

# **Presentation of Interim Financial Statements for Fiscal 2003**

**November 18, 2002**

**YAMAHA CORPORATION**

# Performance Outline

(Billions of Yen)

	First Half of FY2002	First Half of FY2003	Increase/ (Decrease)	Initial Projection (announced on Sept. 19, 2002)
<b>Net Sales</b>	<b>248.7</b>	<b>253.7</b>	<b>5.0</b>	<b>255.0</b>
<b>Operating Income</b> Operating Income Ratio (%)	<b>7.7</b> 3.1%	<b>13.1</b> 5.2%	<b>5.4</b>	<b>12.0</b>
<b>Recurring Profit</b> Recurring Profit Ratio (%)	<b>7.5</b> 3.0%	<b>14.2</b> 5.6%	<b>6.7</b>	<b>12.0</b>
<b>Net Income</b> Net Income Ratio (%)	<b>7.2</b> 2.9%	<b>10.0</b> 4.0%	<b>2.8</b>	<b>8.5</b>
<b>EPS (Yen)</b>	<b>35.0</b>	<b>48.9</b>	—	<b>41.2</b>
<b>ROE (%)</b>	<b>3.7</b>	<b>4.9</b>	—	—
<b>Dividends per Share (Yen)</b>	<b>4.00</b>	<b>5.00</b>	—	<b>4.00</b>

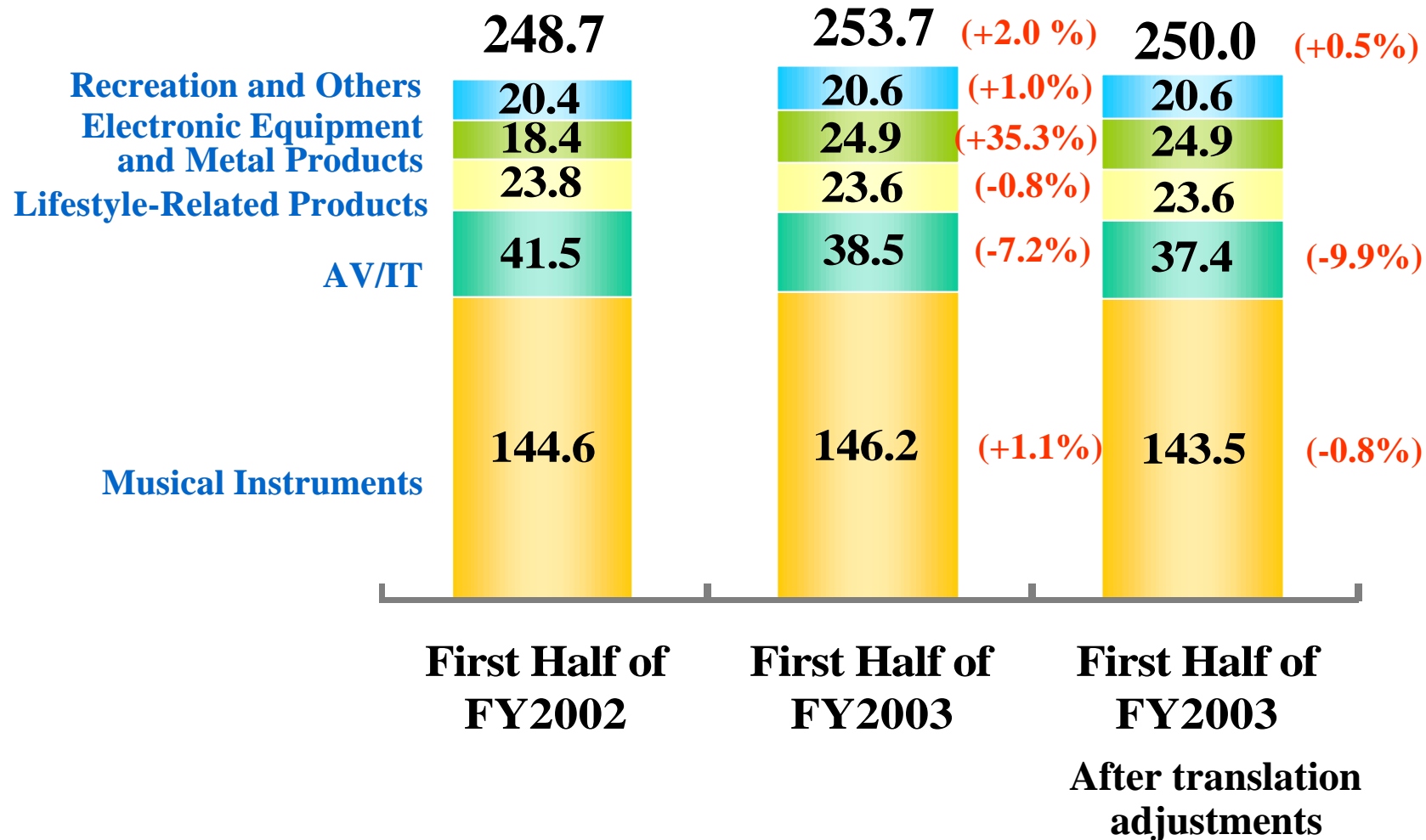
# Currency Exchange Rate

(Billions of Yen)

		<b>First Half of FY2002</b>	<b>First Half of FY2003</b>	<b>Impact</b>
<b>Net Sales</b>	<b>US\$</b>	<b>¥122</b>	<b>¥123</b>	<b>+ ¥0.4</b>
	<b>EUR</b>	<b>¥108</b>	<b>¥117</b>	<b>+ ¥2.1</b>
	<b>Others</b>			<b>+ ¥1.2</b>
	<b>Total</b>			<b>+ ¥3.7</b>
<b>Profit</b>	<b>US\$</b>	<b>¥122</b>	<b>¥122</b>	<b>+ ¥0.1</b>
	<b>EUR</b>	<b>¥106</b>	<b>¥115</b>	<b>+ ¥2.4</b>
	<b>Others</b>			<b>+ ¥0.3</b>
	<b>Total</b>			<b>+ ¥2.8</b>

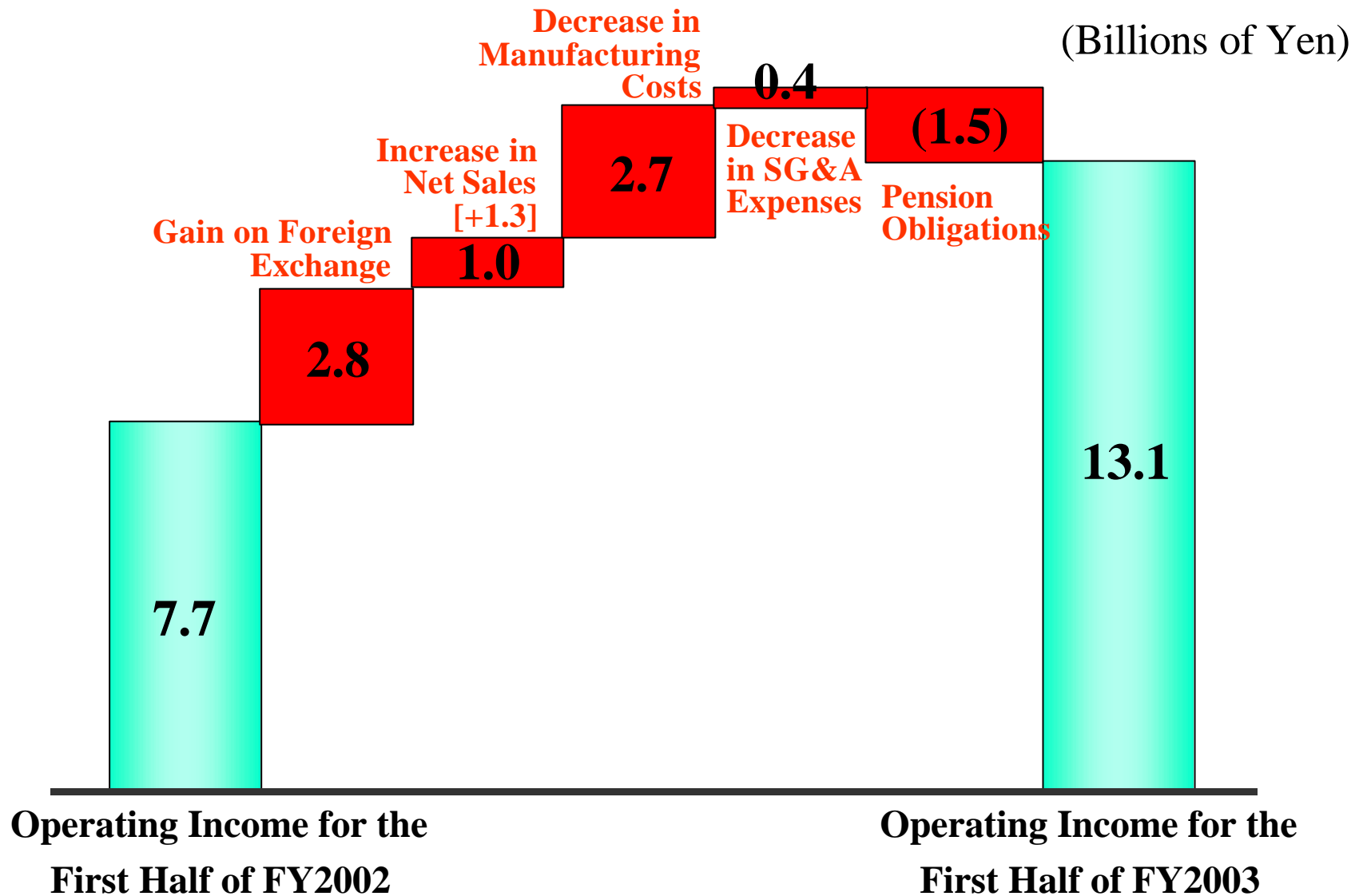
# Net Sales by Business Segment

(Billions of Yen)



\* Figures in parentheses represent changes from the previous period.

# Breakdown of Operating Income/Loss



# Operating Income by Business Segment

(Billions of Yen)

	First Half of FY2002	First Half of FY2003	Increase/ (Decrease)	Currency Exchange Impact	Actual Increase/ (Decrease)
<b>Musical Instruments</b>	<b>3.8</b>	<b>6.0</b>	<b>2.2</b>	<b>1.9</b>	<b>0.3</b>
<b>AV/IT</b>	<b>1.2</b>	<b>1.0</b>	<b>(0.2)</b>	<b>0.9</b>	<b>(1.1)</b>
<b>Lifestyle-Related Products</b>	<b>1.0</b>	<b>0.5</b>	<b>(0.5)</b>		<b>(0.5)</b>
<b>Electronic Equipment and Metal Products</b>	<b>2.6</b>	<b>5.9</b>	<b>3.3</b>		<b>3.3</b>
<b>Recreation</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>0.0</b>		<b>0.0</b>
<b>Others</b>	<b>(0.1)</b>	<b>0.5</b>	<b>0.6</b>		<b>0.6</b>
<b>TOTAL</b>	<b>7.7</b>	<b>13.1</b>	<b>5.4</b>	<b>2.8</b>	<b>2.6</b>

# Financial Summary for the Interim Period Ended September 30, 2002

- Net sales and operating income increased compared with the previous interim term.

(1) Improved profitability in musical instruments business

a) Raised operating income to net sales while making steady progress in reducing inventories.

<u>First Half of FY2002</u>		<u>First Half of FY2003</u>
2.6%	→	4.1%

b) Net sales increased in the U.S. and European musical instrument markets, offsetting decreases in Japan and Asian-Pacific region.

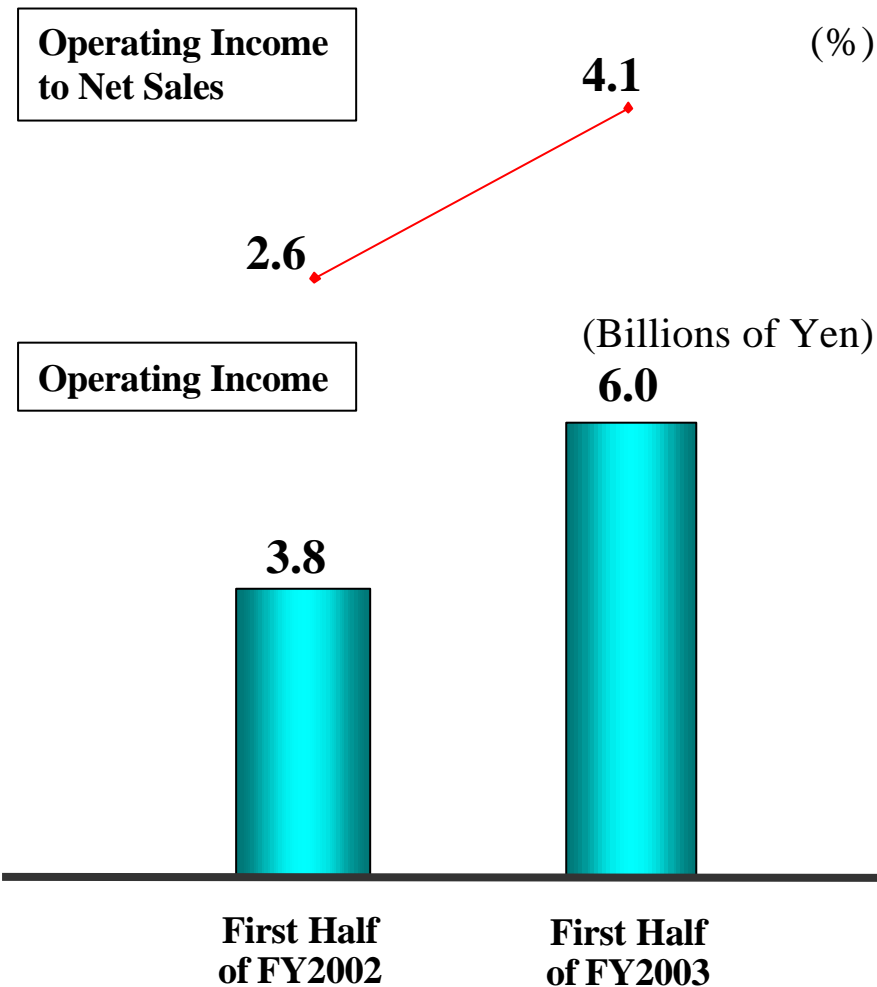
(2) Sales and operating income for the semiconductor business, mainly sound chips for mobile phones, increased substantially compared with previous interim term.

- Inventories decreased ¥13.8 billion compared with the previous interim term.

