

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

**May 12, 2003**

**YAMAHA CORPORATION**

# Financial Summary for the Fiscal Year Ended March 31, 2003

- Operating income and net income reached new record high levels.

Operating income was ¥32.0 billion (previous record: ¥29.6 billion in FY1997)

Net income was ¥17.9 billion (previous record: ¥14.0 billion in FY1997)

- Net sales increased for the first time in five years, rising 4.0%.

The main factor behind the increase was growth in sales of electronic equipment products, particularly mobile phone sound chips.

- The Company recorded an extraordinary loss on the revaluation of securities (¥7.7 billion). This reflected the sharp drop in Japanese stock prices, particularly prices of bank stocks.

- An extraordinary loss was recorded due to restructuring-related expenses (¥2.3 billion)

- Inventory assets were reduced to close to optimal levels (down ¥4.2 billion during the year, to ¥80.1 billion at the end of FY2003)

- The burden of actual interest-bearing debt was lightened (down ¥9.1 billion compared with the end of FY2002)

# Performance Outline

(Billions of Yen)

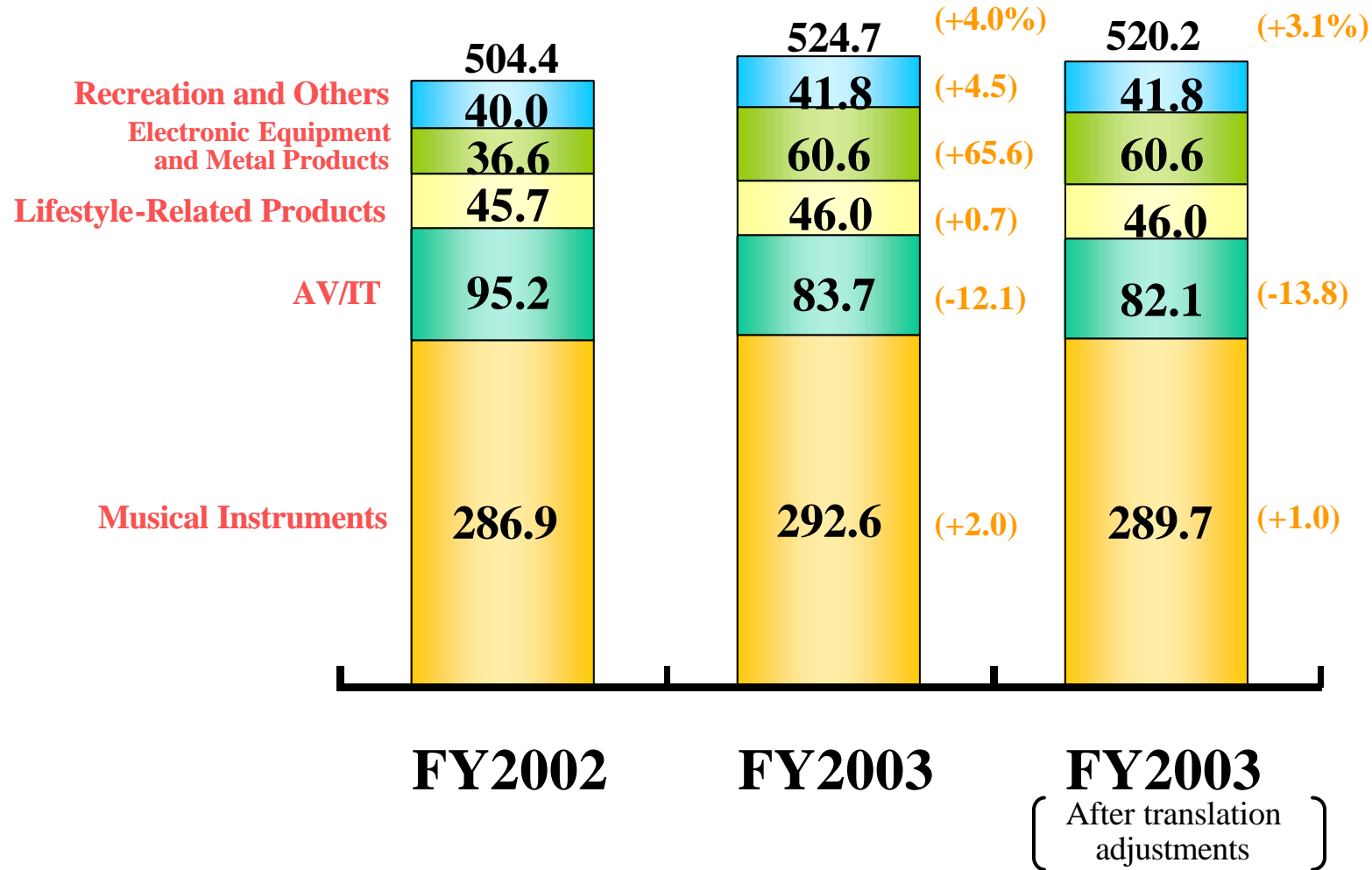
	<b>FY2002</b>	<b>FY2003</b>	<b>Increase/ (Decrease)</b>	<b>Initial Projection (announced on March 4, 2003)</b>
<b>Net Sales</b>	<b>504.4</b>	<b>524.7</b>	<b>20.3</b>	<b>526.0</b>
<b>Operating Income</b> (Operating Income Ratio)	<b>11.0</b> (2.1%)	<b>32.0</b> (6.1%)	<b>21.0</b>	<b>27.5</b>
<b>Recurring Profit</b> (Recurring Profit Ratio)	<b>7.6</b> (1.5%)	<b>33.8</b> (6.4%)	<b>26.2</b>	<b>29.0</b>
<b>Net Income</b> (Net Income Ratio)	<b>(10.3)</b> ((2.0)%)	<b>17.9</b> (3.4%)	<b>28.2</b>	<b>17.0</b>
<b>EPS (Yen)</b>	<b>(49.7)</b>	<b>86.7</b>	—	<b>82.3</b>
<b>ROE (%)</b>	<b>(5.2)</b>	<b>8.6</b>	—	—
<b>Dividends per Share (Yen)</b>	<b>8</b>	<b>10</b>	—	<b>10</b>

# Currency Exchange Rates

		FY2002	FY2003	Impact (Billions of Yen)
<b>Net Sales</b>	US\$	¥125	¥122	- ¥2.0
	EUR	¥110	¥121	+ ¥4.9
	Others			+ ¥1.6
	<b>Total</b>			<u>+ ¥4.5</u>
<b>Profit</b>	US\$	¥124	¥122	+ ¥0.3
	EUR	¥107	¥116	+ ¥4.1
	Others			+ ¥0.5
	<b>Total</b>			<u>+ ¥4.9</u>

