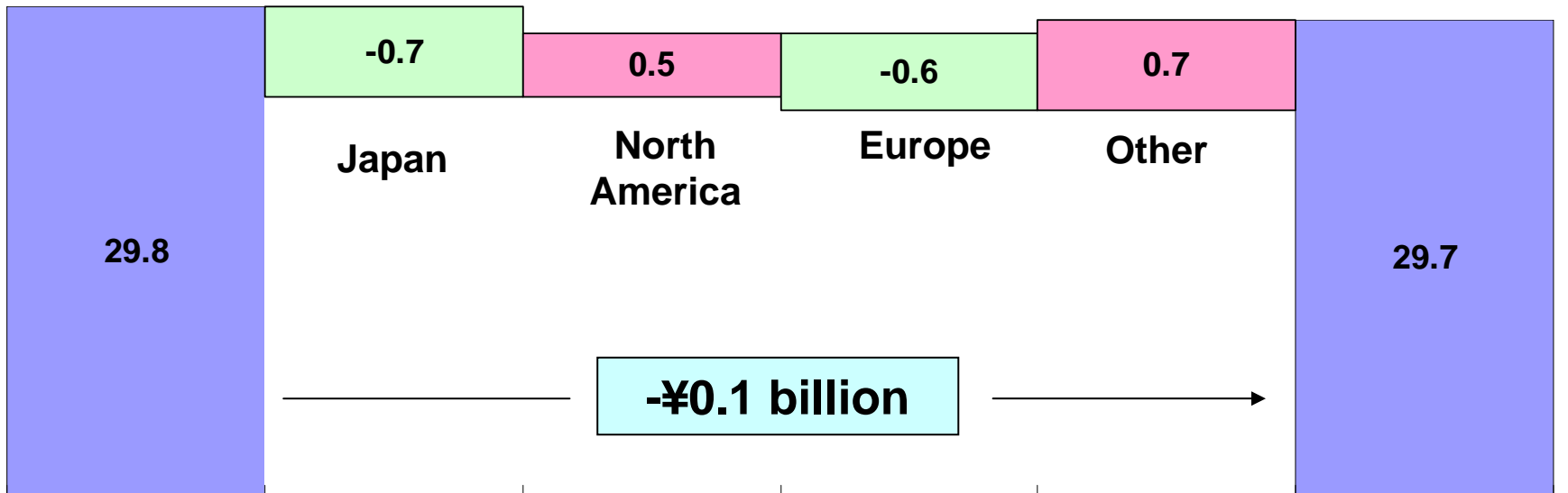
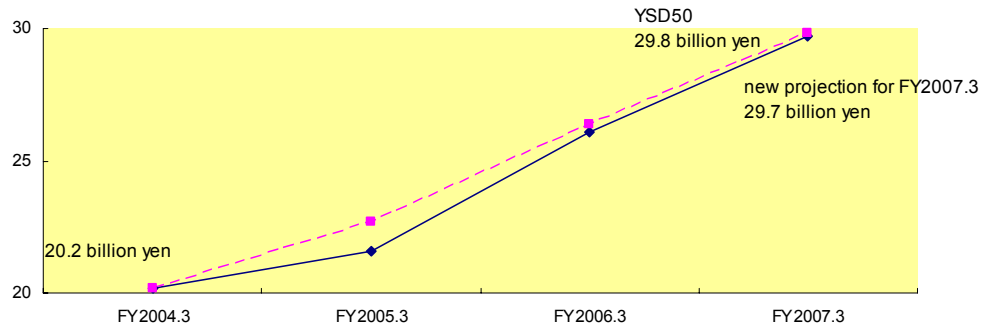


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Sales Growth in Professional Audio Equipment