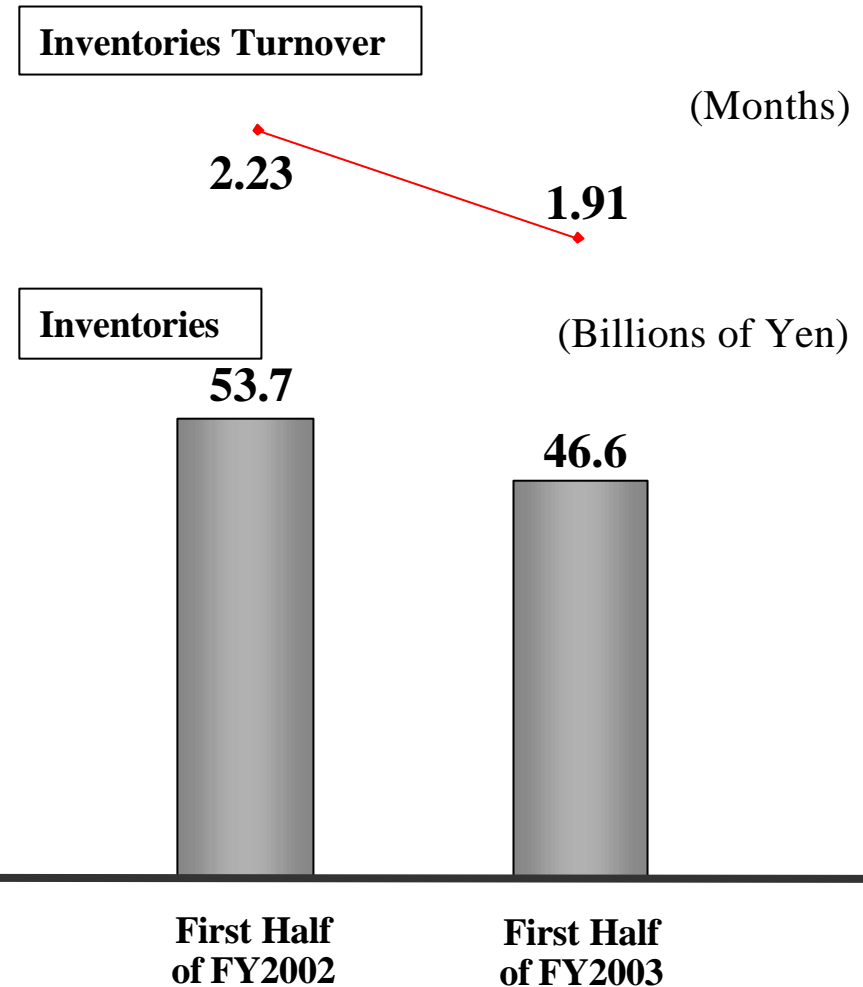
<u>First Half of FY2002</u>		<u>First Half of FY2003</u>
¥104.5 billion	→	¥90.7 billion

# <Musical Instruments> Improvements in Profitability

## Operating Income



## Inventories (Finished Products)

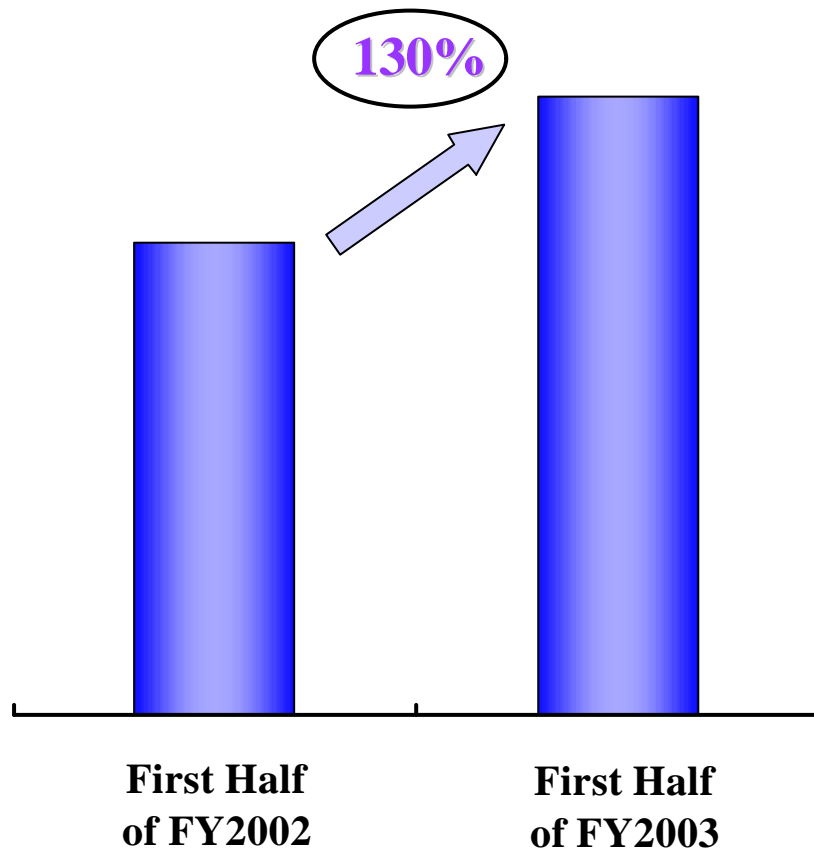




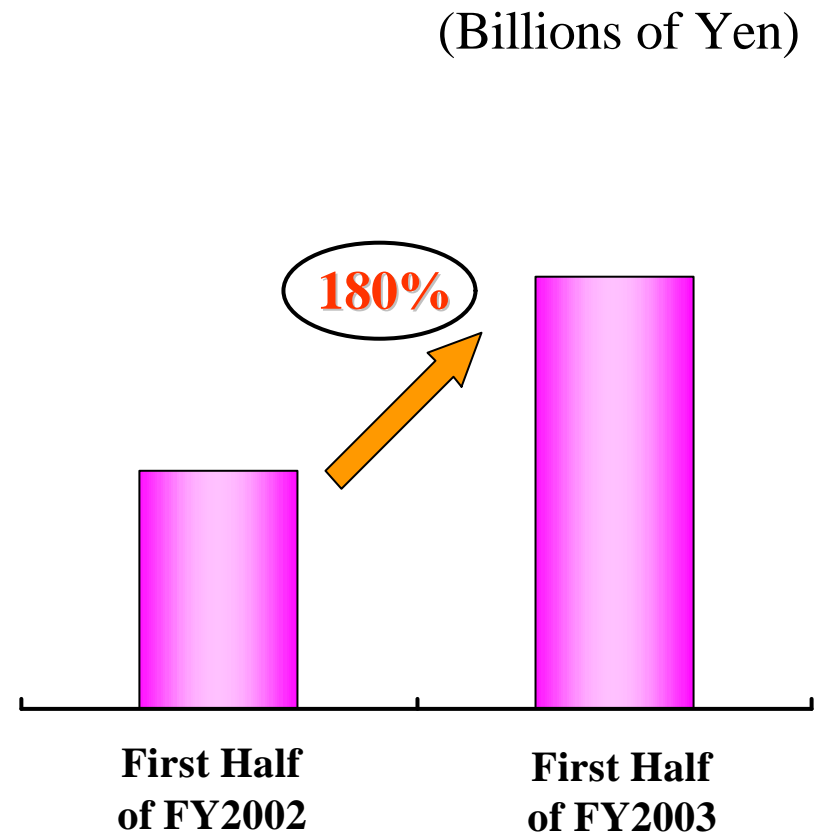
# <Semiconductors>

## Increase in Net Sales and Operating Income

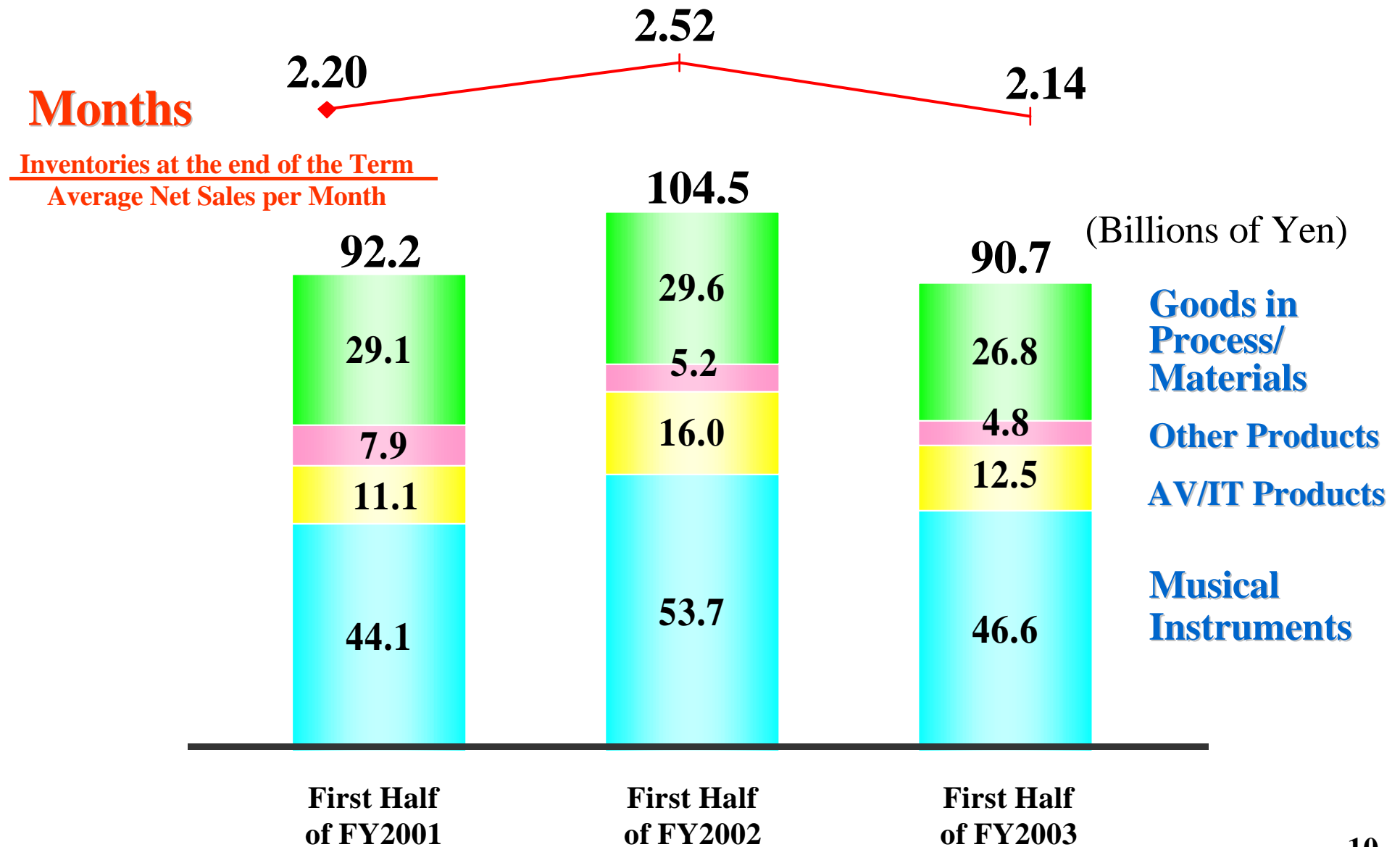
Net Sales



Operating Income



# Progress in Reduction of Inventories



# Operating Environment in the Second Half of FY2003

- **Musical Instruments**
  - Continuing stagnation in Japanese market
  - Uncertainties regarding future U.S. economy at year-end
  - Growth in Chinese market expected
  
- **AV/IT**
  - Competition in home theater market should increase
  - Change in CD-R/RW market structure
  
- **Lifestyle-Related Products**
  - Further decline in the number of owner-occupied housing starts
  
- **Semiconductors**
  - Mobile phones with polyphony sound chips becoming standard in and outside Japan
  
- **Electronic Metals**
  - Rapid recovery of electronic metals market will lead to adjustment period toward year-end
  
- **Recreation**
  - Continuing slide in prices in resort market

# Forecasts of Results for FY2003

(Billions of Yen)

	FY2002 Results			FY2003 Forecasts			Increase/ (Decrease) Ratio
	1st Half	2nd Half	Full Year	1st Half	2nd Half	Full Year	
<b>Net Sales</b>	<b>248.7</b>	<b>255.7</b>	<b>504.4</b>	<b>253.7</b>	<b>276.3</b>	<b>530.0</b>	<b>5.1%</b>
<b>Operating Income</b>	<b>7.7</b>	<b>3.3</b>	<b>11.0</b> [2.1%]	<b>13.1</b>	<b>11.4</b>	<b>24.5</b> [4.6%]	<b>122.7%</b>
<b>Recurring Profit</b>	<b>7.5</b>	<b>0.1</b>	<b>7.6</b> [1.5%]	<b>14.2</b>	<b>10.8</b>	<b>25.0</b> [4.7%]	<b>228.9%</b>
<b>Net Income</b>	<b>7.2</b>	<b>(17.5)</b>	<b>(10.3)</b> [(2.0)%]	<b>10.0</b>	<b>8.5</b>	<b>18.5</b> [3.5%]	—
<b>EPS (Yen)</b>	—	—	<b>(49.7)</b>	—	—	<b>89.7</b>	—
<b>ROE (%)</b>	—	—	<b>(5.2)</b>	—	—	<b>8.9</b>	—
<b>Dividends per Share (Yen)</b>	<b>4.00</b>	<b>4.00</b>	<b>8.00</b>	<b>5.00</b>	<b>5.00</b>	<b>10.00</b>	—