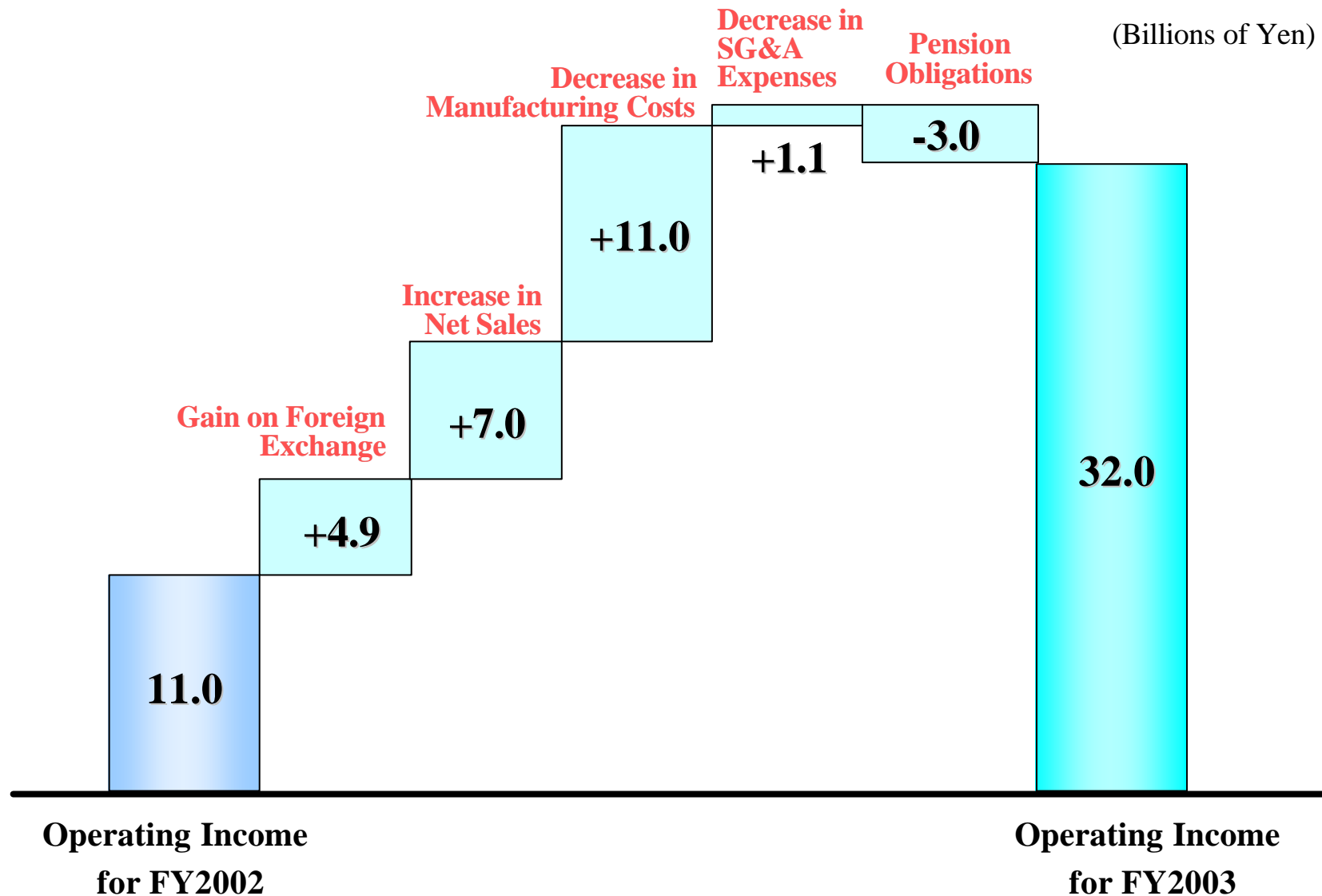
# Net Sales by Business Segment

(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)

	<b>FY2002</b>	<b>FY2003</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>3.3</b>	<b>1.8</b>
<b>AV/IT</b>	<b>3.0</b>	<b>3.2</b>	<b>0.2</b>	<b>1.6</b>	<b>(1.4)</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>4.4</b>	<b>19.3</b>	<b>14.9</b>		<b>14.9</b>
<b>Recreation</b>	<b>(1.7)</b>	<b>(1.1)</b>	<b>0.6</b>		<b>0.6</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>32.0</b>	<b>21.0</b>	<b>4.9</b>	<b>16.1</b>

# FY2003 Overview of Performance by Business Field

## ■ Improved profitability in core businesses

(1) Higher sales and profitability in musical instruments

	FY2002		FY2003
Ratio of operating income to net sales	1.7%	→	3.3%

(2) Lower sales but improved profitability in AV/IT products

	FY2002		FY2003
Ratio of operating income to net sales	3.2%	→	3.9%

(3) Large gains in sales and profitability in electronic equipment, particularly with regard to mobile phone sound chips

Net sales of electronic equipment up 190%

Operating income up 320%

## ■ Reduction of losses of the Lifestyle-Related and Leisure group and Electronic Parts and Materials group

	FY2002		FY2003
Operating loss	¥3.4 billion	→	¥2.3 billion



# FY2003 Progress in Management Strategies

## ◆Musical Instruments

### ●Progress in Chinese market strategies

- Local holding company began operating on schedule in April 2003
- Piano/guitar factory will begin operating in April 2004

### ●Development of adult clientele in Japan

- Opening of “Muse Club Sapporo”, a music club for adults
- Initial group of adult music schools established in 52 locations (goal of increasing number of locations to 100 in three years)
- Instrument rental service initiated in April 2003
- Sales of the EZ-EG, electric guitar with 12 lighted frets surpass 16,000 (this hit product illuminates proper fingering locations to guide learners)

### ●Development of music production market

- Specialized business development team created in the United States

### ●Development of media-related business

- Music E-NET INC. established in September 2002

# FY2003 Progress in Management Strategies

## ◆AV/IT

- Strengthening the product line of new home theater products
- Growth in sales of router products for SOHO and small/medium-sized networks
- Yamaha Electronics (Suzhou) Co., Ltd. began production on schedule in March 2003

## ◆ Electronic Equipment

- Growth in sales of mobile phone sound chips
- Growth in shipments to Korea and China
- Expanding supply capabilities

## ◆Golf

- New product “INPRES” became a big hit
- Restoration of profitability through manufacturing outsourcing and operational reforms

# Bolstering the Profit Structure

## ■Restructuring measures

## Impact on Profitability

- |   |                                   |
|---|-----------------------------------|
| —Withdrawal from CDR/RW drive business (March 31, 2003) | ¥0.7 billion (extraordinary loss) |
| —Closure of Sunza Villa resort facility (June 30, 2003) | ¥0.5 billion (extraordinary loss) |
| —Closure of Kiroro golf course (Oct. 31, 2003)          | ¥1.0 billion (extraordinary loss) |

## ■Alliances to Ensure Corporate Survival

- Comprehensive operational tie-up with Air Water Living Inc. (Nov. 2002)
- Alliance with FANUC Ltd., in the field of robots for finishing processes (Dec. 2002)

# **Forecast for FY2004**

# **FY2004 Operating Environment (1)**

## **■ Musical Instruments**

- Growing difficulty of predicting trends in global economy
- China's increasing presence as a consumer market and emergence as a manufacturer, particularly in the area of acoustic instruments (pianos, wind instruments, etc.)

## **■ AV/IT**

- Structural change and intensifying competition in home theater market
- Progressive increase in use of digital technologies and networks

## **■ Lifestyle-Related Products**

- Continued downtrend in new housing construction starts
- Stimulation of industry through response to renovation-related demand

# **FY2004 Operating Environment (2)**

## **■ Semiconductors**

—Growing demand in the United States and Europe due to introduction of polyphonic sound chips for mobile phones

## **■ Electronic Metal**

—Continued robustness of copper lead-frame material market

## **■ Recreation**

—Continued movement toward lower-priced services and industry restructuring

# **Principal Business Execution Focus in FY2004**

- **Securing Consolidated Profitability**
- **Promoting and Strengthening Global Management**
- **Increasing the Rigor of Compliance Systems**

# Forecasts of Business Performance for FY2004

(Billions of Yen)

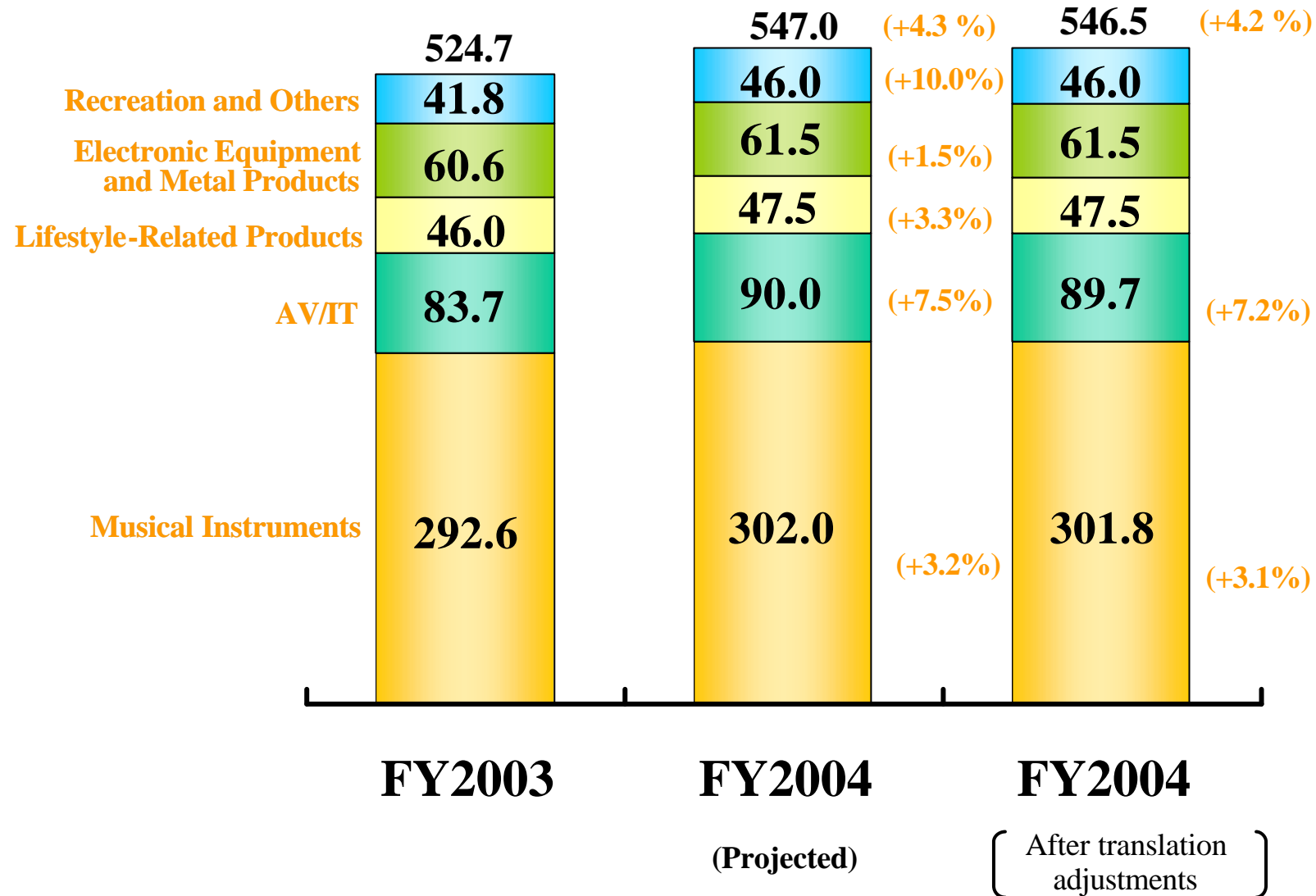
	FY2003 Results			FY2004 Forecasts			Increase/ (Decrease)	FY2004 Initial Medium- Term Management Plan Goals
	1st Half	2nd Half	Full Year	1st Half	2nd Half	Full Year		
<b>Net Sales</b>	253.7	271.0	524.7	269.0	278.0	547.0	+4.3%	560.0
<b>Operating Income</b> (Operating Income Ratio)	13.1	18.9	32.0 (6.1%)	18.5	13.5	32.0 (5.9%)	—	25.0
<b>Recurring Profit</b> (Recurring Profit Ratio)	14.2	19.6	33.8 (6.4%)	19.5	15.5	35.0 (6.4%)	+3.6%	20.0
<b>Net Income</b> (Net Income Ratio)	10.0	7.9	17.9 (3.4%)	17.0	12.0	29.0 (5.3%)	+62.0%	15.0
<b>EPS (Yen)</b>	—	—	86.7	—	—	140.7	—	—
<b>ROE (%)</b>	—	—	8.6	—	—	12.7	—	—
<b>Dividends per Share (Yen)</b>	5	5	10	5	5	10	—	—