The gap between YSD50 targets and new projection for FY2007.3

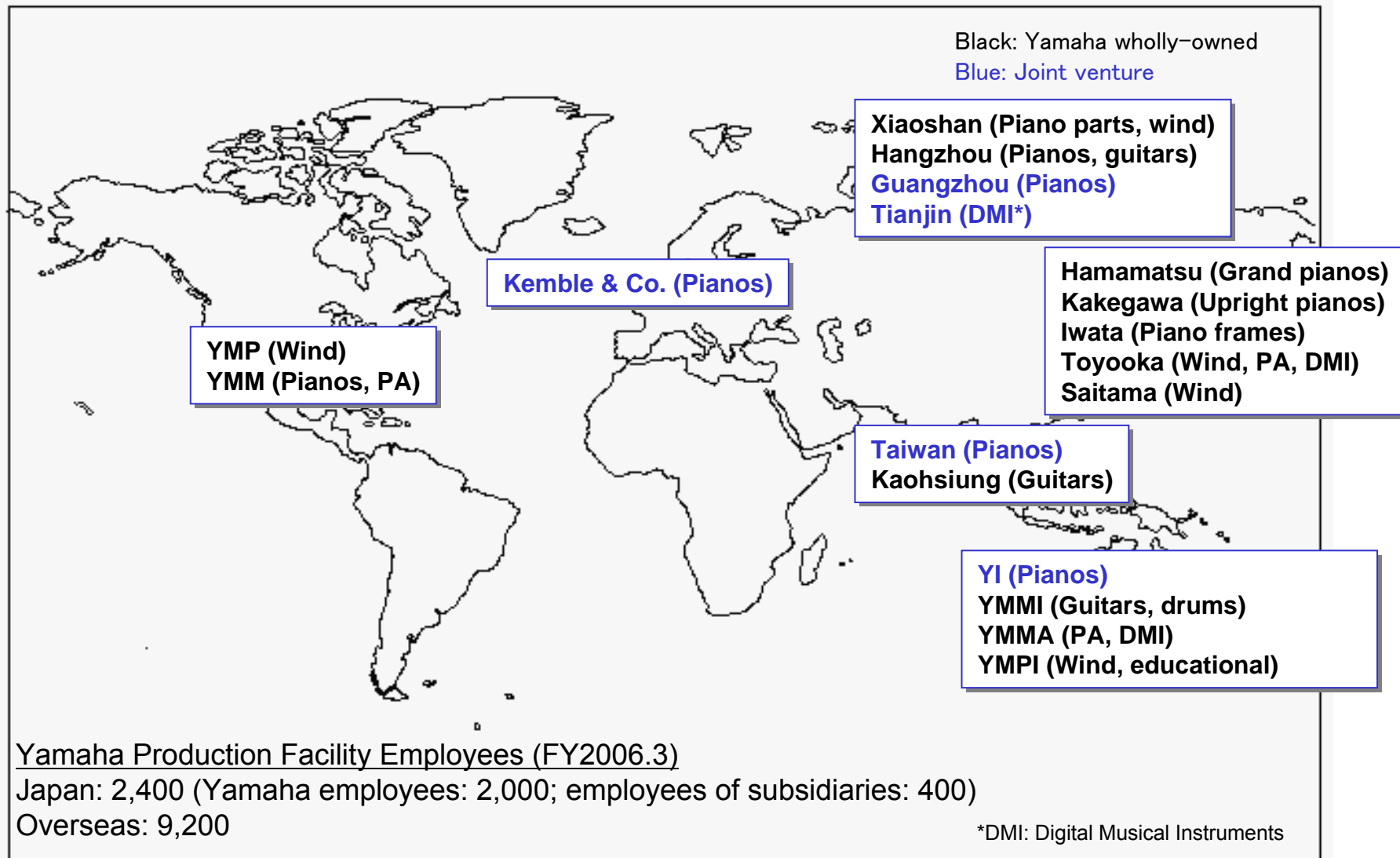
Sales by Region in FY2007.3



YSD50

new projection for
FY2007.3

Musical Instruments Production Network YAMAHA



Manufacturing Reforms/ Manufacturing Base Strategy



■ Progress with manufacturing reforms/manufacturing base strategy

- No change in overall strategy: core bases in Japan, China and Indonesia
- Infrastructure at these bases to be improved from FY2006.3 to FY2007.3
- Steady implementation of reforms based on Toyota Production System at these and other bases

■ Progress in reducing manufacturing costs

- Even with the impact of substantial price hikes for raw materials such as crude oil and copper, individual cost-cutting efforts are proceeding largely as planned
- Capacity utilization dropped at Japanese factories due to FY2006.3 sales of products manufactured in Japan, such as grand pianos and Electones, falling below initial projections; consequently, targets for reducing manufacturing costs were not met

■ Manufacturing employees

- Employee numbers falling in Japan due to increased retirements
Passing on of technical skills continues to be a key issue
- Employee numbers increasing in Indonesia, China
Increasing employee numbers ahead of schedule with a view to enhancing production capability
Incorporating added value from OEM partners, etc.
Improving productivity according to plan will be an important issue

Manufacturing Reforms/ Manufacturing Base Strategy



Leading production innovation as
"mother factories"

Group	Manufacturing Base		
	Japan	China	Indonesia
Electronic instruments	○	○	○
Professional audio equipment	○	—	△
Pianos	○	△	○
Wind & educational instruments	○	△	○
Guitars	△	△	○
Drums	△	—	○