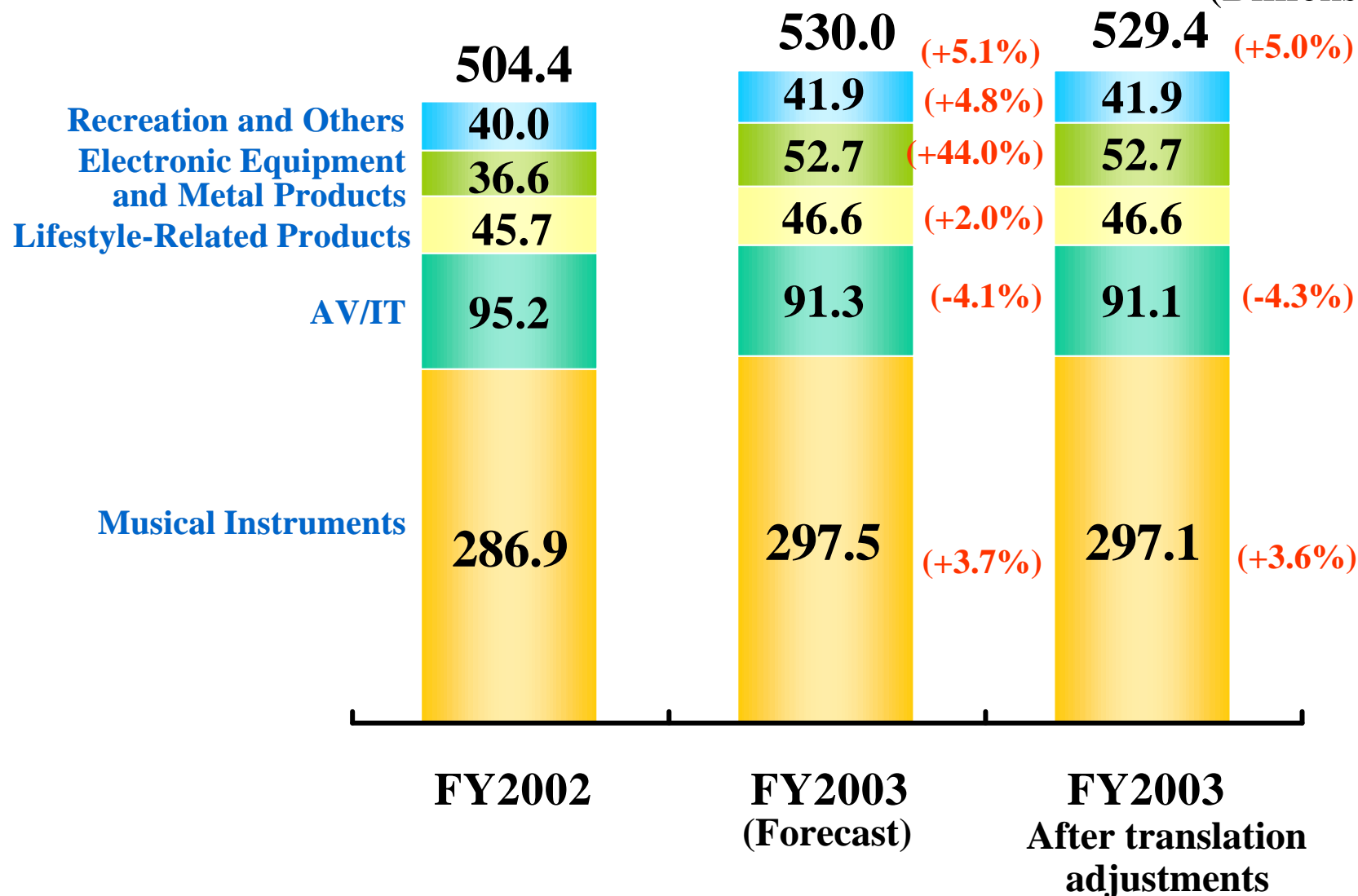
# Currency Exchange Rate

(Billions of Yen)

		FY2002 Results			FY2003 Forecasts			Impact
		1st Half	2nd Half	Full Year	1st Half	2nd Half	Full Year	
Net Sales	US\$	¥122	¥128	¥125	¥123	¥120	¥121	- ¥2.8
	EUR	¥108	¥113	¥110	¥117	¥115	¥116	+ ¥2.6
	Others	—						+ ¥0.8
	Total							+ ¥0.6
Profit	US\$	¥122	¥127	¥124	¥122	¥120	¥121	+ ¥0.1
	EUR	¥106	¥108	¥107	¥115	¥115	¥115	+ ¥3.7
	Others	—						+ ¥0.4
	Total							+ ¥4.2

# Forecasts of Net Sales by Business Segment

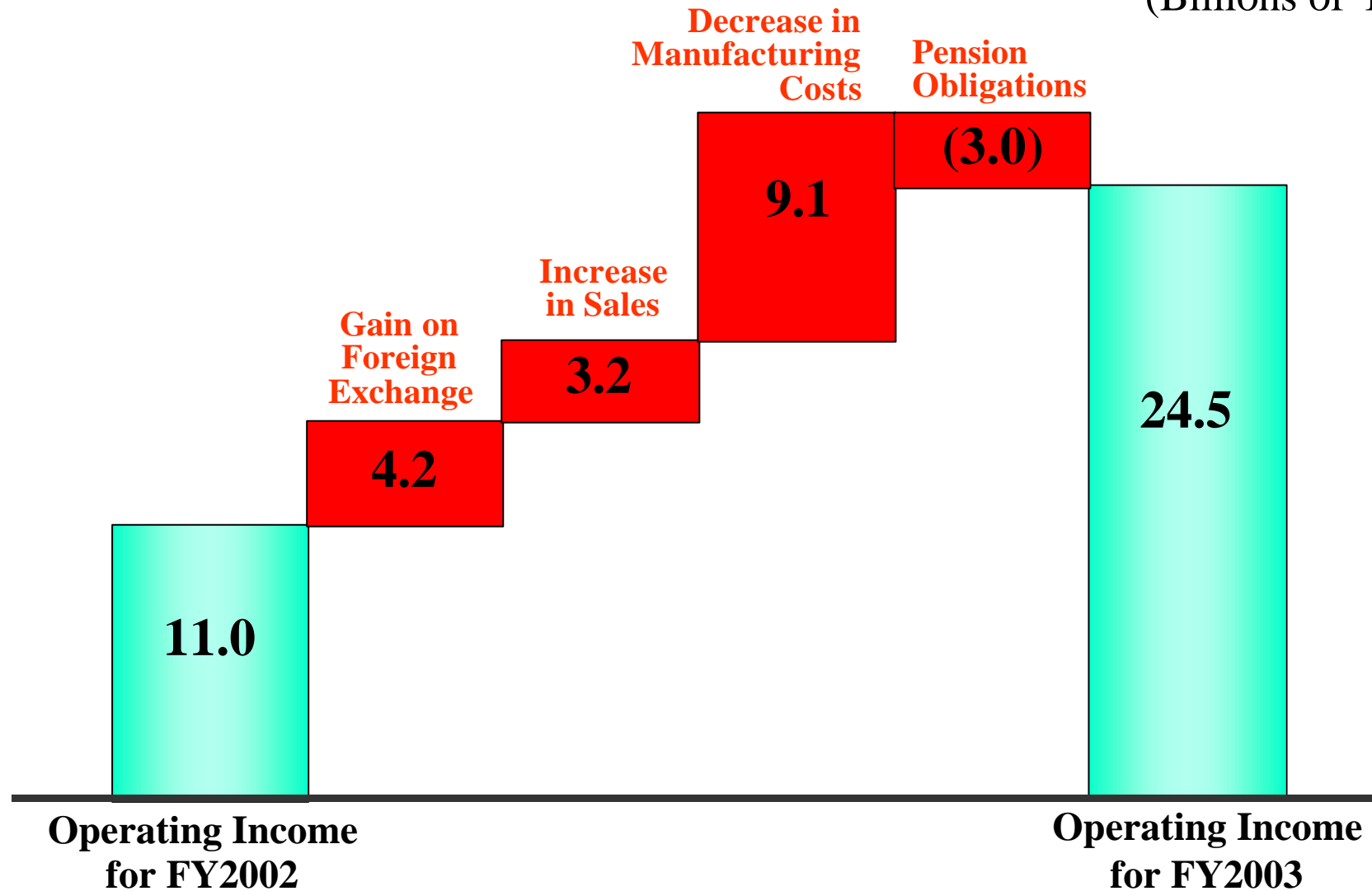
(Billions of Yen)



\* Figures in parentheses represent changes from the previous period.

# Forecasts of Breakdown of Operating Income/Loss

(Billions of Yen)



# Forecasts of Operating Income by Business Segment

(Billions of Yen)

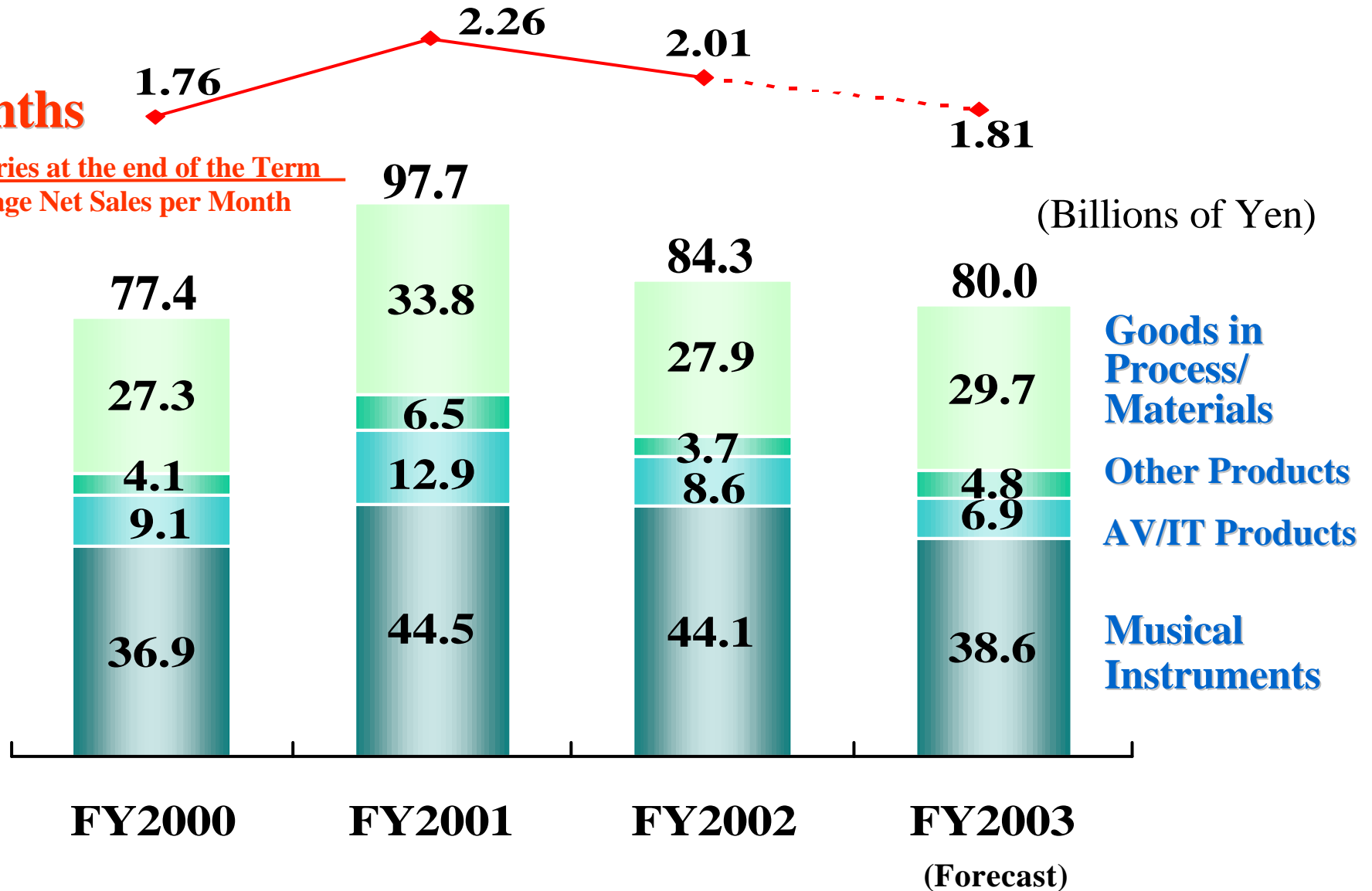
	<b>FY2002 Results</b>	<b>FY2003 Forecasts</b>	<b>Increase/ (Decrease)</b>	<b>Currency Exchange Impact</b>	<b>Actual Increase/ (Decrease)</b>
<b>Musical Instruments</b>	<b>4.7</b>	<b>9.8</b>	<b>5.1</b>	<b>2.5</b>	<b>2.6</b>
<b>AV/IT</b>	<b>3.0</b>	<b>3.5</b>	<b>0.5</b>	<b>1.7</b>	<b>(1.2)</b>
<b>Lifestyle-Related Products</b>	<b>1.0</b>	<b>0.9</b>	<b>(0.1)</b>		<b>(0.1)</b>
<b>Electronic Equipment and Metal Products</b>	<b>4.4</b>	<b>10.7</b>	<b>6.3</b>		<b>6.3</b>
<b>Recreation</b>	<b>(1.7)</b>	<b>(0.8)</b>	<b>0.9</b>		<b>0.9</b>
<b>Others</b>	<b>(0.4)</b>	<b>0.4</b>	<b>0.8</b>		<b>0.8</b>
<b>TOTAL</b>	<b>11.0</b>	<b>24.5</b>	<b>13.5</b>	<b>4.2</b>	<b>9.3</b>