# Forecasts of Net Sales by Business Segment

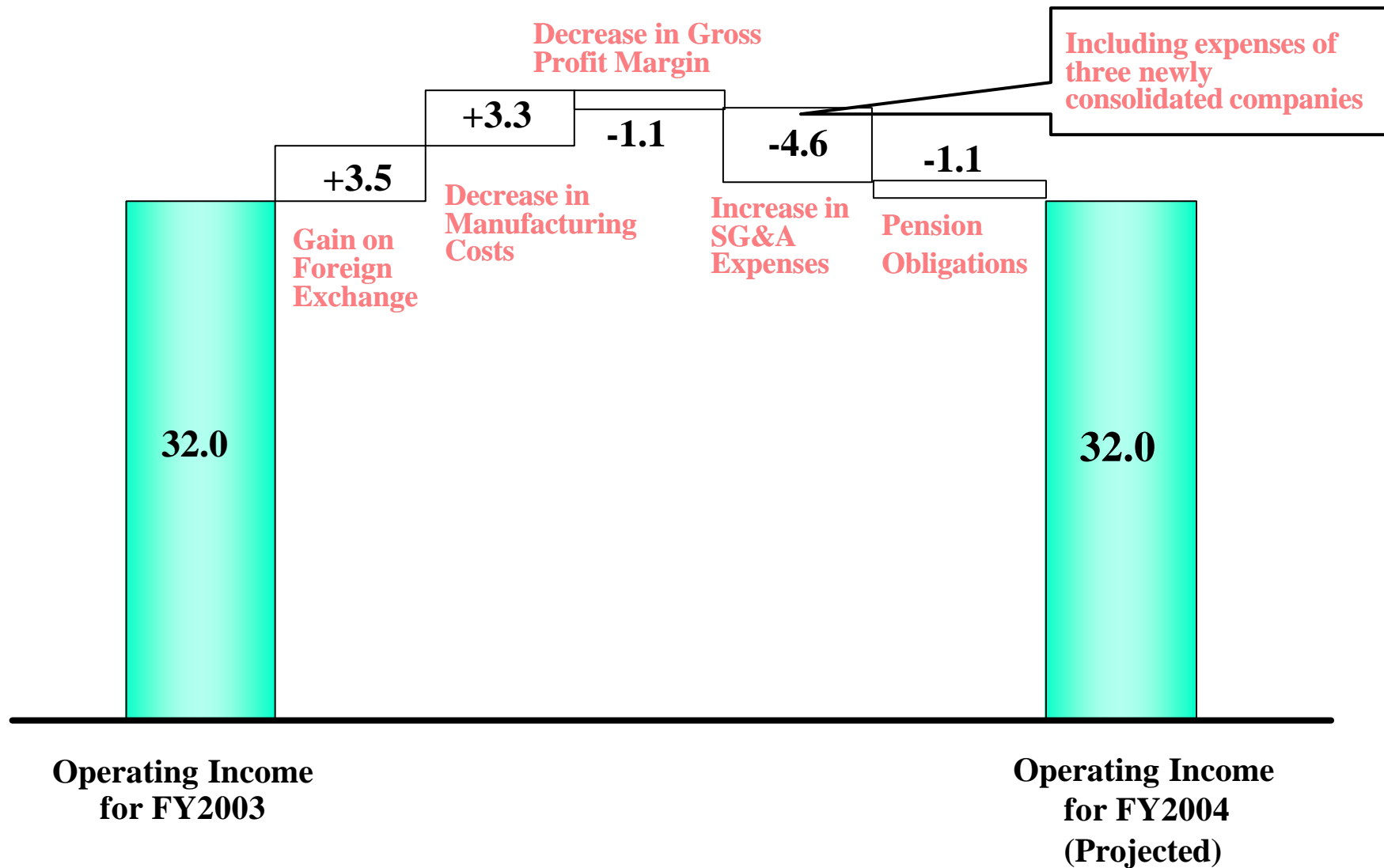
(Billions of Yen)



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

# Forecast Breakdown of Operating Income/Loss

(Billions of Yen)



# Forecasts of Operating Income by Business Segment

(Billions of Yen)

	<b>FY2003 Results</b>	<b>FY2004 Forecasts</b>	<b>Increase/ (Decrease)</b>	<b>Currency Exchange Impact</b>	<b>Actual Increase/ (Decrease)</b>
<b>Musical Instruments</b>	<b>9.8</b>	<b>12.0</b>	<b>2.2</b>	<b>2.2</b>	<b>0.0</b>
<b>AV/IT</b>	<b>3.2</b>	<b>3.7</b>	<b>0.5</b>	<b>1.3</b>	<b>(0.8)</b>
<b>Lifestyle-Related Products</b>	<b>0.5</b>	<b>0.8</b>	<b>0.3</b>		<b>0.3</b>
<b>Electronic Equipment and Metal Products</b>	<b>19.3</b>	<b>15.7</b>	<b>(3.6)</b>		<b>(3.6)</b>
<b>Recreation</b>	<b>(1.1)</b>	<b>(0.5)</b>	<b>0.6</b>		<b>0.6</b>
<b>Others</b>	<b>0.4</b>	<b>0.3</b>	<b>(0.1)</b>		<b>(0.1)</b>
<b>TOTAL</b>	<b>32.0</b>	<b>32.0</b>	<b>0.0</b>	<b>3.5</b>	<b>(3.5)</b>