○ : Developed bases
△ : Under development
— : No applicable facility

YSD50		
FY2005.3	FY2006.3	FY2007.3
Strengthen production capability in Japan, China and Indonesia		
Expand Electone production by establishing cell production	Selection and concentration of models produced (low-price Clavinova, high-price portable keyboards)	Enhance production facilities, increase production (Tianjin, Indonesia)
Concentrate production of moderate-price professional audio mixers (including OEM) in Indonesia		
Started production at Hangzhou Yamaha for Chinese domestic market	Increase models produced and production volumes in China, Indonesia	Begin integration of Japan bases Increase factory size, start exports
Selection and concentration of production bases in Japan (Factories for high-grade products, Saitama factory specializing in mid- and low-pitched brass instruments)		Investment in enhanced wind instrument production (Xiaoshan, Indonesia)
Started production at Hangzhou Yamaha (Integration of divisions)	Expand models produced	Construct new guitar production facility at Hangzhou, increase export volume
Reduce cost of hardware procurement		Strengthen capability to design/produce high-grade products in Japan

Cost Reductions in Manufacturing: Results and Projections



Cost Reductions

Unit: billions of yen

Cost reductions	Cost reductions projected in YSD50 (FY2004.3 vs. FY2007.3)	FY2005.3 actual reductions (vs. FY2004.3)	FY2006.3 Initial projections (vs. FY2005.3)	FY2006.3 actual reductions (vs. FY2005.3)	FY2007.3 projected reductions (vs. FY2006.3)	FY2007.3 projected cumulative reductions
Personnel expenses for manufacturing in Japan	1.67	0.5	0.82	0.90	0.7	2.1
Other manufacturing expenses	3.20	1.28	0.90	-0.48	1.02	1.82
Total	4.87	1.78	1.72	0.42	1.72	3.92

Amid rising production we absorbed ¥0.62 billion in increased materials costs, and cost reductions progressed as planned

Overseas cost reductions progressed as planned, but capacity underutilization amounting to ¥2.26 billion mainly due to reduced production in Japan meant that initial reduction goals were not met

Expect to meet initial reduction goals due to recovery in production volumes

While continuing to follow the fundamental strategy set out in the YSD50 medium-term business plan, specific strategies will be revised taking account of changes in the business environment and delays in achieving results from measures taken.

- Development of high added-value products
- Web strategy
- Reconfirmation of growth products and markets, and acceleration of growth
- Efficient management of mature products and markets
- Manufacturing reform/manufacturing base strategy

YSD50 Basic Strategy for Musical Instruments Business:

Building strengths to enable continued generation of profits through major reforms in business structure and stable sales growth

■ Development of high added-value products

- Strengthen cooperative efforts with artists, emphasize originality to appeal to customers
- Enhance specs of moderate-price products, develop new functions
- Make optimum use of entire Company's development resources

■ Web strategy

- Proactively and efficiently provide information to customers through the global website
- Offer new value associated with capability of products to connect directly to the Internet

■ Reconfirmation of growth products and markets, and acceleration of growth

- Continue growth strategy for professional audio equipment business, examine new growth areas
- Accelerate development of growth markets in China, Russia and India
- Maximize results from M&A activities and consider new M&As

■ Efficient management of mature products and markets

- Achieve low-cost operations in mature markets such as Japan and Europe (Operational reforms in Japan, maximizing results of logistics integration in Europe, strengthening of SCM efforts, etc.)

■ Manufacturing reform/manufacturing base strategy

- Firmly establish “Quality No.1” mentality
- Differentiate from competitors through strengths in production technology – manufacture core products in Yamaha factories

[1] Produce high added-value products in Japan

- Japanese plants function as “mother factories” (provide results of reforms to other manufacturing bases)
- Turn factories into “showrooms” (utilize manufacturing skills as a marketing tool)
- Provide feedback to development and design departments (for designs that are easy to manufacture)
- Shorten timeline from initial product plan to product launch
- Aim at low-volume production of many models and producing to order