# Inventories

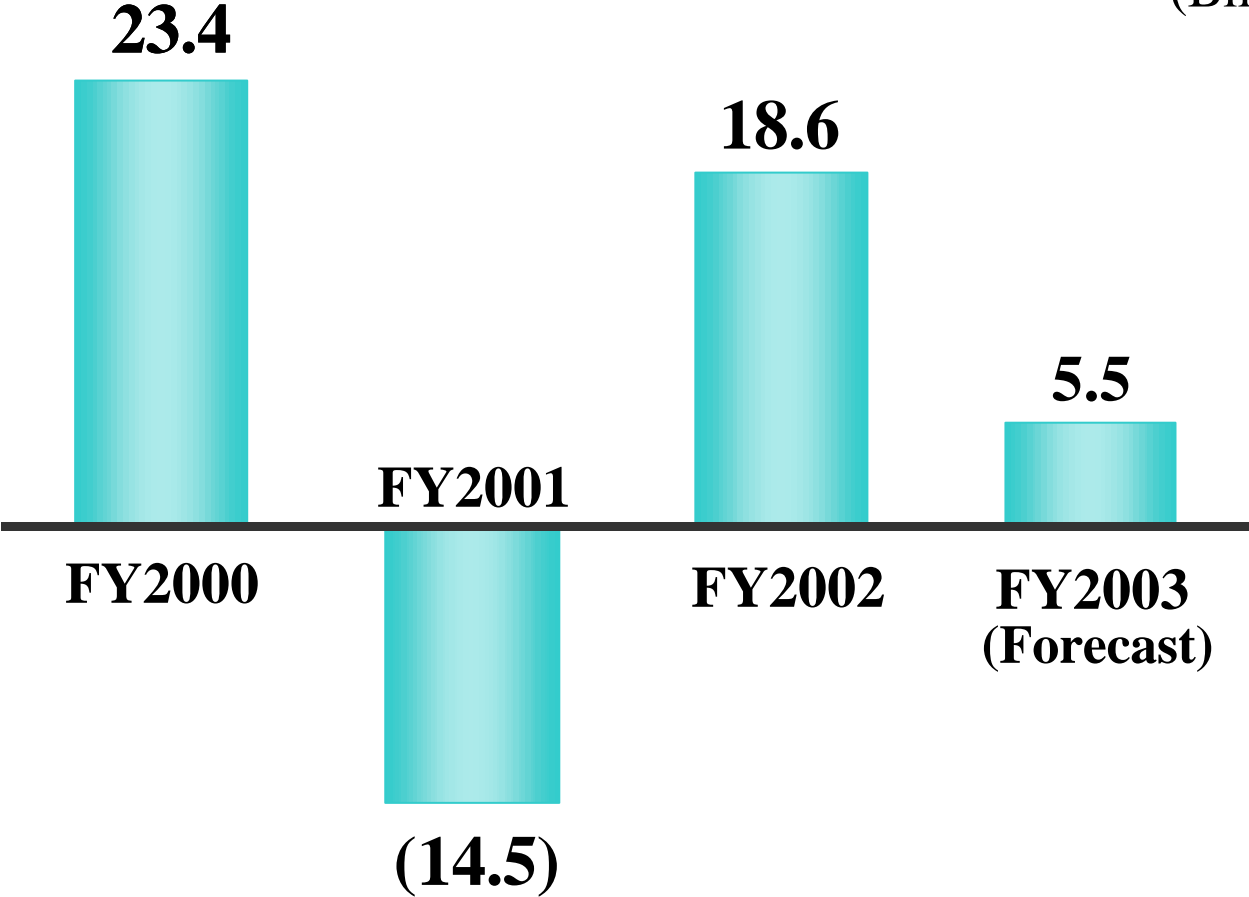
**Months**

Inventories at the end of the Term  
Average Net Sales per Month



# Free Cash Flow

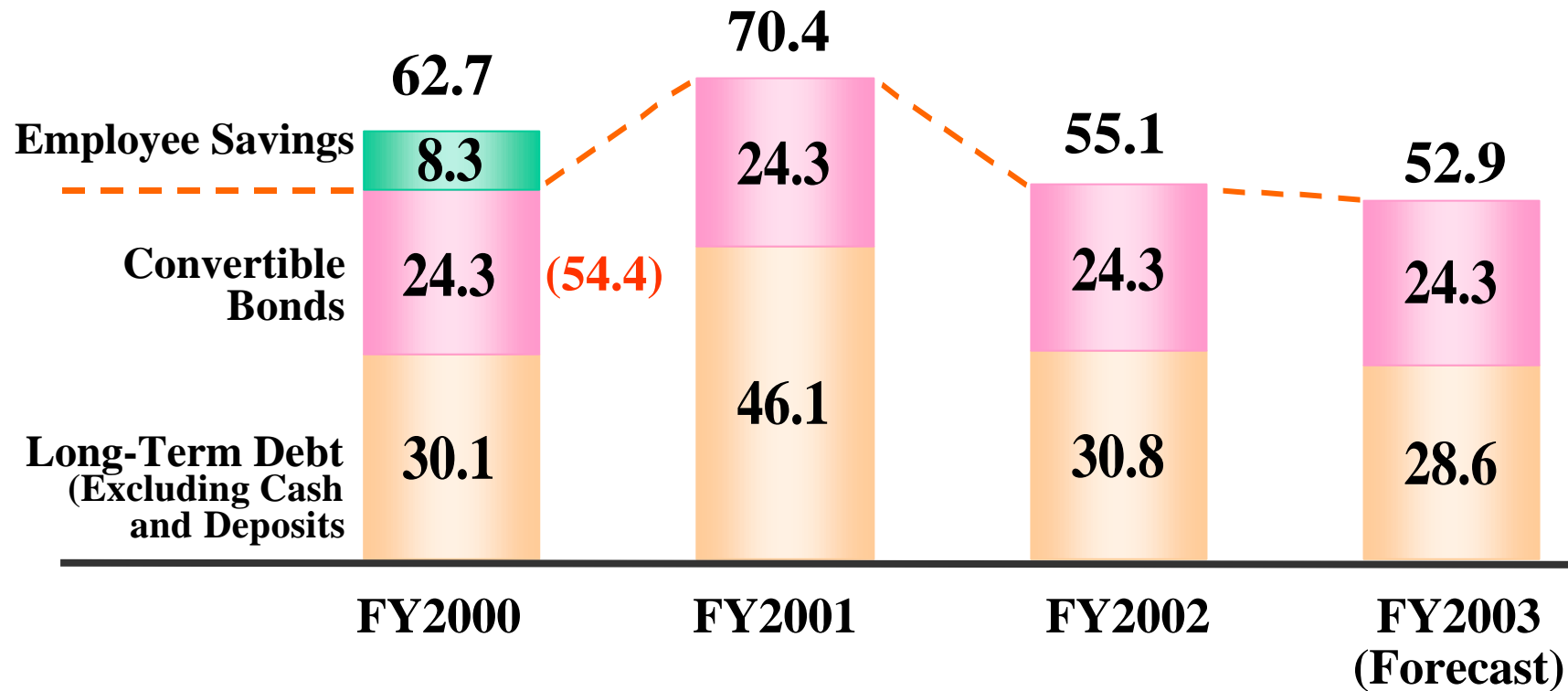
(Billions of Yen)



# Interest-Bearing Liabilities

## Interest-Bearing Liabilities

(Billions of Yen)



## Resort Deposits

41.1

40.3

38.1

36.9

# Priority Policies for the Second Half of FY2003 (1)

- Enhance profitability in Core Business segment and implement measures for future growth

## *Musical Instruments*

- Structure operating bases in promising Chinese market
- Restore Japanese market by developing adult-oriented business
- Cultivate music production market
- Make arrangements for overseas development of ringer melody distribution service

## *AV/IT*

- Further execute ‘#1 in home theaters’ strategy and enhance profitability
- Prepare for revitalization of IT business
- Prepare for smooth operation start in the Chinese manufacturing base

## *Semiconductors*

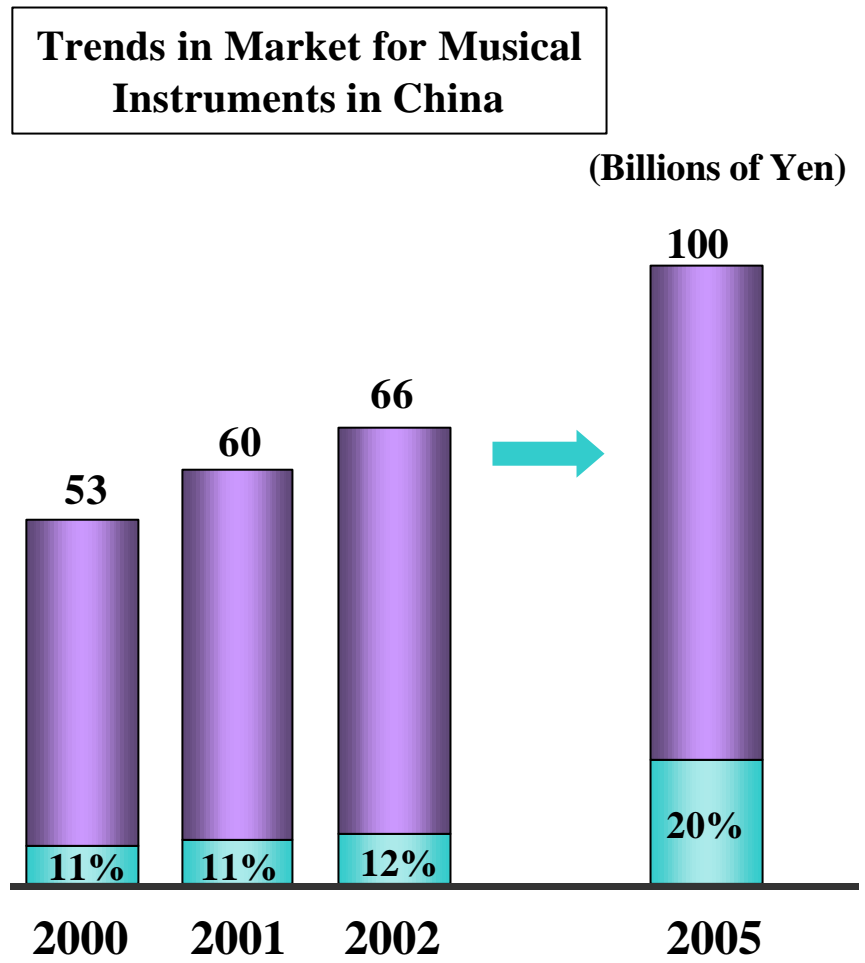
- Expand mobile phone sound chip business

# Priority Policies for the Second Half of FY2003 (2)

- Enhance profitability in Lifestyle-Related and Leisure segment
- Secure stable growth and enhance profitability in Electronic Parts and Materials Business segment using our innovative technologies
  - Accelerate growth and enhance profitability in Mg-molded parts business
  - Improve manufacturing output of invar materials
- Establish compliance management
- Continue aggressive implementation of environmental initiatives

# Chinese Market Policies

- Promote unified marketing system through the newly established holding company Yamaha Music & Electronics (China) Co., Ltd.



# Stimulate Japanese Market Targeting Adults

~ Developing market targeting adults in response to decline in younger students ~

## ■ Expand business base of music schools for adults

< Three-year plan >

- Increase number of schools for adults only

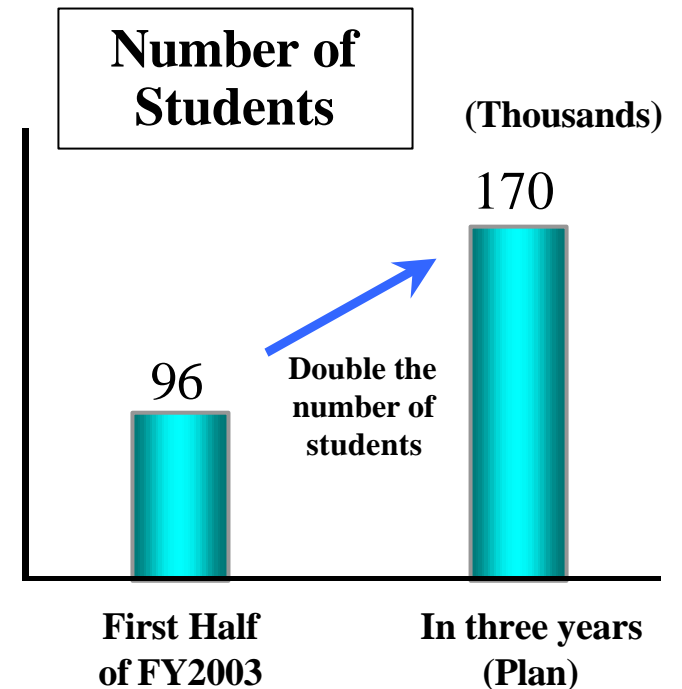
currently 52 → 100

- Increase number of adult students

- Popular music schools

- Programs for adults only  
(Piano, Electronic keyboard)

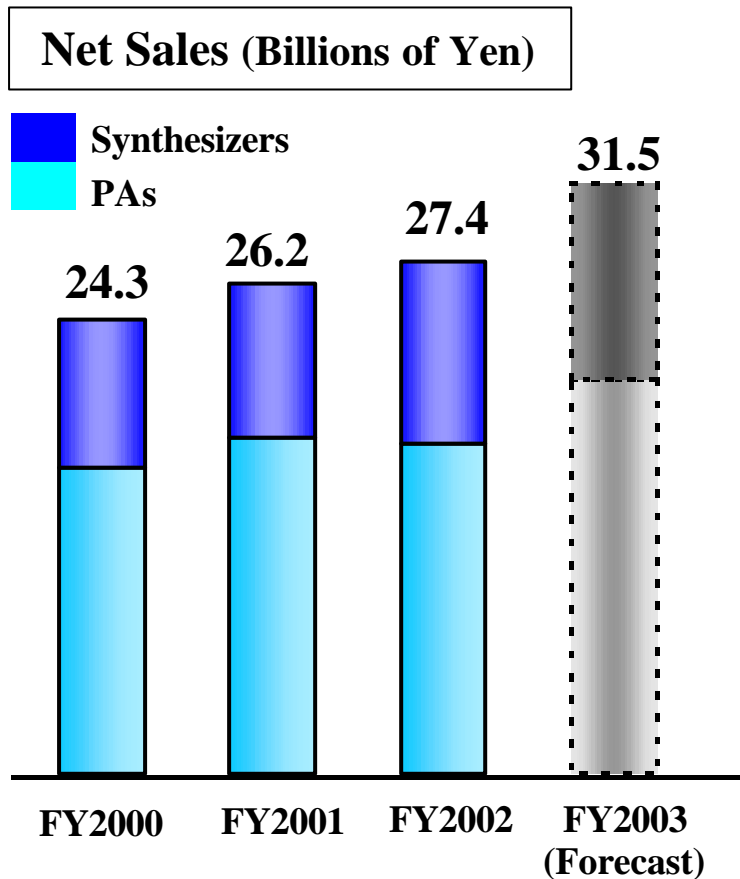
- Music schools for adults



■ Support adults' musical activities by providing places where they can practice and perform music

■ Develop musical instruments especially for adults

# Cultivate Music Production Market



## Recent introduction of new products

< Digital Mixers, etc. >



AW4416



AW2816



AW16G



PM1D



DM2000



O2R96

2000

2001

2002

< Synthesizers >

Motif



S-90

## Strengthen sales organization in U.S. and Europe

*U.S.* - Commercial Audio System Division commenced operations with double the number of staff (April 2002)

*Europe* - New organization in preparation



# Aggressive Development of Overseas Ringer Melody Distribution Service

## ■ Priority Policies

*Japan:* Promote development of unique and differentiated products in content business  
(Music Box Site, *Otohon* Site)