# Inventory

**Months**

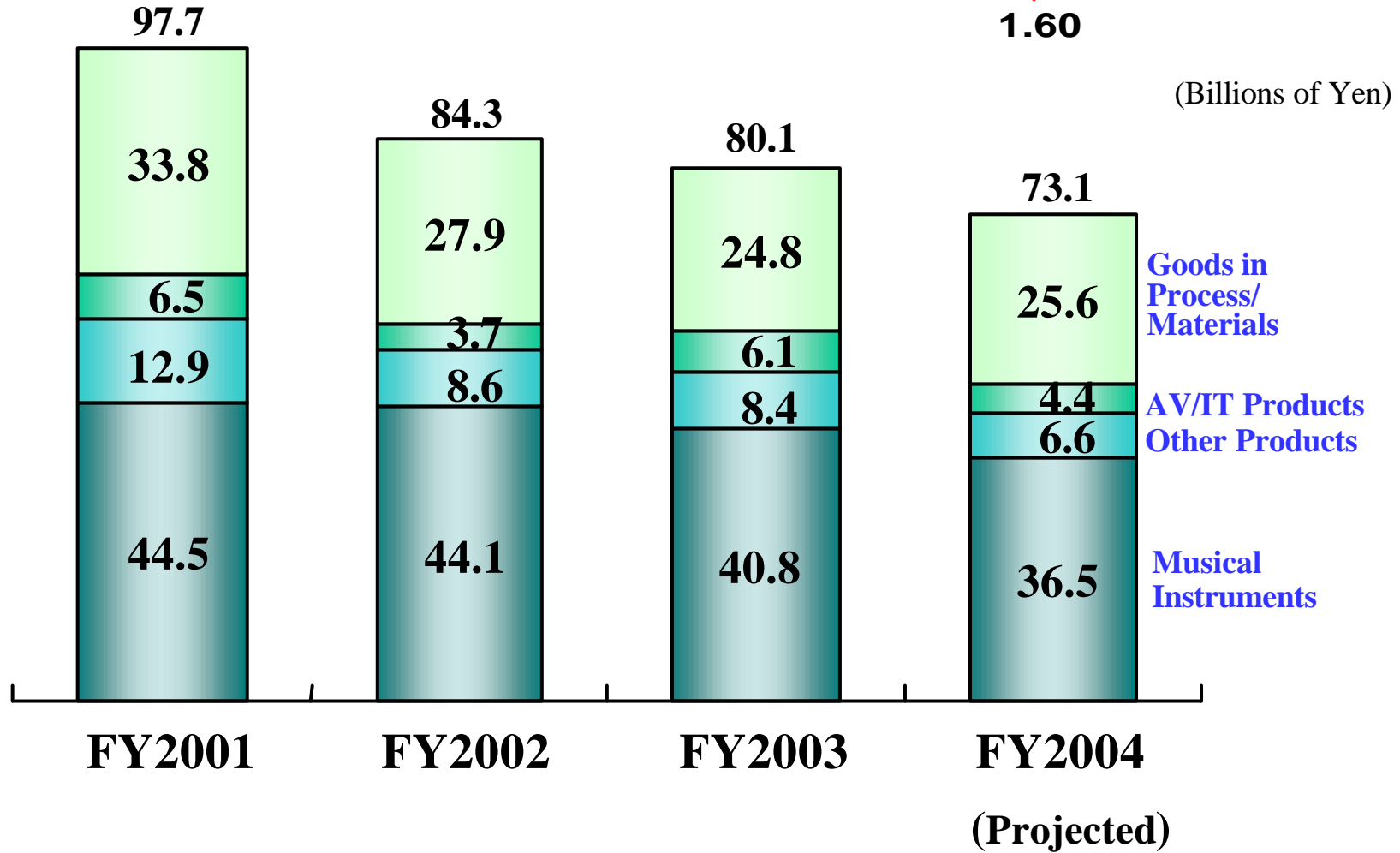
$\frac{\text{Inventory at the end of the Term}}{\text{Average Net Sales per Month}}$

2.26

2.01

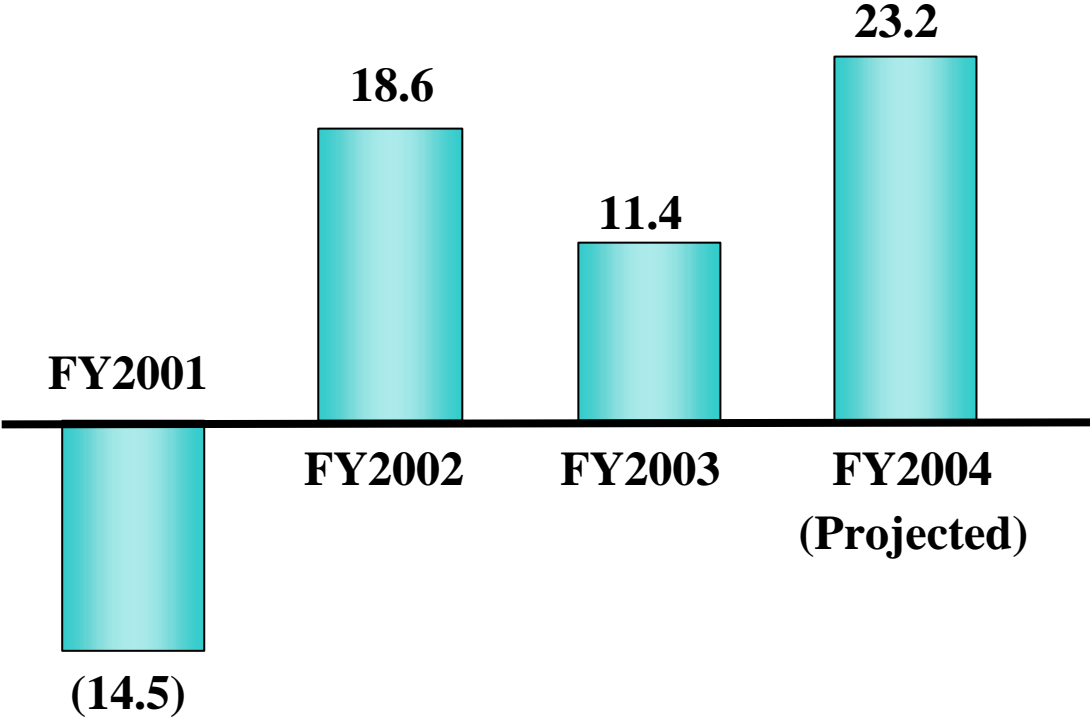
1.83

1.60



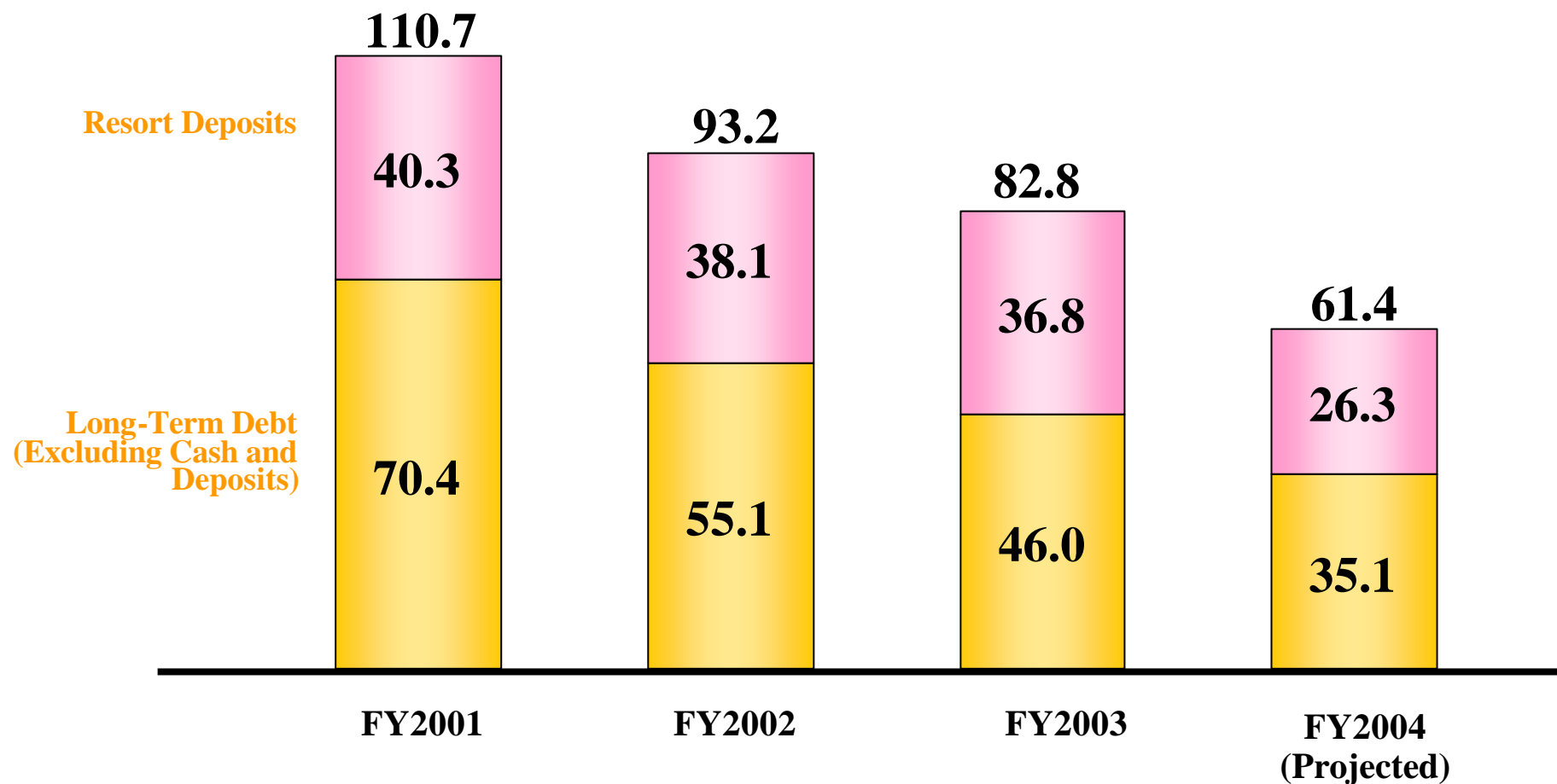
# Free Cash Flow

(Billions of Yen)