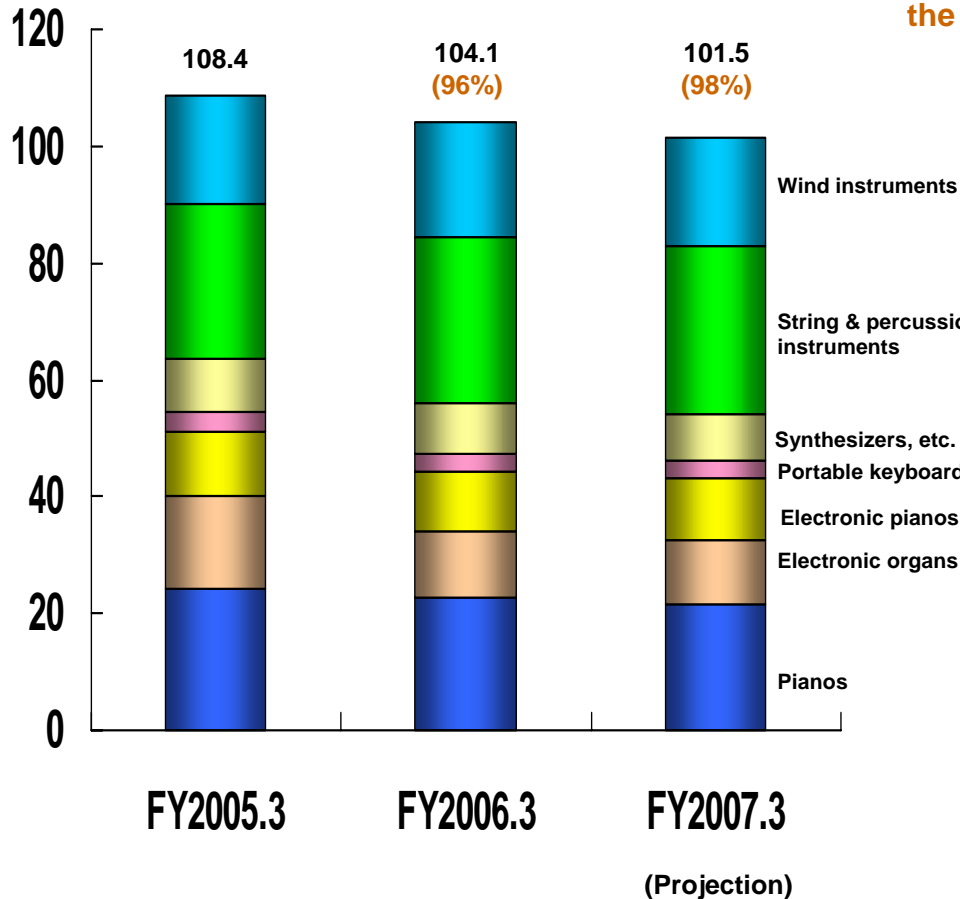
[2] Achieve cost targets to become capable of competing with Chinese manufacturers by producing moderate-price products chiefly in China and Indonesia, and differentiate products through performance and quality

Appendix

Musical Instrument Sales in the Japanese Market YAMAHA

Wholesale Amount

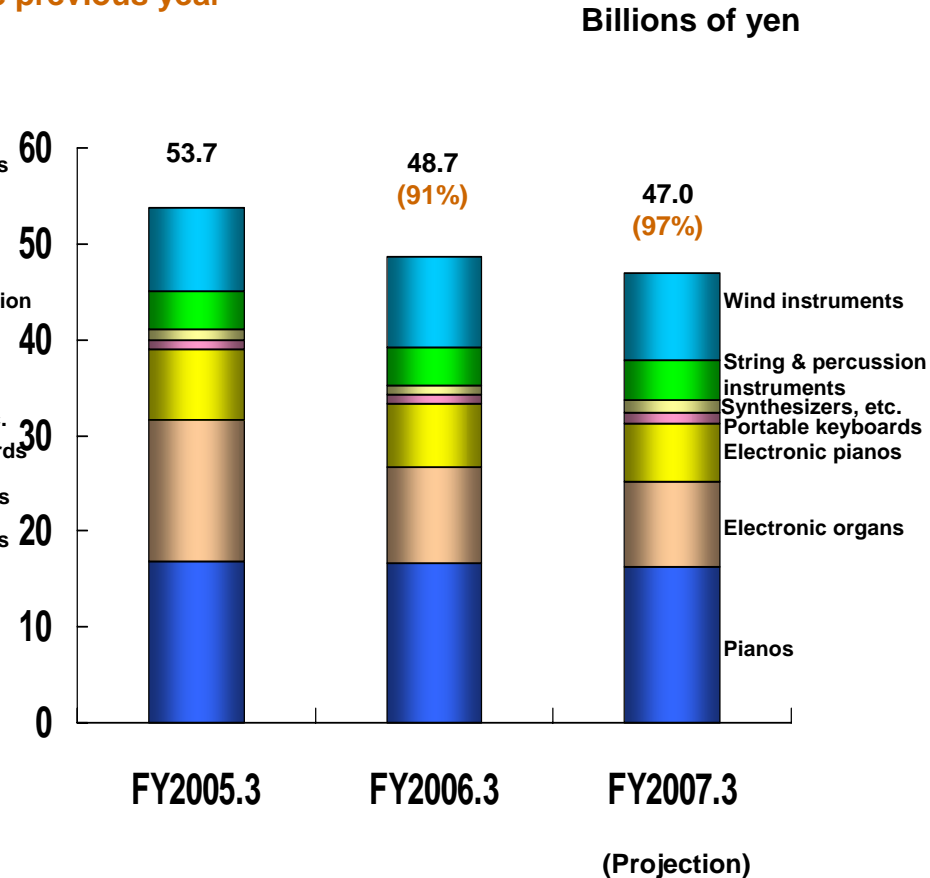
(By category, excluding professional audio equipment)