*Overseas:* Expand number of contracts with communication service companies

## ■ Overseas Development

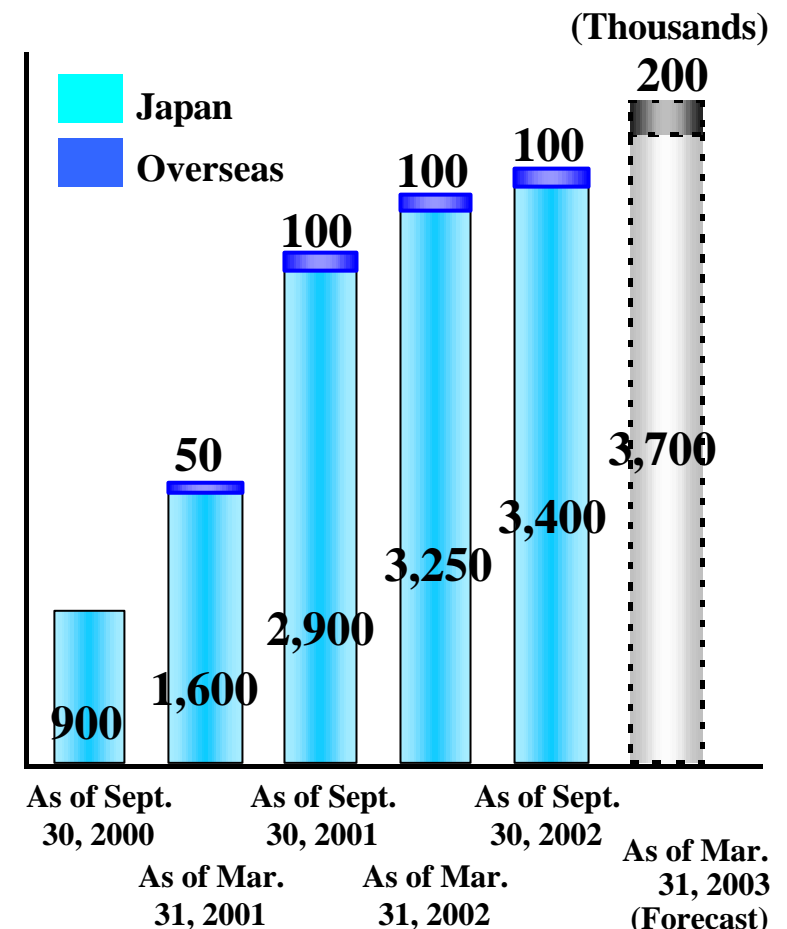
### ● Markets we have entered and their communication service companies

China:	e-Dongcity	Spain:	Telefonica
Taiwan:	TCC, KGT, TAT, CHT	Germany:	E-Plus
Hong Kong:	Hutchison	Holland:	KPN
		Bergium:	BASE

### ■ Markets under development

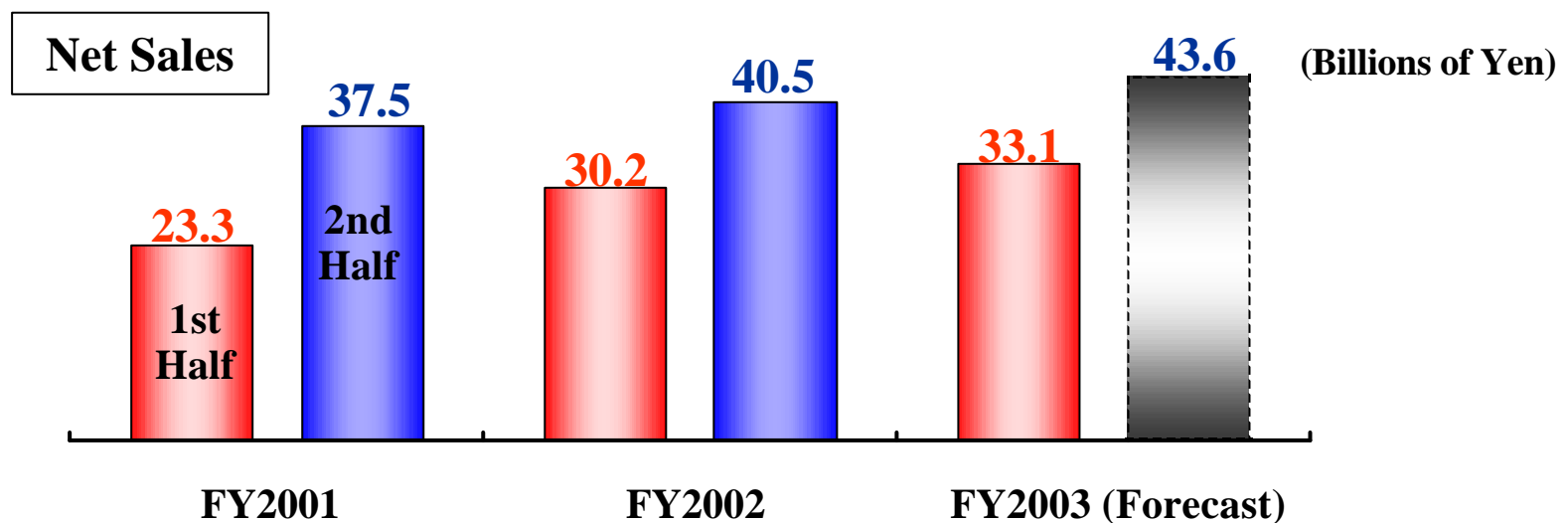
Singapore, France, Italy, England, U.S.A.

No. of Subscribers for Ringer Melody Distribution Service



# Promoting ‘#1 in Home Theaters’ Strategy

- Expand market boundaries by developing new distribution channels (visual distribution channel, hyper/super channel) in response to new demands
- Retrieve top share in medium/high-class (over \$700) AV receivers and amplifiers
  - > Market share in U.S.: currently 31% → target 35%
- Continue promoting visual products
  - > To establish Yamaha’s brand in video projectors, double exhibition areas to 800 stores
- Expand sales network in China
  - > Yamaha Electronics (Suzhou) Co., Ltd., starts operation in March 2003
  - > Build sales network in eastern area



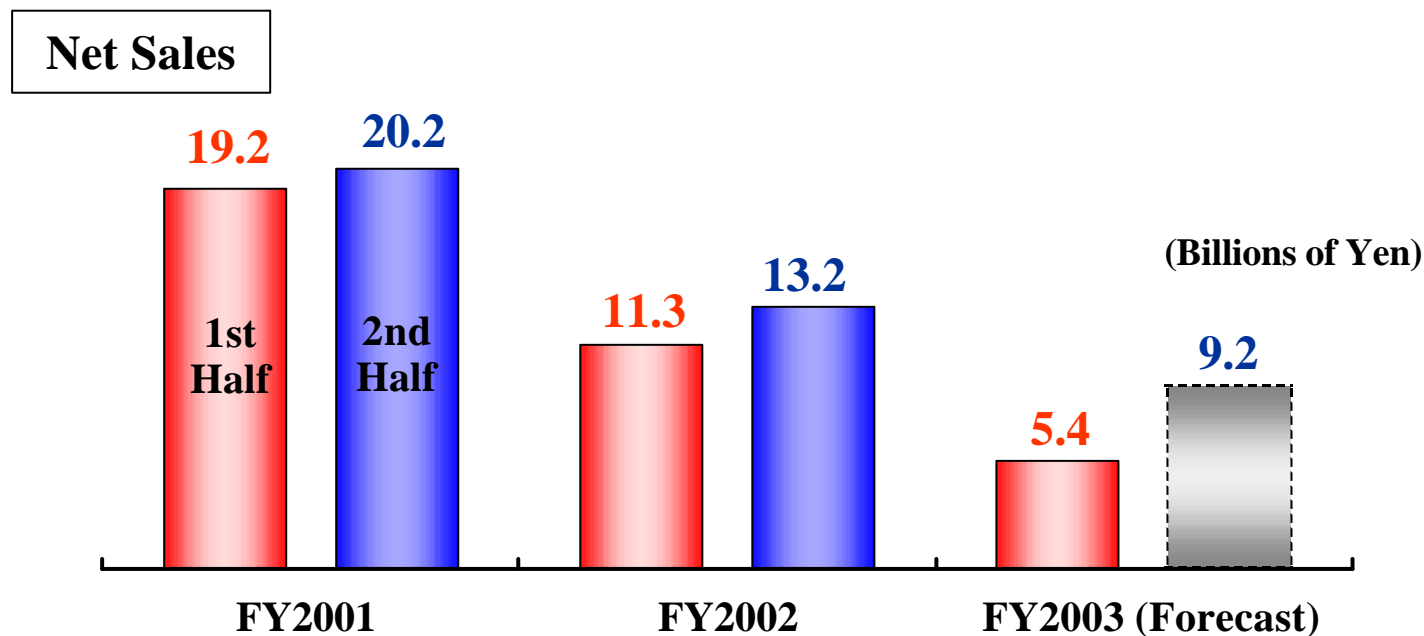
# Preparation for Revitalization of IT Business

## ■ CDR-RW

- Provide differentiated products
- Develop DVD+RW products for PCs

## ■ Routers

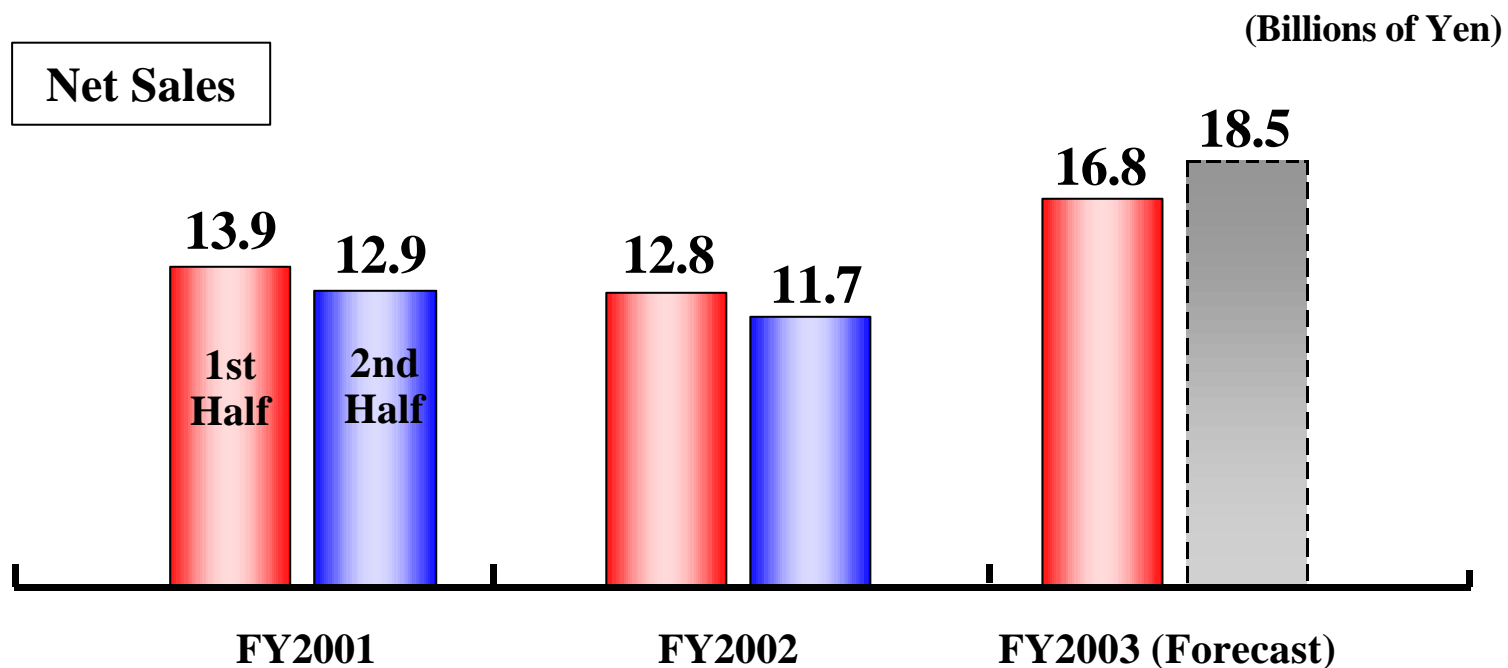
- Strengthen total solution business targeting SOHO and small and medium-sized companies



# Expansion of Semiconductors Centered on Mobile Phone Sound Chips

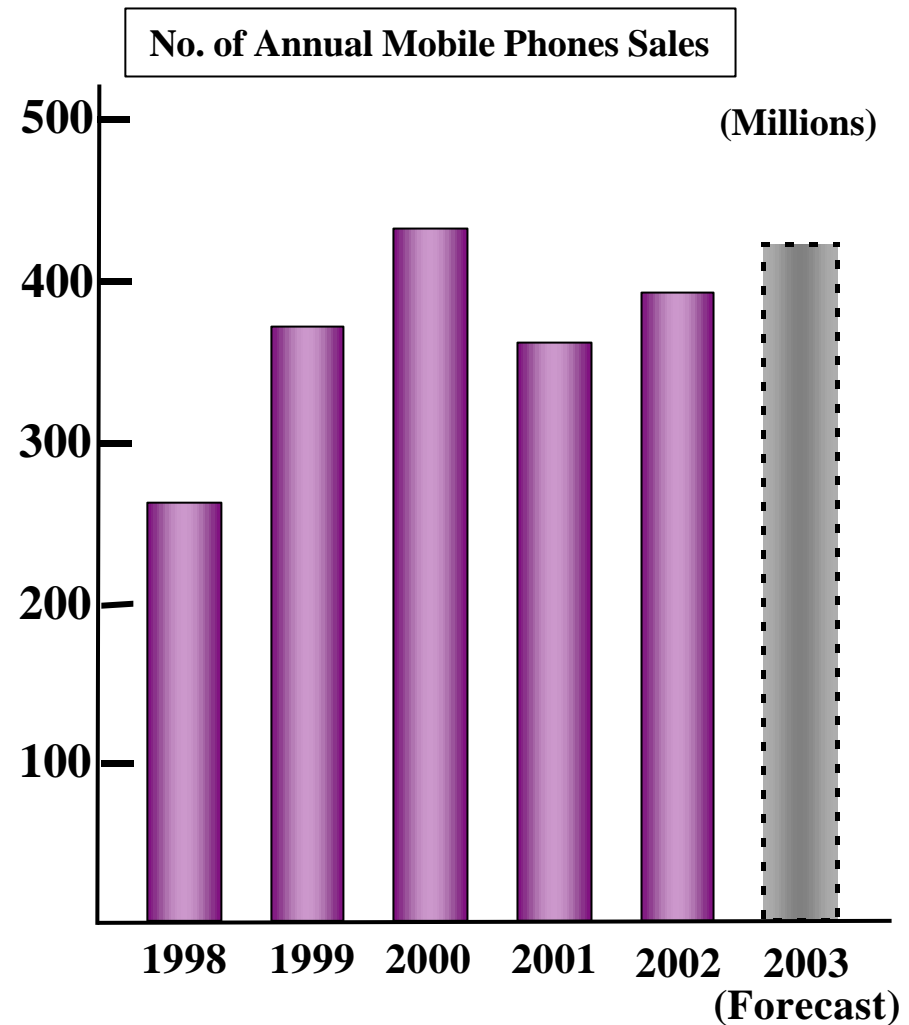
## ■ Priority Policies

- Expansion of mobile phone sound chips business
  - > Maintain current level of market share in Japan
  - > Further expand in China and South Korea and enter U.S. and Europe
  - > Raise supply of products