# Interest-Bearing Liabilities

(Billions of Yen)



# **Measures in Individual Business Fields**



# Measures for Musical Instruments

## ■ Market-Specific Policies

### Japanese market

- **Increasing efficiency through operational reforms and enhancing profitability through the reduction of fixed expenses**
- **Implementing promotional and product strategies for developing demand among adults**

### European & U.S. markets

- **Maintaining stable sales growth based on market growth and increase in market shares**
- **Increasing management efficiency by developing the capabilities of the newly established European holding company/headquarters**

### Asian markets

- **Proactively developing markets and expanding sales through a concentrated investment of management assets**
- **Accelerating market development in China and Korea through the establishment of subsidiaries**

## ■ Product Policies

- **Expanding business meeting the needs of the music production market, which is projected to grow**
  - Continually launching new products and developing marketing routes for commercial audio products and strengthening operating systems in Europe and the United States.
- **Developing business models for adult market**
  - Developing products and promotional programs and establishing music schools for adults

# Developing Demand among Adults in Japan

## ■ Developing a base of music schools for adults

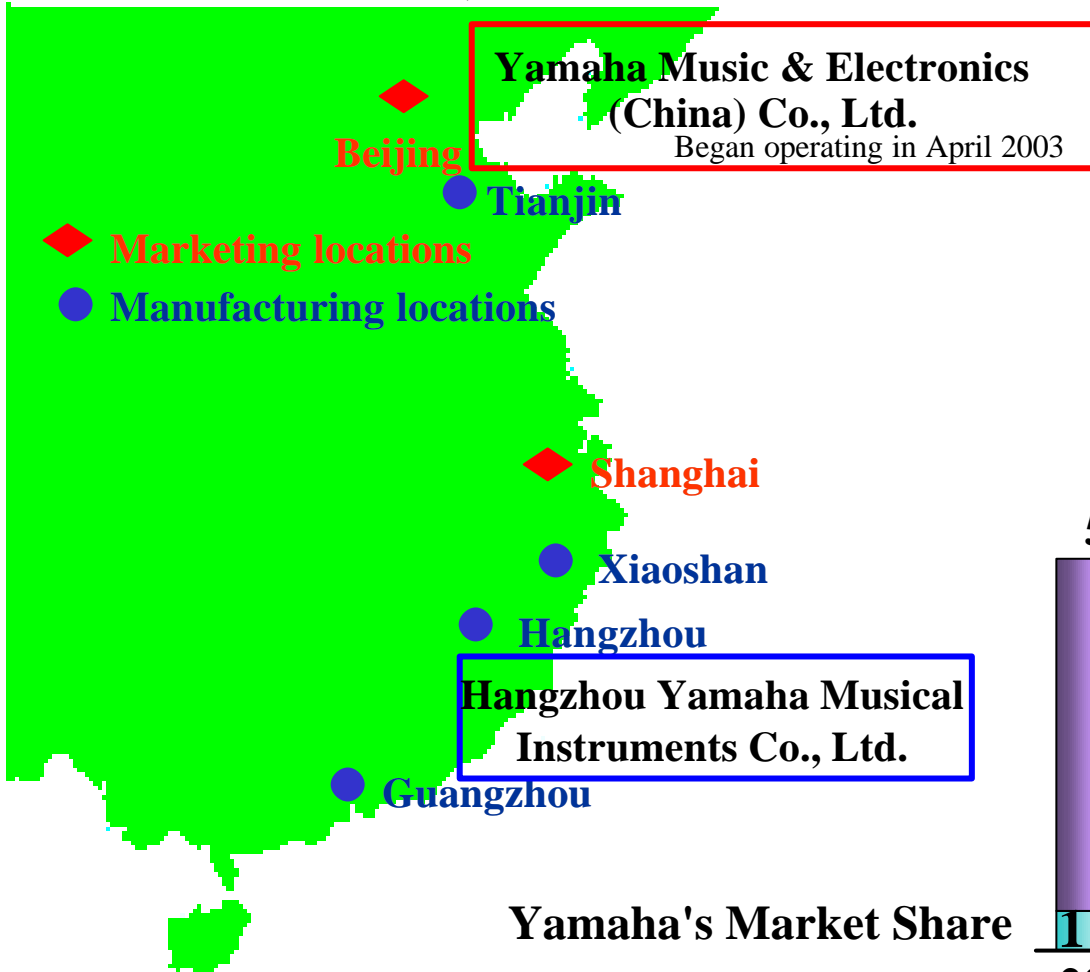
- **Unistyle**                      **Establishing 20 new-concept, suburban-style schools (medium-term goal of establishing 200 schools)**
- **Core 100**                      **Establishing 20 new-concept, urban-style schools specializing in adult education (medium-term goal of establishing 100 schools)**
- **“MuseClub”**                      **New member-system music studio (proceed nationwide after accumulating expertise in Sapporo)**

## ■ Marketing and product development strategies

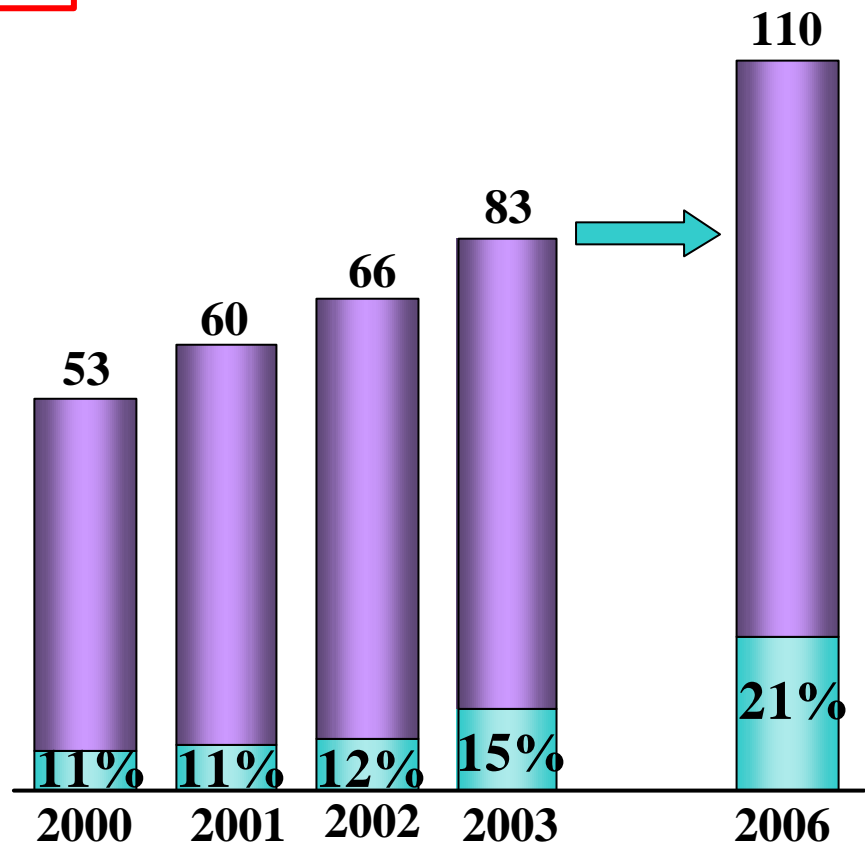
- **Instrument rental**                      **Beginning at 400 locations**
- **Direct sales via Internet**                      **Start of Music E-NET INC.**
- **Development of highly differentiated products**                      **Developing such innovative products as the EZ-EG: electric guitar with 12 lighted frets, sound sketcher:MP3 recorder and silent guitars**

# Strategies in the Chinese Market (1)

- ✍ Unifying marketing operations in China under the China-based holding company Yamaha Music & Electronics (China) Co., Ltd. (began operating in April 2003)
- ✍ Establishing a piano and guitar factory in Hangzhou—Hangzhou Yamaha Musical Instruments Co., Ltd.