Yamaha's Wholesale Amount

(By category, excluding professional audio equipment)

% Change from the previous year

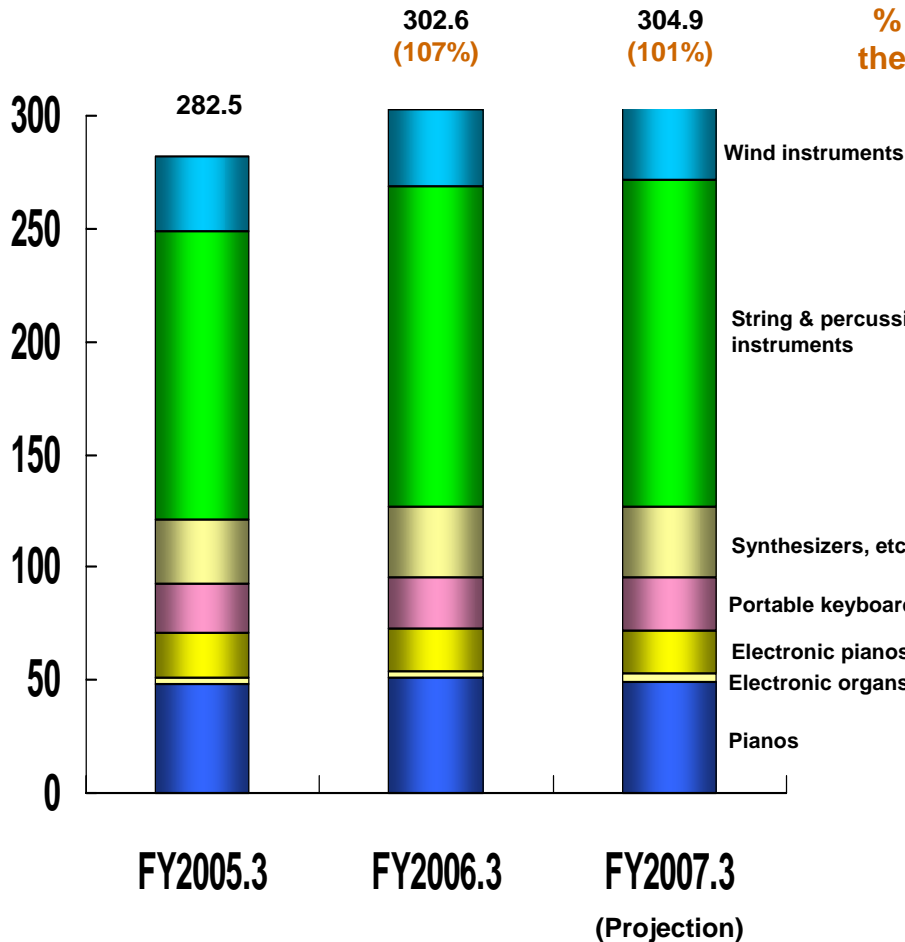


Musical Instrument Sales in the North American Market