# Trends in Global Mobile Phone Market

- Signs of secondary growth with annual sales of almost 400 million
- Promote sales with introduction of new services at mobile phone retailers and high-quality functions
- Chinese market shows remarkable growth



Source: *Nikkei Market Access* (August 2002)

<http://ma.nikkeibp.co.jp>

# Mobile Phone Chips Market Conditions

	No. of Mobile Phones Held (Millions)	Annual Sales (Millions of mobile phones)	Market Conditions
<b>Japan</b>	<b>70</b>	<b>40</b>	<ul style="list-style-type: none"> <li>- Mobile phone market is saturated</li> <li>- Most mobile phones have over 32-note polyphony sound chips</li> </ul>
<b>South Korea</b>	<b>30</b>	<b>15</b>	<ul style="list-style-type: none"> <li>- Mobile phone market is saturated</li> <li>- Most mobile phones has sound chips</li> </ul>
<b>China</b>	<b>200</b>	<b>100</b>	<ul style="list-style-type: none"> <li>- Rapid progress in development of local mobile phone makers</li> <li>- Shifting from monophony to polyphony</li> </ul>
<b>U.S. &amp; Europe</b>	<b>500</b>	<b>200</b>	<ul style="list-style-type: none"> <li>- Increase in sales due to replacement with units featuring high-quality functions</li> <li>- Shift to polyphony expected to begin soon</li> </ul>

# Strength in Yamaha's Sound Chips

## ■ Success in providing SMAF solutions in JAPAN

- Package providing sound chip, SMAF, authoring tool, and content was favored by telecommunication companies and mobile phone makers

## ■ FM sound chips highly praised

- FM sound chips allow a versatility of voice with higher frequency tones, and are favored for their quality

## ■ Favorable results in Japan encourage South Korean retailers

- Adopted for use in export models by Korean retailers, increasing possibility of global expansion

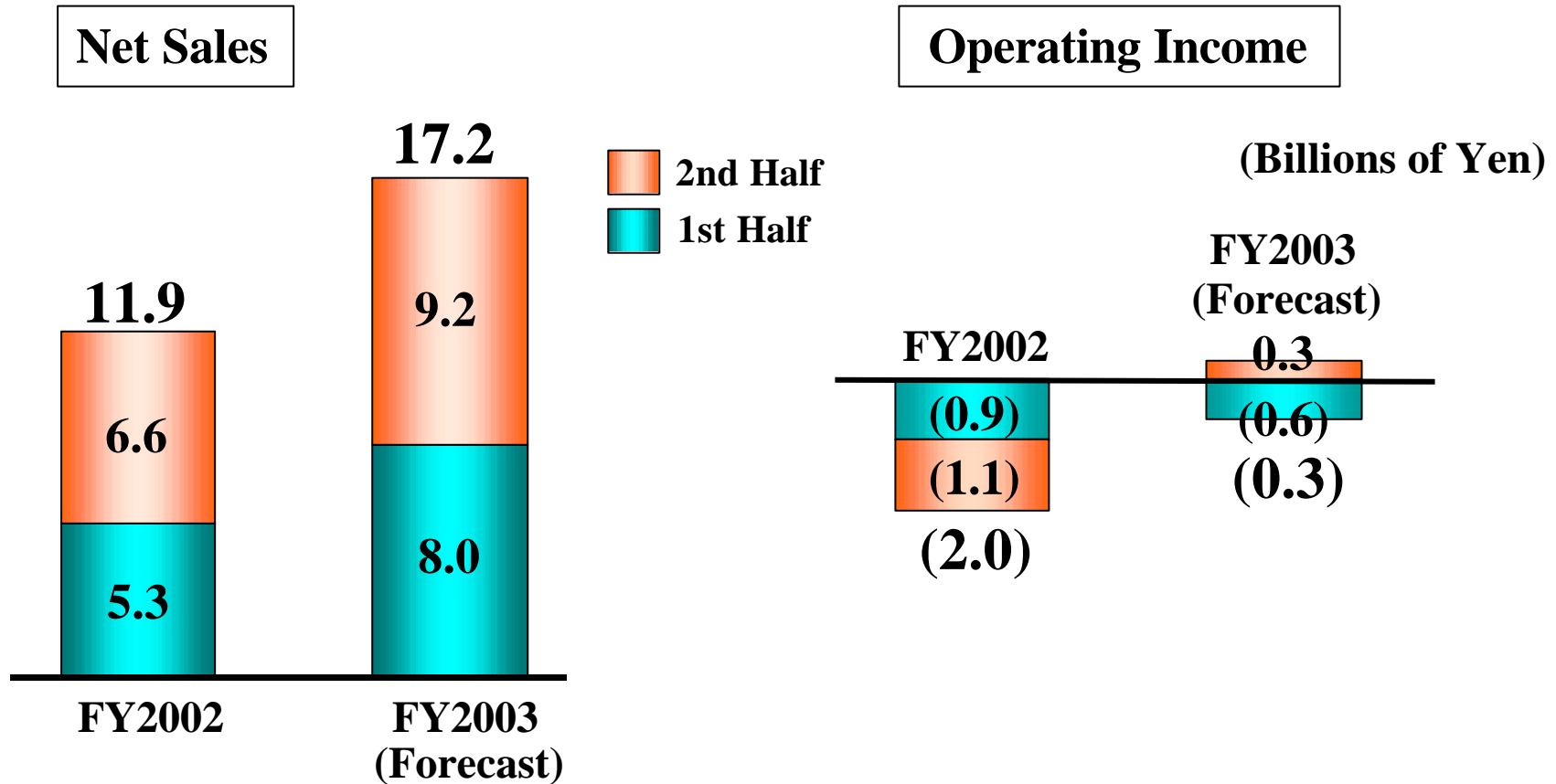
## ■ Have a jump start on competitors in Taiwan and China

## ■ Sales promotion in Europe and U.S.

# Metal Products Business

## ■ Priority Policies

- By improving manufacturing output, gain profit in invar materials business
- Maintain sound supply of lead frame materials

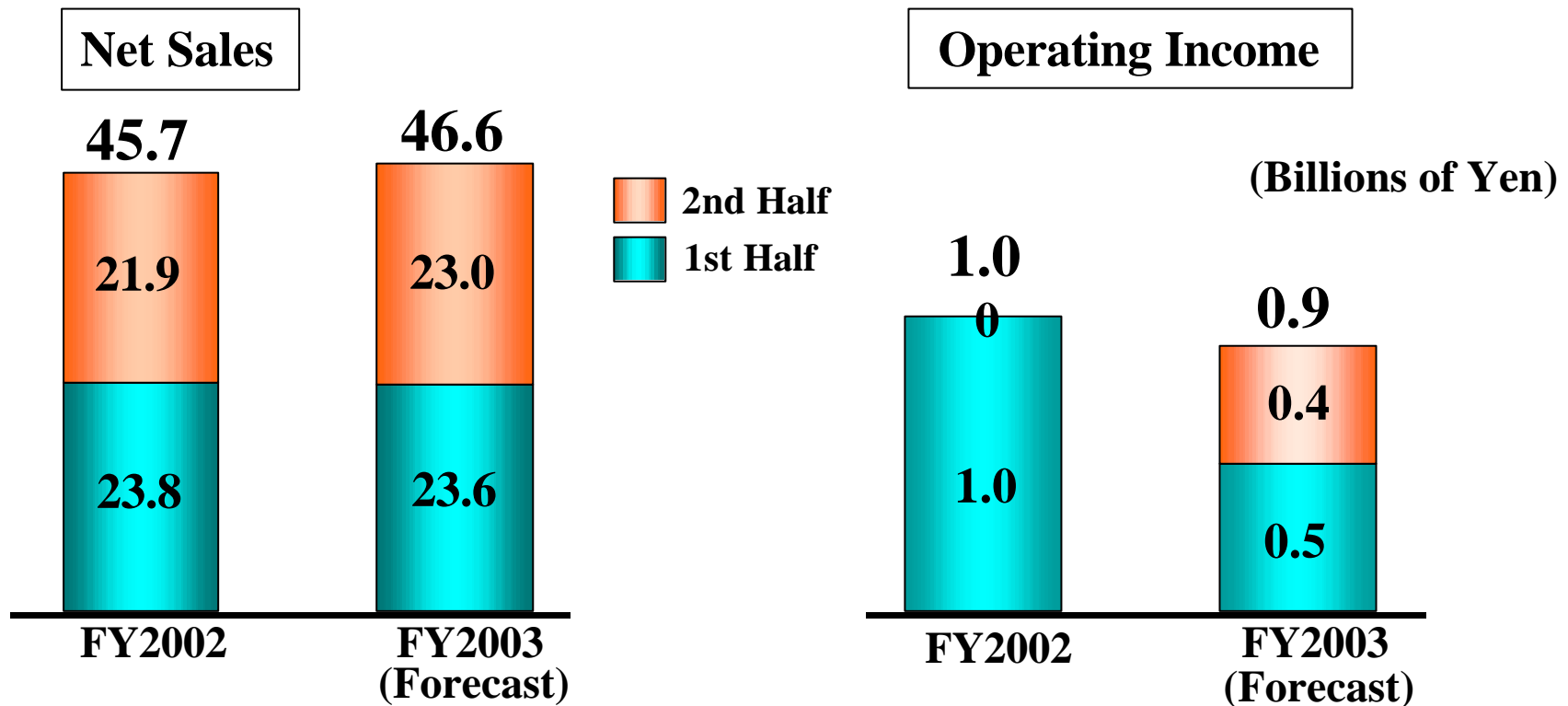




# Lifestyle-Related Business

## ■ Priority Policies

- Lower the break-even point for income through cost reduction in product development, distribution and assembly.
- Smooth take off of business alliance.



- Housing starts (April - August) decreased 1.6% from the previous period.
- Of which, houses owned and houses for installment sale decreased 4.0%.

# Entered Business Alliance in Lifestyle-Related Business

## ~ Tie-Up with Air Water Living Inc. ~

### ■ Goal

- Strengthen system bathrooms business and organization to respond to growing demand in the home refurbishing area by synergistically combining both companies' strengths

### ■ Outline

- Business tie-up for manufacturing, sales, distribution and assembly of system bathrooms for home use  
(Product consolidation, development and reorganization to be completed within 3 years)
- a) Consolidate mid- to high-end system bathroom products for houses and refurbishing products for apartments
- b) Improve production efficiencies by specifying each plants' role and integrating manufacturing bases
- c) Reduce distribution costs by co-managing the depot (relay consolidating stations)
- d) Strengthen sales activities by co-utilizing Yamaha's showroom functions and Air Water Living's assembly functions.

### ■ Effect

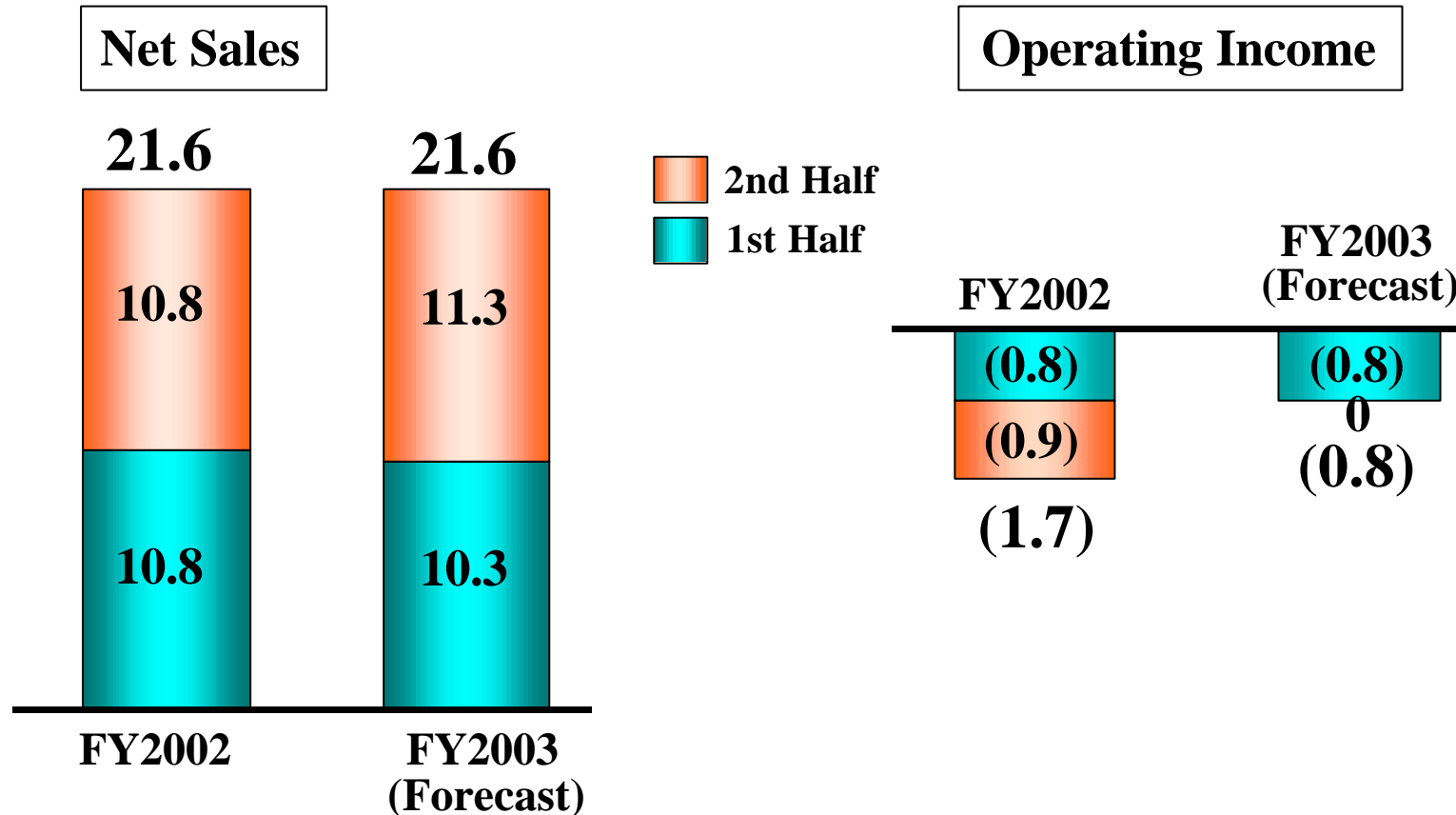
- Reduce costs by ¥1 billion altogether for the two companies (FY2006)