**Trends in China's Musical Instrument Market**



**Yamaha's Market Share**

# Strategies in the Chinese Market (2)

**Promoting integrated marketing capabilities and investment administration capabilities focused primarily on musical instruments and AV products**

**Yamaha Music & Electronics (China) Co., Ltd. (YMEC)**

**Existing marketing and manufacturing bases**

## ■ **Emphasized measures**

### • **Expanding operations by unifying marketing activities**

Establishing and growing the sales network

### • **Developing and launching products tailored to the market**

Pianos, digital musical instruments, professional audio products, guitars, etc.

### • **Studying the expansion of Yamaha music schools**

### • **Strengthening the YAMAHA brand and stimulating market**

#### **development**

- Measures focused on professional musicians and on music education institutions

- Participation in trade shows

- Customer response (A/S system, safety standard response, etc.)

# Proactive Development of Ringing Melodies Distribution Service

(Thousands of People)

## ■ Emphasized Measures

### Domestic:

Building websites that primarily target teenagers, augmenting advertising and promotional activities

Promoting collaboration with other industries (such as publishing, convenience stores, and MTV)

### Overseas:

Building organizations in European and U.S. subsidiaries for editing, planning, and production

Promoting local initiation of relationships with overseas communications companies

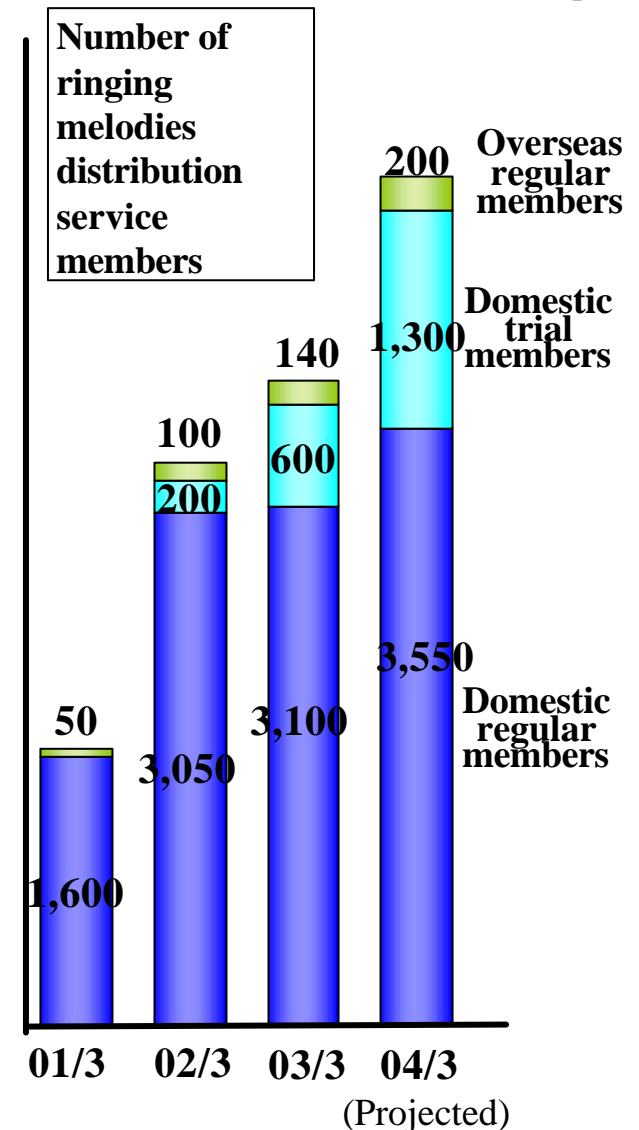
## ■ Overseas Business Development Situation

### ● Countries where development is ongoing and relevant communications companies

China	e-Dongcity, CMCC
Taiwan	TCC, KGT, TAT, CHT
Hong Kong	Hutchison
Spain	Telefonica
Germany	E-Plus
Netherlands	KPN
Belgium	BASE

### ■ Countries where future business development is slated

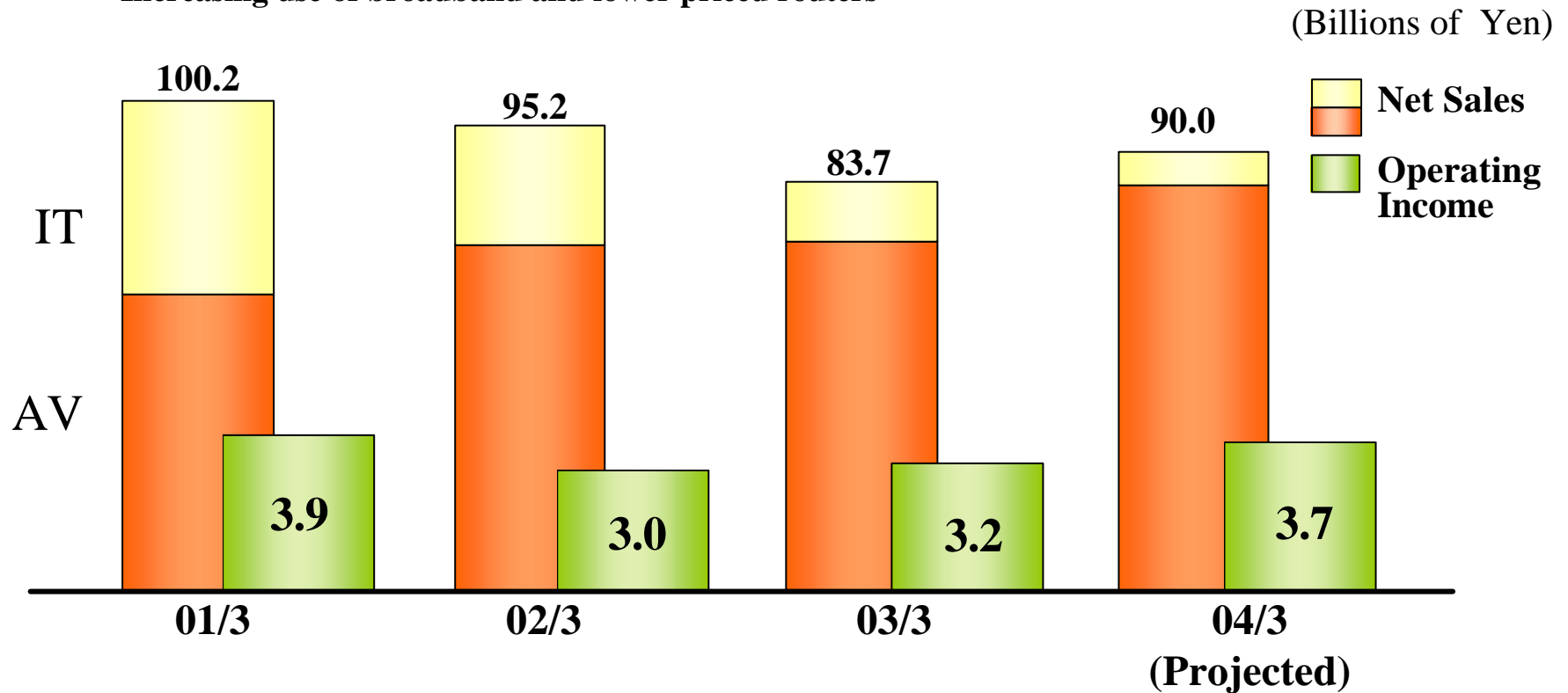
France, Italy, United Kingdom, United States



# Net Sales/Operating Income in AV/IT Business

## ■ Market Environment

- Market globalization and product digitization and networking
- Intensification of competition and industrial reorganization, increasing diffusion of Chinese products and Chinese brands
- Expansion of demand for home theater and general trend toward lower prices
- Increasing use of broadband and lower-priced routers



# Measures in AV/IT Business (1)

## 1. Implementing strategies for augmenting competitiveness in existing business fields

### • Overcoming competition in the core business field of home theaters

Increasing sales of products the Company is particularly strong in, such as component-type AV amplifiers and receivers

Meeting market needs by developing and launching relatively low-end products and all-in-one type of CinemaStation™ products

### • Expanding router solutions business aimed at small office, home office (SOHO) customers and system integrators (SI)

### • Implementing strategies aimed at being the top company in the online karaoke market



RTX2000



RT56v



RT55i



CinemaStation S80

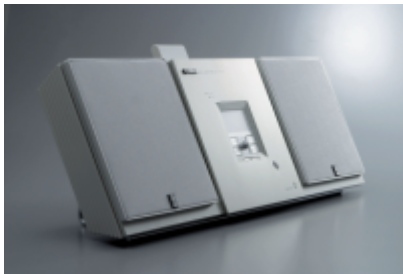


DAM



# Measures in AV/IT Business (2)

2. Implementing strategies for developing business in new growth fields
  - Developing MusicCAST/AV Station business
  - Promoting visual product business