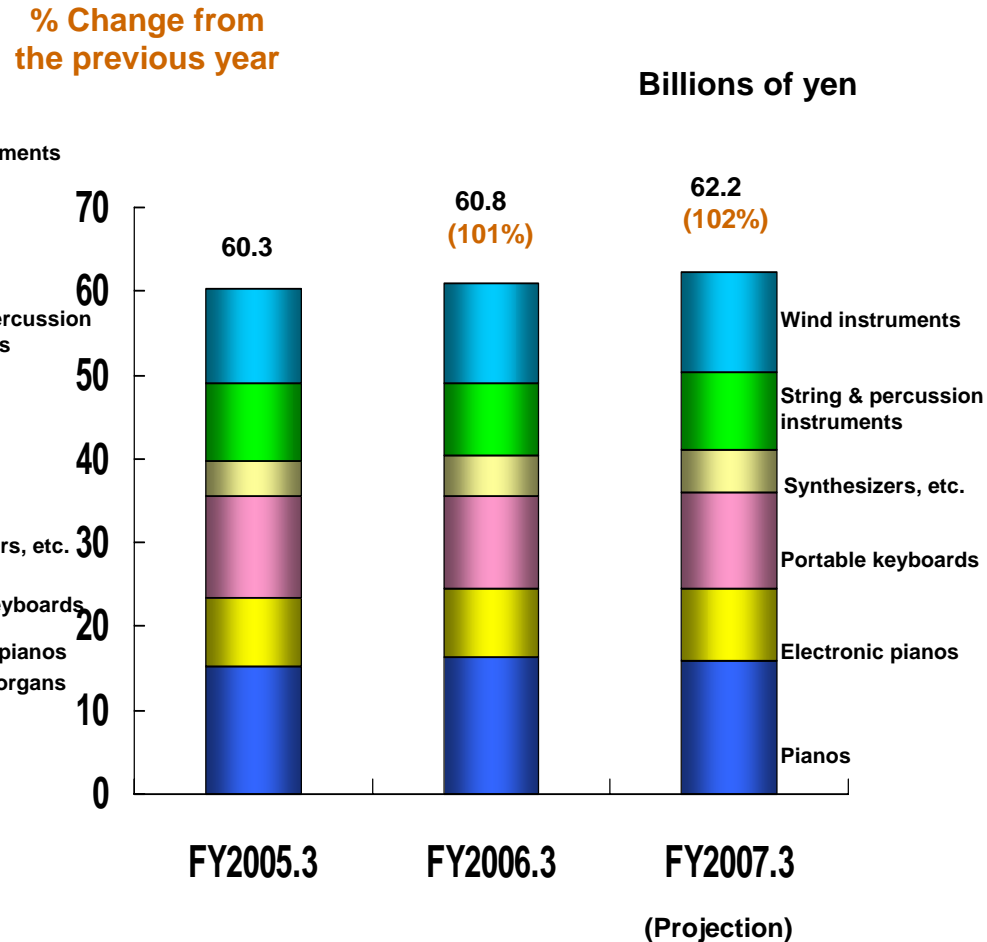
Wholesale Amount

(By category, excluding professional audio equipment)



Yamaha's Wholesale Amount

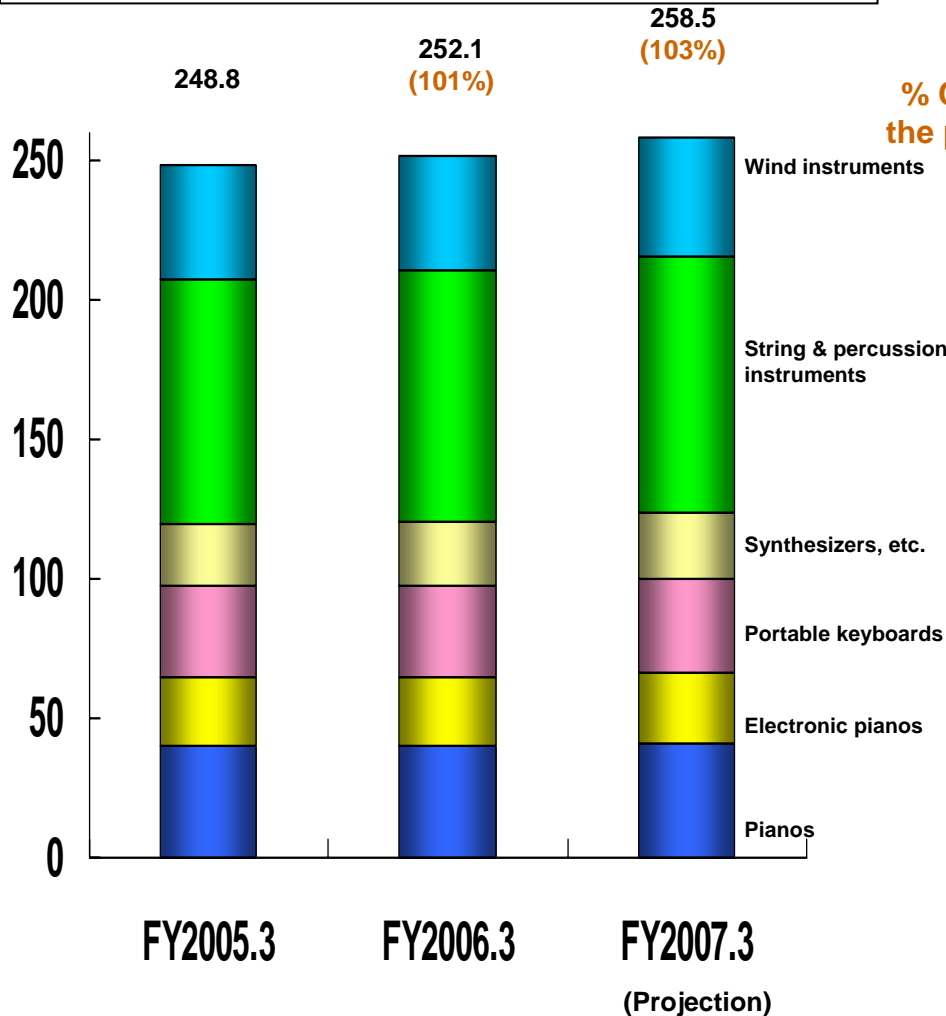
(By category, excluding professional audio equipment)