# Recreation Business

## ■ Priority Policies

- Use management subsidiaries to increase profitability and improve cash flow status
- Maintain customer visitation rate of two million visits per year

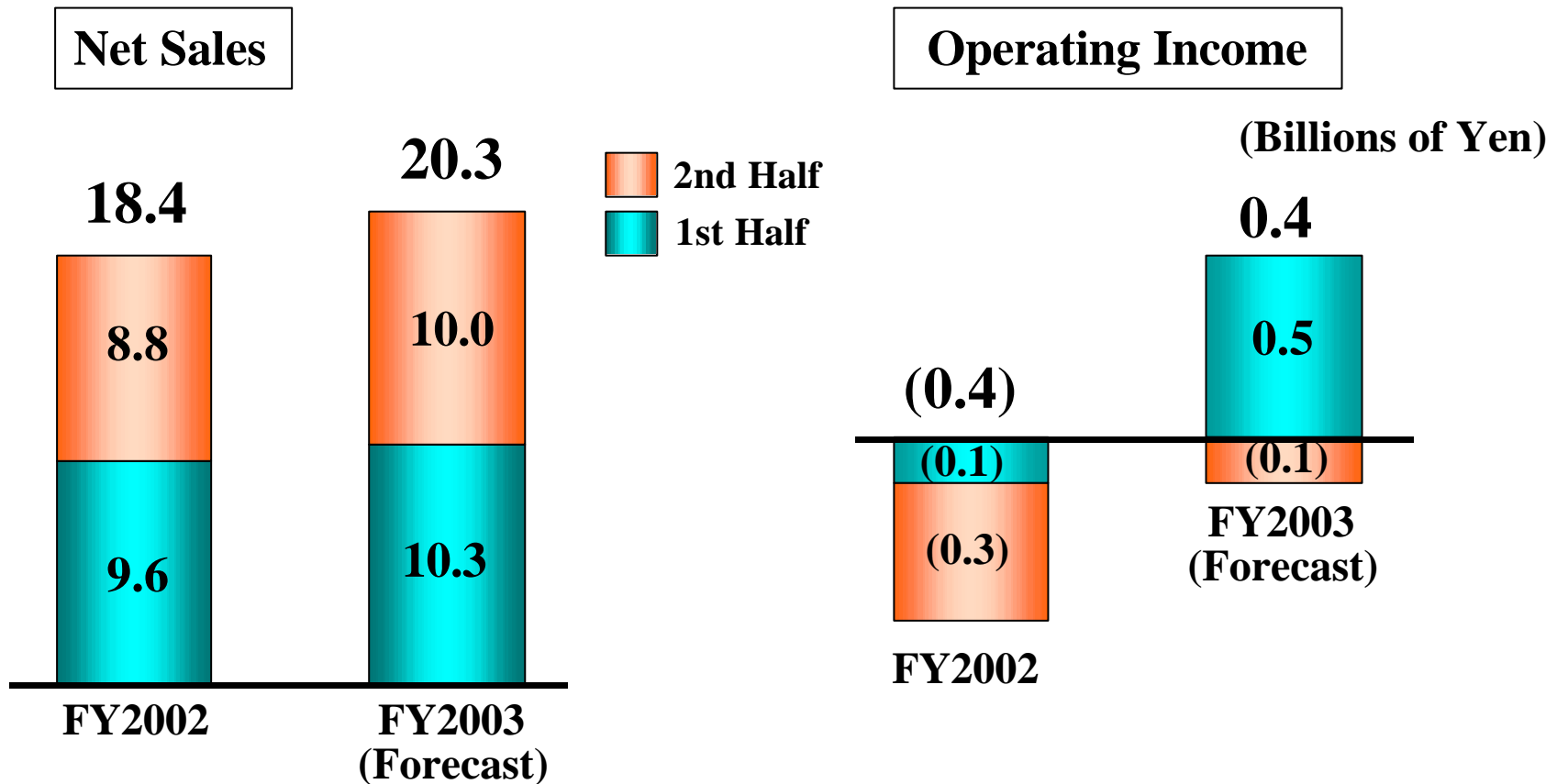
(Billions of Yen)



# Others

## ■ Priority Policies

- Strengthen system for increasing the production of Mg-molded parts for mobile phones and ensure profit
- In interior automotive components and fittings, reduce manufacturing costs and expand customer base.



# Compliance Management

Implemented compliance management system that promotes aggressive measures that promote adherence to corporate ethics and the law, to ensure that YAMAHA fulfills commitment to stakeholders as stated in its conduct guidelines.



## ■ Establishment of Compliance Standards

- Established Group Management Policy outlining the system
- Rearranged Group Management Regulations and other regulations
- Established Group Compliance Guidelines

## ■ Organize for Promoting Compliance

- Established Compliance Committee
- Appointed compliance officers
- Introduction of compliance hotline

# Environment Activities

## 1. ISO 14001 Certification

### *Objective*

- To promote YAMAHA Group's environmental activities
- To implement an environmental management system throughout the Group

### *Acquisition Status*

- YAMAHA CORPORATION already obtained in March 2001
- Plans to obtain at all its domestic and overseas business units by March 2003  
(Currently 23 units have been certified and 5 units are working toward acquisition)

## 2. Green Procurement

### *Objective*

- To provide environment-friendly products, we will cooperate with suppliers to procure safer raw materials to facilitate the manufacture of products containing fewer hazardous materials.

### *Green Procurement Standard*

- Regulate 31 chemical substances, including heavy metals

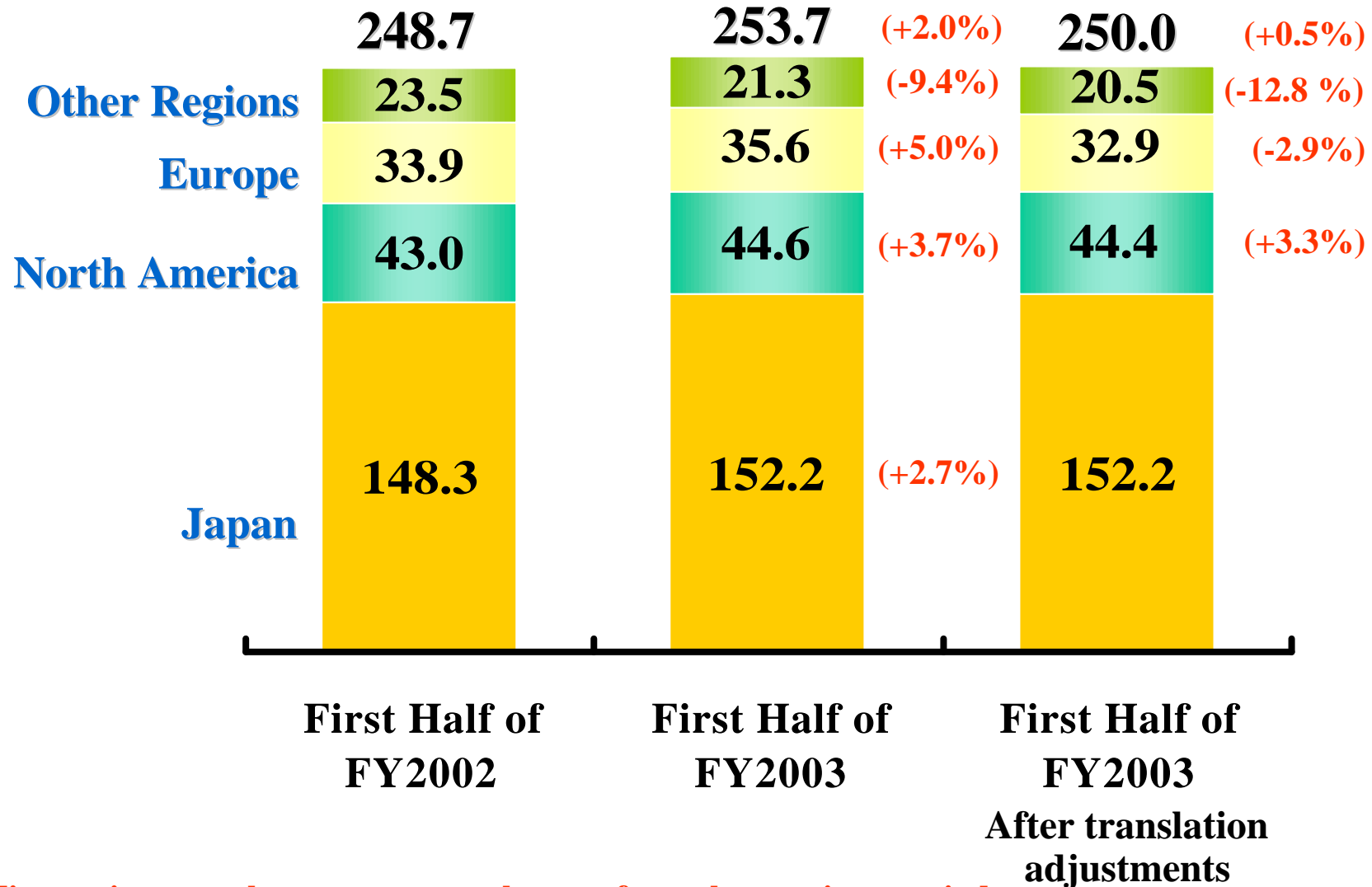
### *Recent Activities*

- On June 2002, held a meeting with 200 suppliers requesting cooperation in green procurement

# **Supplementary Materials**

# Net Sales by Region

(Billions of Yen)



\* Figures in parentheses represent changes from the previous period.



# Operating Income by Region

(Billions of Yen)

	First Half of FY2002	First Half of FY2003	Increase/ (Decrease)	Currency Exchange Impact	Actual Increase/ (Decrease)
<b>Japan</b>	<b>7.1</b>	<b>11.3</b>	<b>4.2</b>	<b>2.7</b>	<b>1.5</b>
<b>North America</b>	<b>1.3</b>	<b>2.1</b>	<b>0.8</b>	<b>0.0</b>	<b>0.8</b>
<b>Europe</b>	<b>(0.3)</b>	<b>1.0</b>	<b>1.3</b>	<b>0.1</b>	<b>1.2</b>
<b>Other Regions</b>	<b>1.9</b>	<b>1.4</b>	<b>(0.5)</b>		<b>(0.5)</b>
<b>Elimination</b>	<b>(2.3)</b>	<b>(2.7)</b>	<b>(0.4)</b>		<b>(0.4)</b>
<b>TOTAL</b>	<b>7.7</b>	<b>13.1</b>	<b>5.4</b>	<b>2.8</b>	<b>2.6</b>

# Non-Operating Income/Expenses

(Billions of Yen)

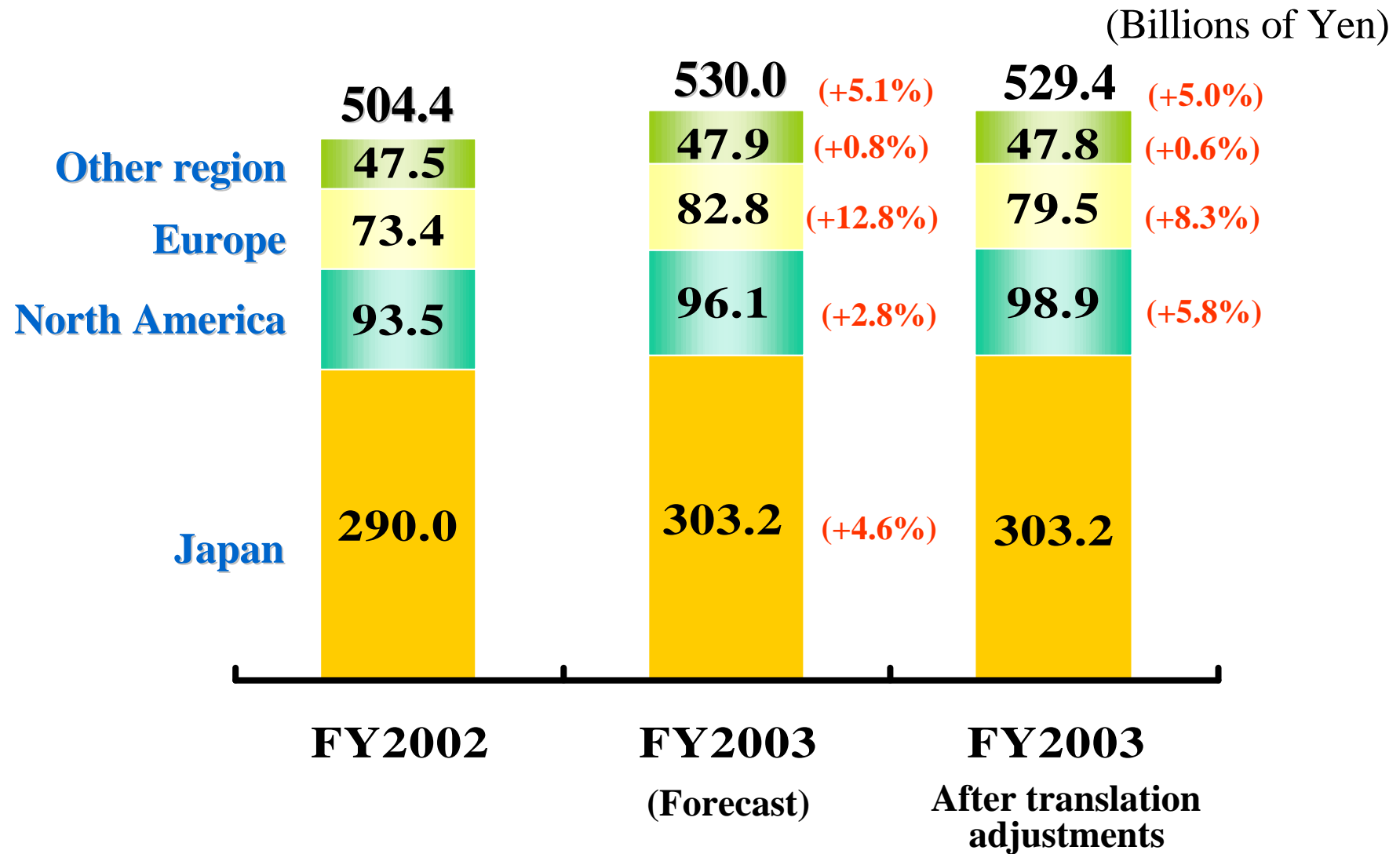
	First Half of FY2002	First Half of FY2003	Increase/ (Decrease)
<b>Equity in Earnings of Unconsolidated Subsidiaries and Affiliates</b>	<b>2.3</b>	<b>3.5</b>	<b>1.2</b>
<b>Financial Gains/Losses</b>	<b>(1.0)</b>	<b>(0.7)</b>	<b>0.3</b>
<b>Other Non-Operating Income/Expenses</b>	<b>(1.5)</b>	<b>(1.7)</b>	<b>(0.2)</b>
<b>TOTAL</b>	<b>(0.2)</b>	<b>1.1</b>	<b>1.3</b>