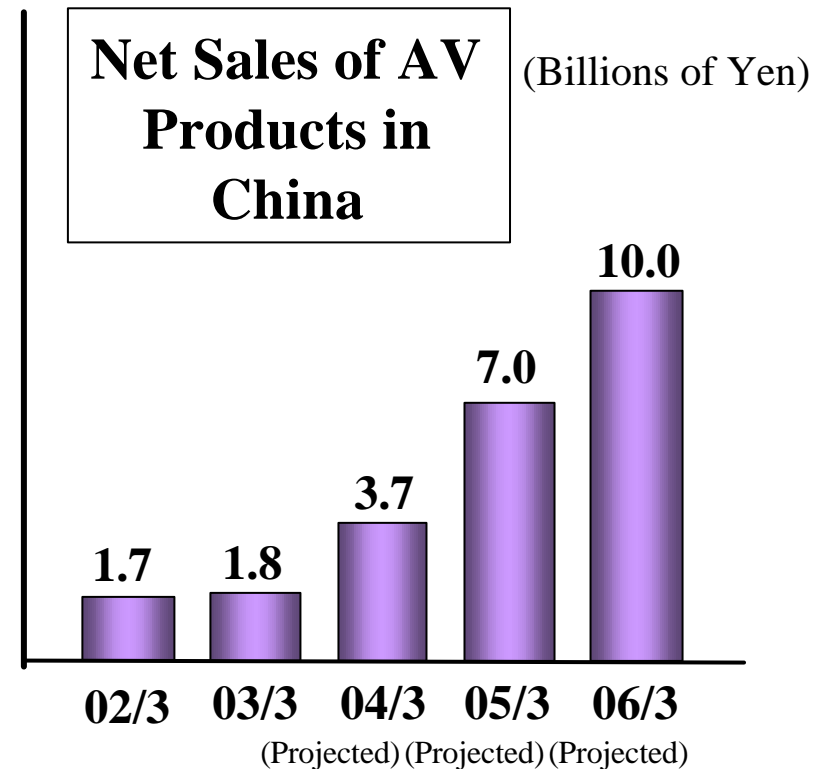
**DPX-1000**



# Measures in AV/IT Business (3)

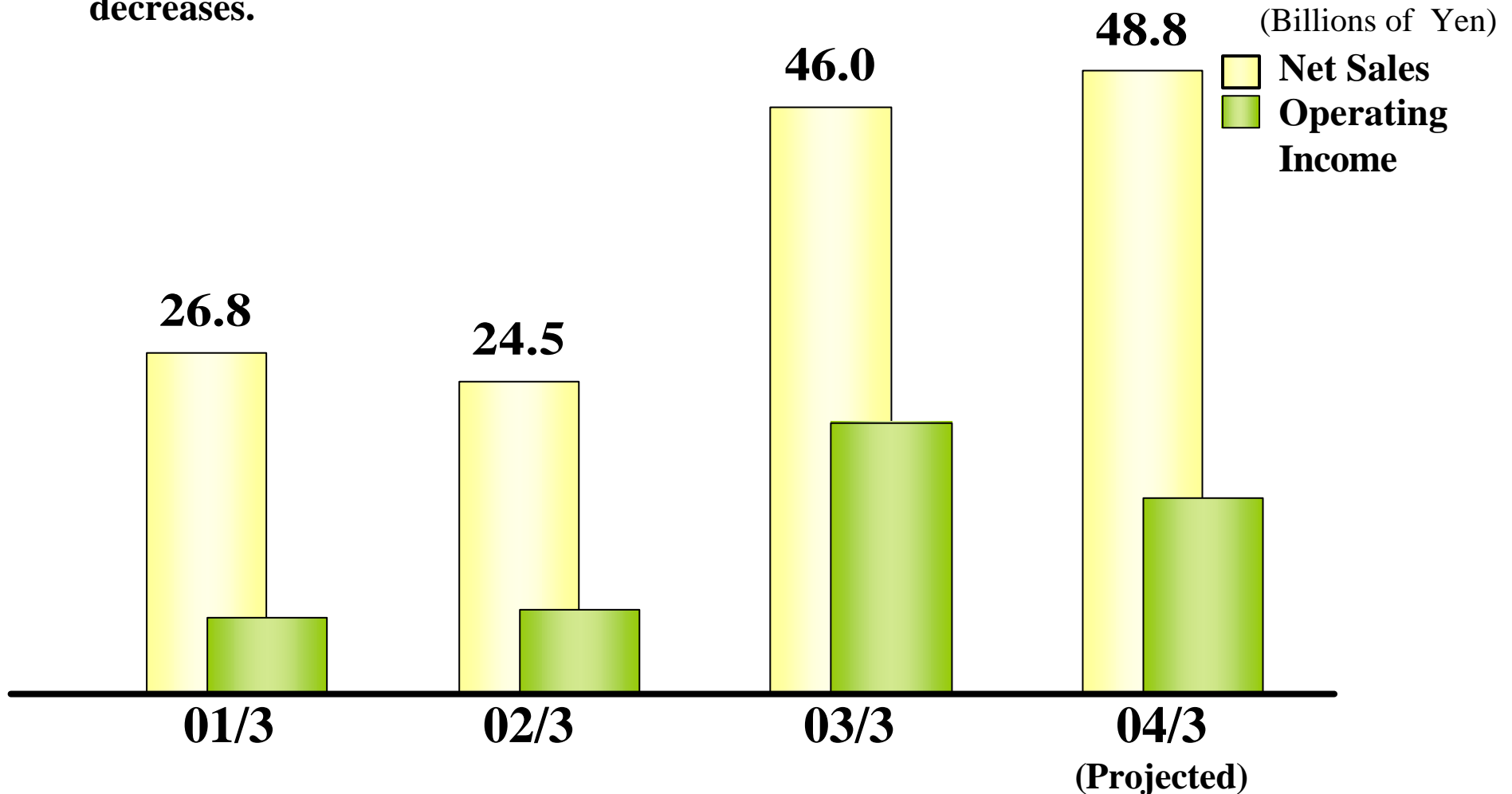
## 3. Implementing strategies for developing business in the Chinese market

- Creating stronger sales and marketing systems centered on the new local holding company
- Beginning full-scale manufacturing operations at Yamaha Electronics (Suzhou) Co., Ltd. (YES)



# Net Sales/Operating Income in Semiconductor Business

Although the sales volume of sound chips is expected to rise, because of lower unit prices, net sales are Projected to increase only slightly while profitability decreases.



# Key Measures in Semiconductor Business

## ■ Further expanding sound chip sales volume while securing related profitability

- Maintaining a high market share with domestic customers and increasing sound chips in overseas models
- Strengthening sales in Europe and the United States by using SMAF (Synthetic Music Mobile Application Format) to leverage our success in Asia.
- Maintaining a high share of Asian customers (Korea, China, Taiwan ODM)

## ■ Maintaining strong supply capabilities

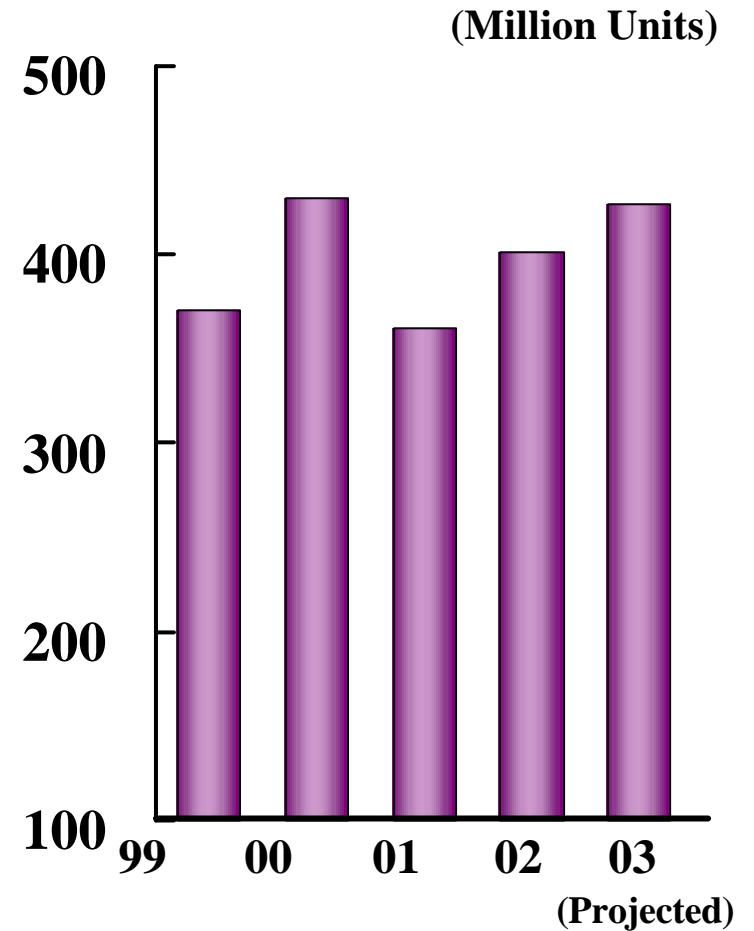
- Creating relationships with external subcontractors and exercising OEM-system controls