Musical Instrument Sales in the European Market YAMAHA

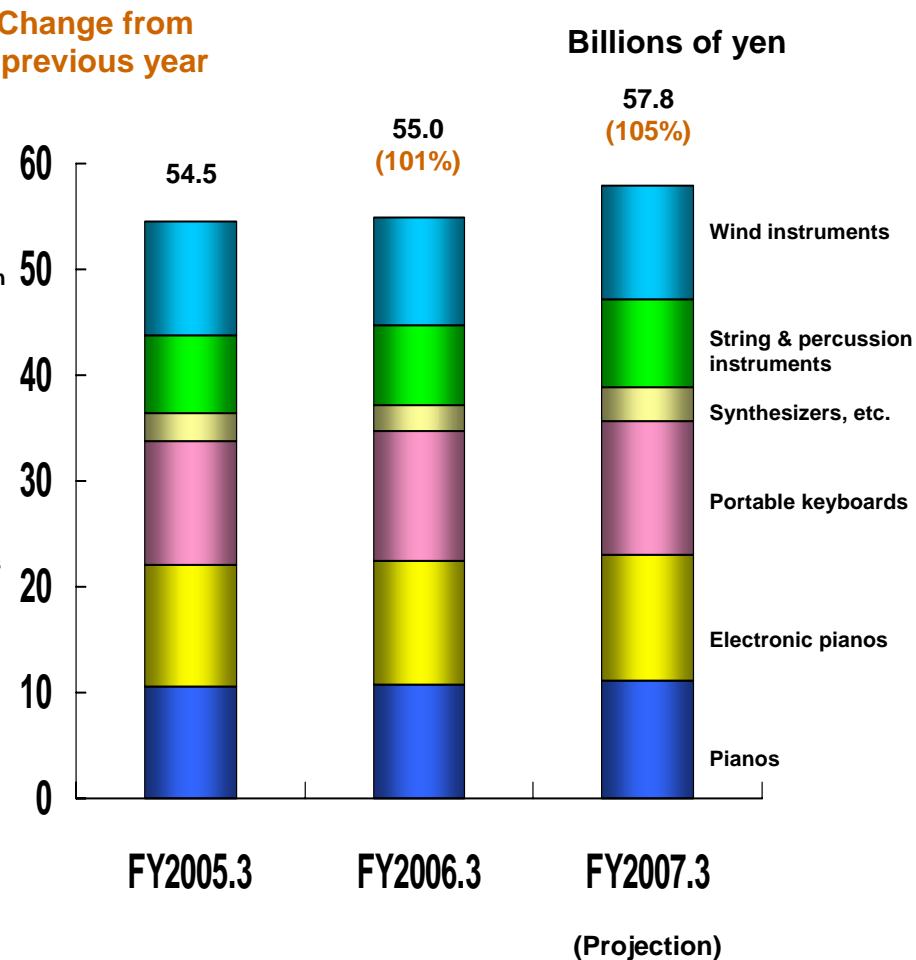
Wholesale Amount

(By category, excluding professional audio equipment)



Yamaha's Wholesale Amount

(By category, excluding professional audio equipment)