# Other Profit / Losses

(Billions of Yen)

	First Half of FY2002	First Half of FY2003	Increase/ (Decrease)
Gains/Losses on Sale of Fixed Assets	(0.4)	(0.5)	(0.1)
Gains/Losses on Sale of Investment Securities	1.2	(1.6)	(2.8)
Others	(0.1)	0.1	0.2
<b>TOTAL</b>	<b>0.7</b>	<b>(2.0)</b>	<b>(2.7)</b>

# Forecasts of Net Sales by Region



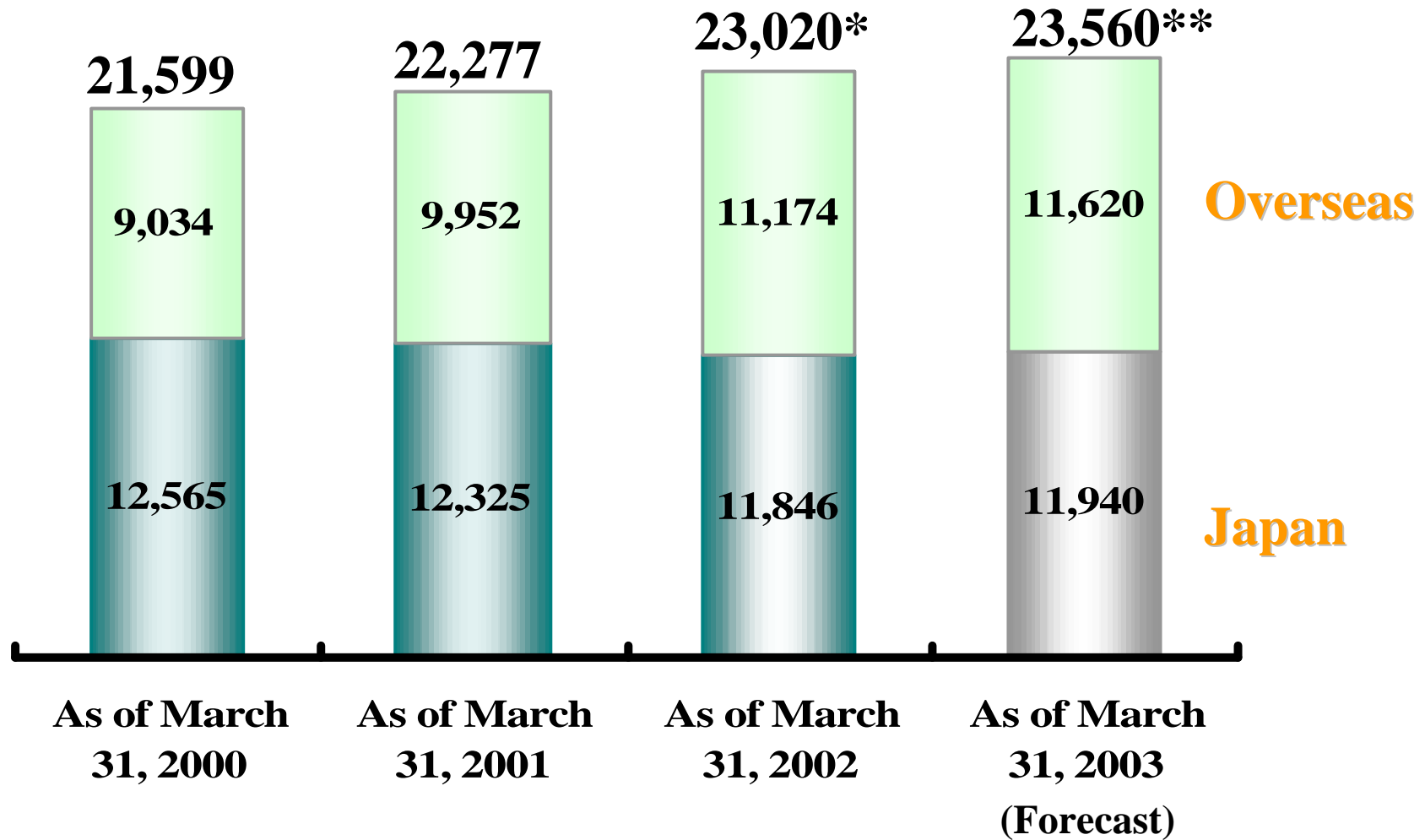
\* Figures in parentheses represent changes from the previous period.

# Forecasts of Operating Income by Region

(Billions of Yen)

	<b>FY2002 Results</b>	<b>FY2003 Forecasts</b>	<b>Increase/ (Decrease)</b>	<b>Currency Exchange Impact</b>	<b>Actual Increase/ (Decrease)</b>
<b>Japan</b>	<b>3.2</b>	<b>13.6</b>	<b>10.4</b>	<b>4.1</b>	<b>6.3</b>
<b>North America</b>	<b>3.4</b>	<b>4.8</b>	<b>1.4</b>	<b>0.0</b>	<b>1.4</b>
<b>Europe</b>	<b>0.6</b>	<b>2.4</b>	<b>1.8</b>	<b>0.1</b>	<b>1.7</b>
<b>Other Regions</b>	<b>3.7</b>	<b>3.7</b>	<b>0.0</b>		<b>0.0</b>
<b>Elimination</b>	<b>0.1</b>		<b>(0.1)</b>		<b>(0.1)</b>
<b>TOTAL</b>	<b>11.0</b>	<b>24.5</b>	<b>13.5</b>	<b>4.2</b>	<b>9.3</b>

# Number of Employees

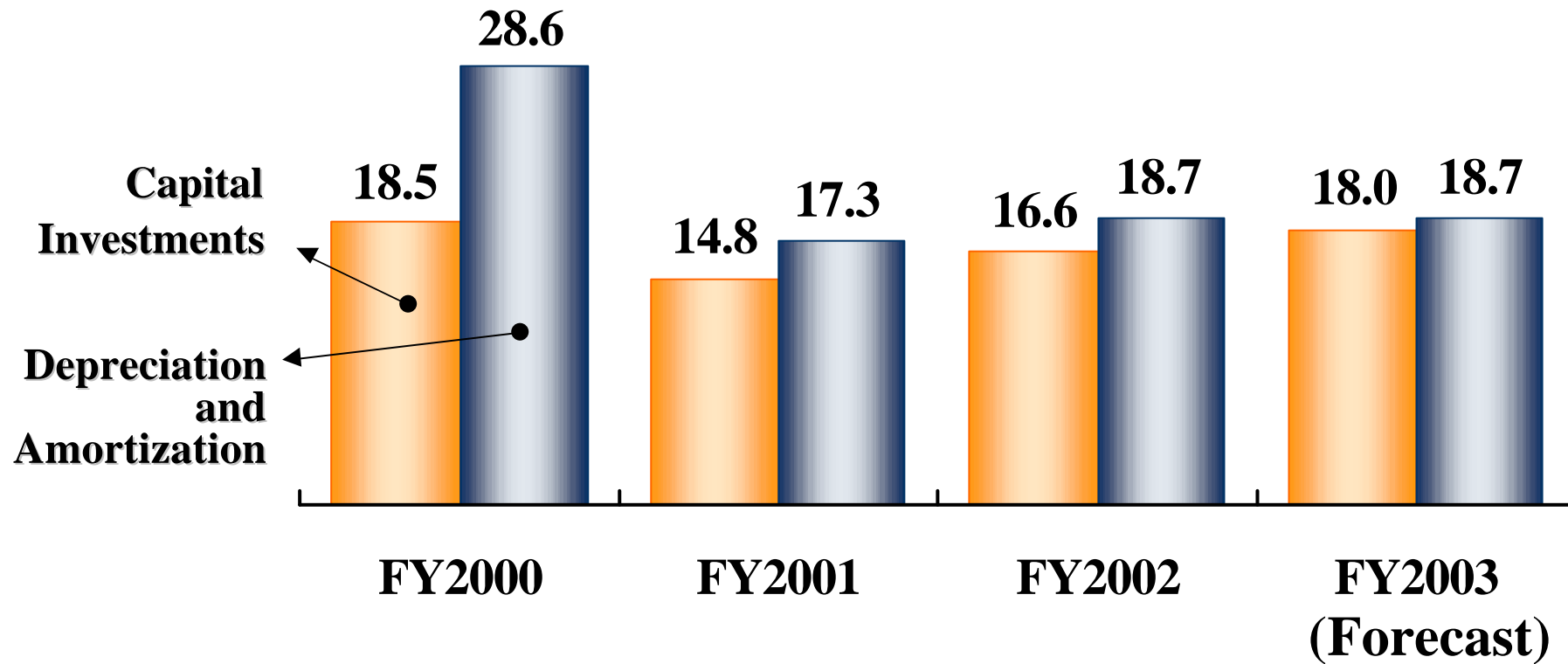


\* Including 1,027 employees added due to expanded scope of consolidation.

\*\* Including 145 employees added due to expanded scope of consolidation.

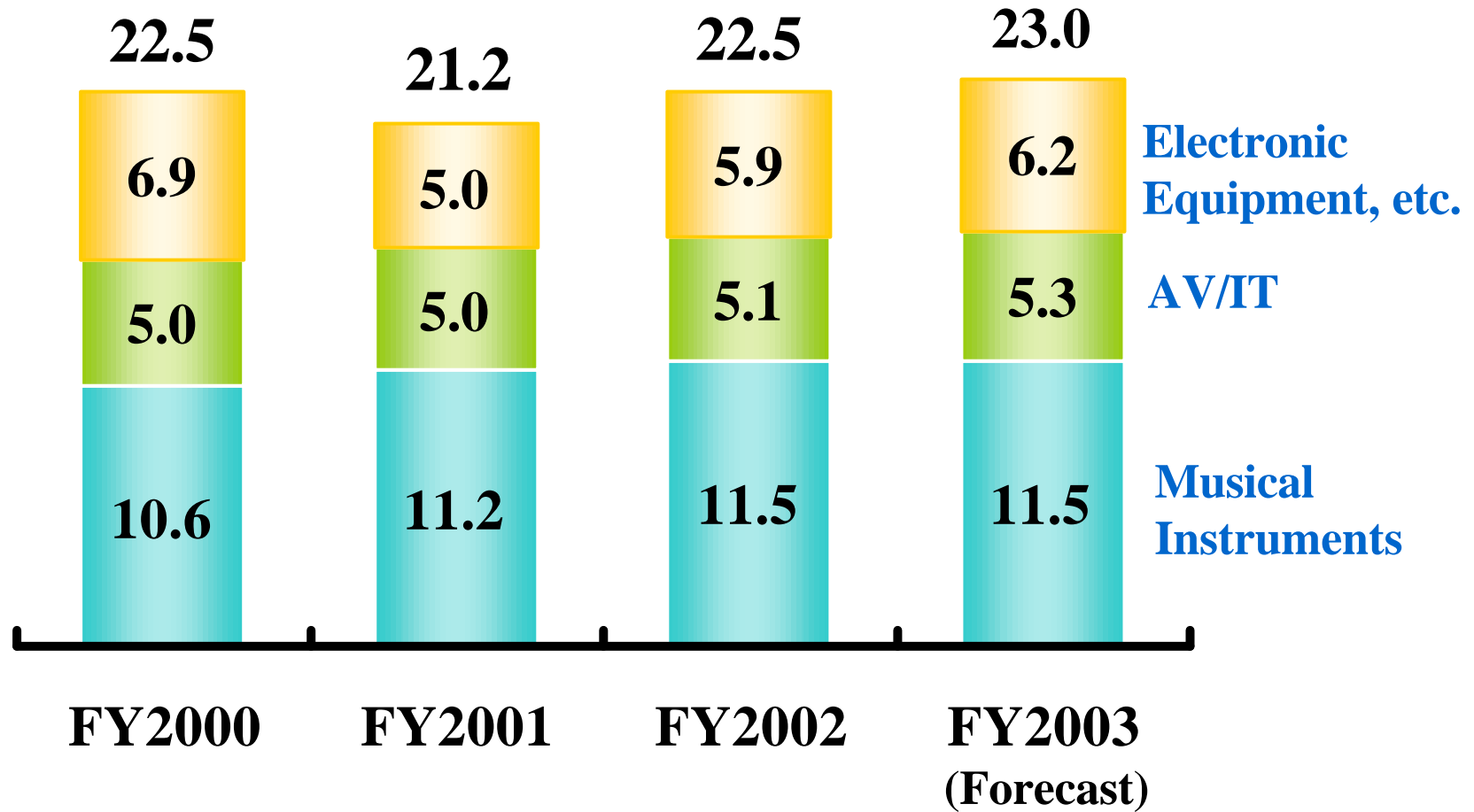
# Capital Investments/ Depreciation and Amortization

(Billions of Yen)



# R&D Expenses

(Billions of Yen)





# Balance Sheets

(Billions of Yen)

	As of Sept. 30, 2001	As of March 31, 2002	As of Sept. 30, 2002	As of March 31, 2003 (Forecast)
<b>Cash and Bank Deposits</b>	38.2	41.1	40.3	40.0
<b>Accounts and Notes Receivable</b>	79.6	71.8	81.4	75.7
<b>Inventories</b>	104.5	84.3	90.7	80.0
<b>Other Current Assets</b>	15.7	13.9	15.3	15.2
<b>Fixed Assets</b>	282.8	298.6	296.1	299.4
<b>Total Assets</b>	<b>520.8</b>	<b>509.7</b>	<b>523.8</b>	<b>510.3</b>
<b>Accounts and Notes Payable</b>	42.1	36.9	42.5	37.0
<b>Short and Long Term Loans</b>	95.4	71.8	85.5	68.6
<b>Convertible Bonds</b>	24.3	24.3	24.3	24.3
<b>Other Liabilities</b>	163.9	174.7	165.5	167.0
<b>Total Liabilities</b>	195.1	202.0	206.0	213.4
<b>Total Liabilities and Shareholders' Equity</b>	<b>520.8</b>	<b>509.7</b>	<b>523.8</b>	<b>510.3</b>

**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, our actual performance may differ greatly from our predictions depending on changes in our operating and economic environments, demand trends, and the value of key currencies, such as the U.S. dollar and the EURO.**



**YAMAHA**

**CREATING 'KANDO' TOGETHER**