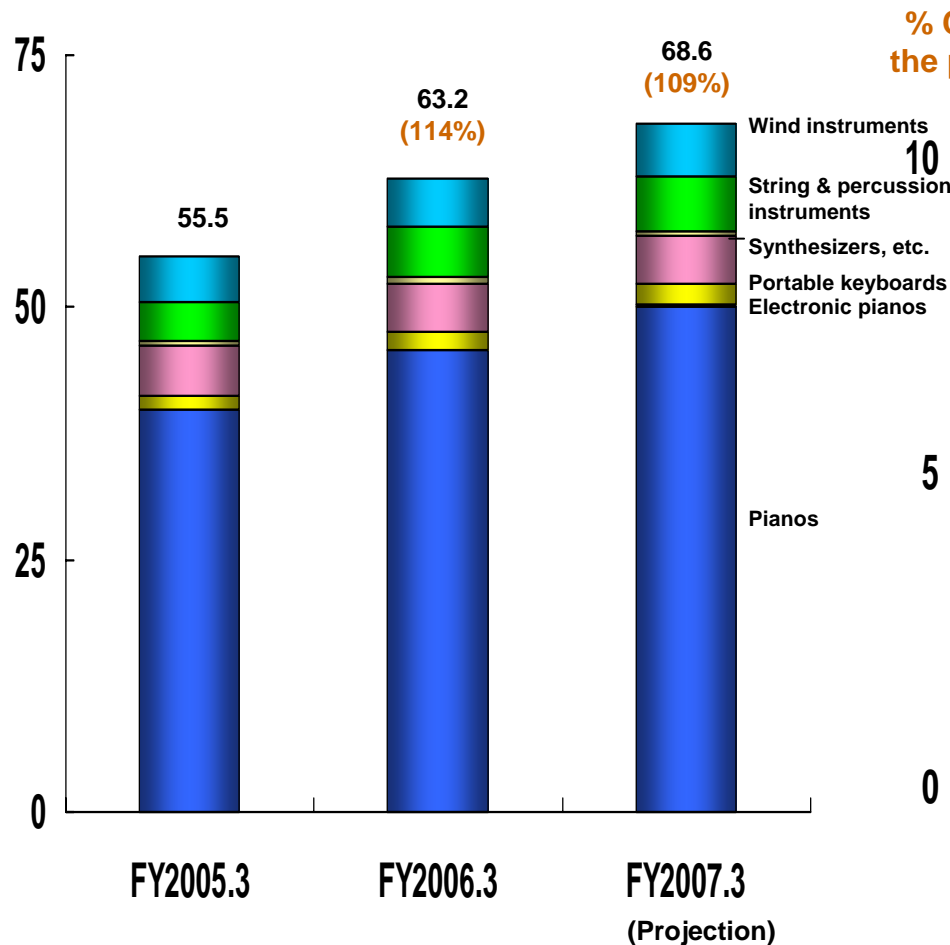


Musical Instrument Sales in the Chinese Market



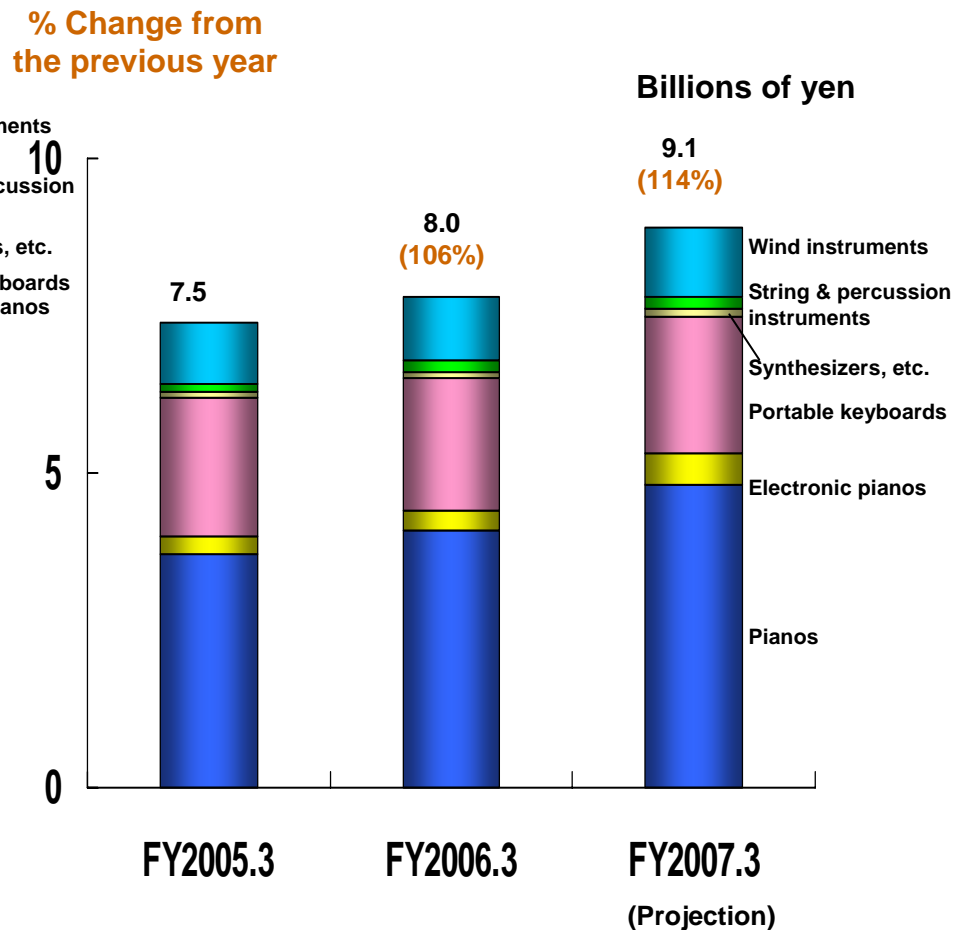
Wholesale Amount

(By category, excluding professional audio equipment)



Yamaha's Wholesale Amount

(By category, excluding professional audio equipment)



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