## ■ Maintaining market share in sound chips for amusement devices and recovering market share in graphic LIS chips

## ■ Ensuring the timely launch of products in new business fields

# Trends in the Global Market for Mobile Phones

- Renewed trend of growth, with annual sales topping the 400 million unit mark
- Promotion of replacement purchases due to carriers' provision of new services and the addition of new phone functions
- Korea-based Samsung rapidly expanding sales, including export sales
- Sharp expansion in Chinese market: total number of mobile phones in use surpasses 200 million, and market share of local manufacturers expands
- In Europe and the United States: shift to models with color displays and growth in models with IP connection functions has been accompanied by a trend of increase in the share of models with polyphonic sound chips



Source: Nikkei Market Access

# Overview of the New MA-5 Sound Chip

- **Maximum number of simultaneous notes:64**

**FM system: 32 notes + Wave Table System : 32 notes**

- **Expanding versatility of voices enabling response to future diversification of contents**

**(Example: humanoid voices capable of pronouncing simple words that meet the needs of game contents)**

- **Moves among existing customers to upgrade from the current MA-3 model (40-note polyphonic sound chip)**

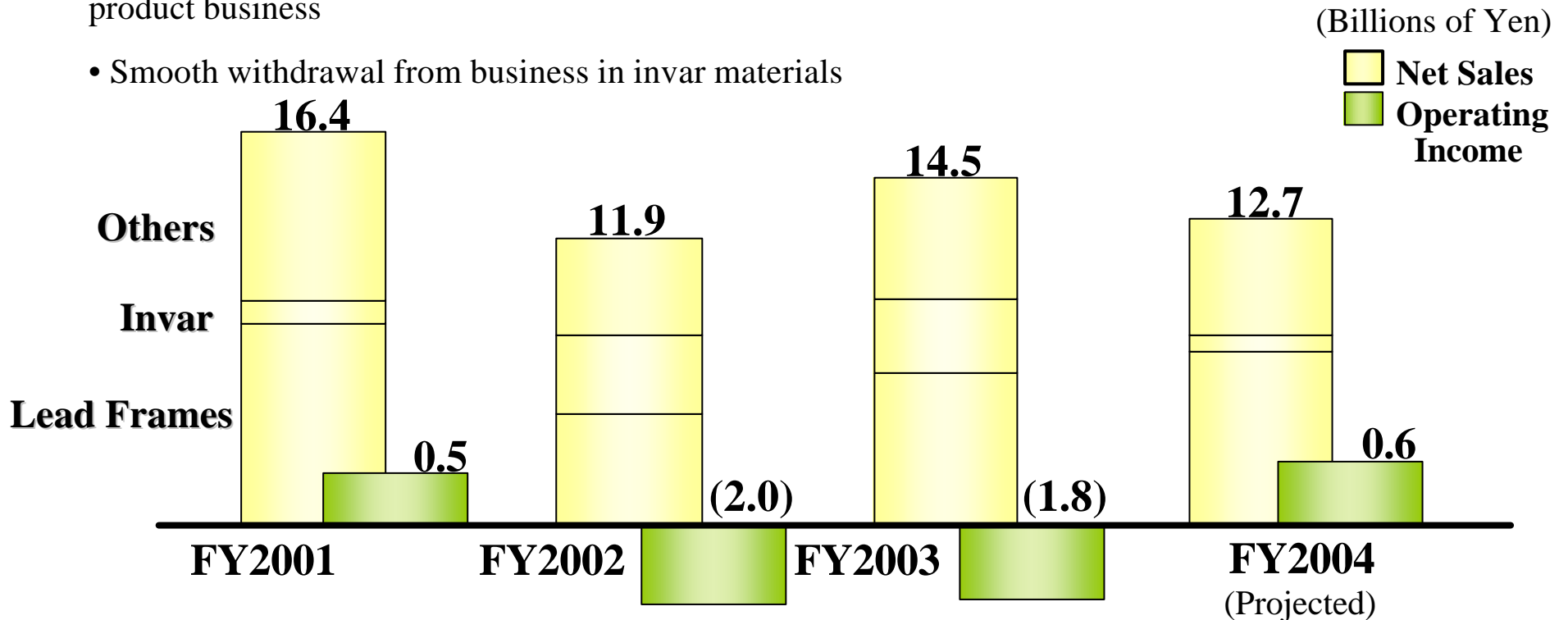
# Metal Products Business

## ■ Market Environment

- Stable demand over the medium-term for semiconductors and metal materials for electronics components
- Moves toward materials that offer higher performance and higher quality as well as rising cost pressures from manufacturers of finished products

## ■ Priority Policies

- Expanding market share of copper lead-frame materials and strengthening of processed product business
- Smooth withdrawal from business in invar materials



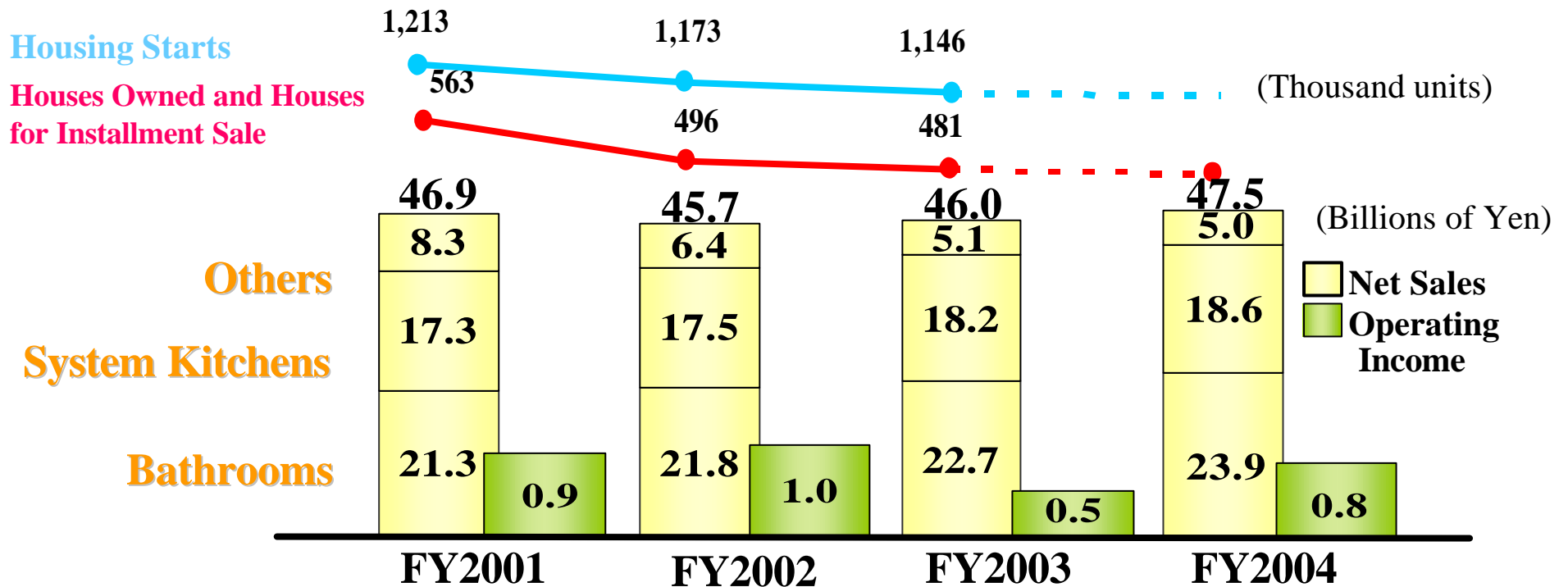
# Lifestyle-Related Business

## ■ Market Environment

- Continued decline in number of new housing construction starts and expansion of housing renovation market
- Companies increasingly seeking to survive by arranging operational and capital alliances

## ■ Priority Policies

- Reducing the break-even point through manufacturing cost reductions
- Realizing concrete benefits from business tie-up with Air Water Living Co., Ltd.
- Creating a business model for profitably engaging in renovation-related operations



\* Source: Statistics of Housing Starts by Ministry of Land, Infrastructure and Transport

(Projected)

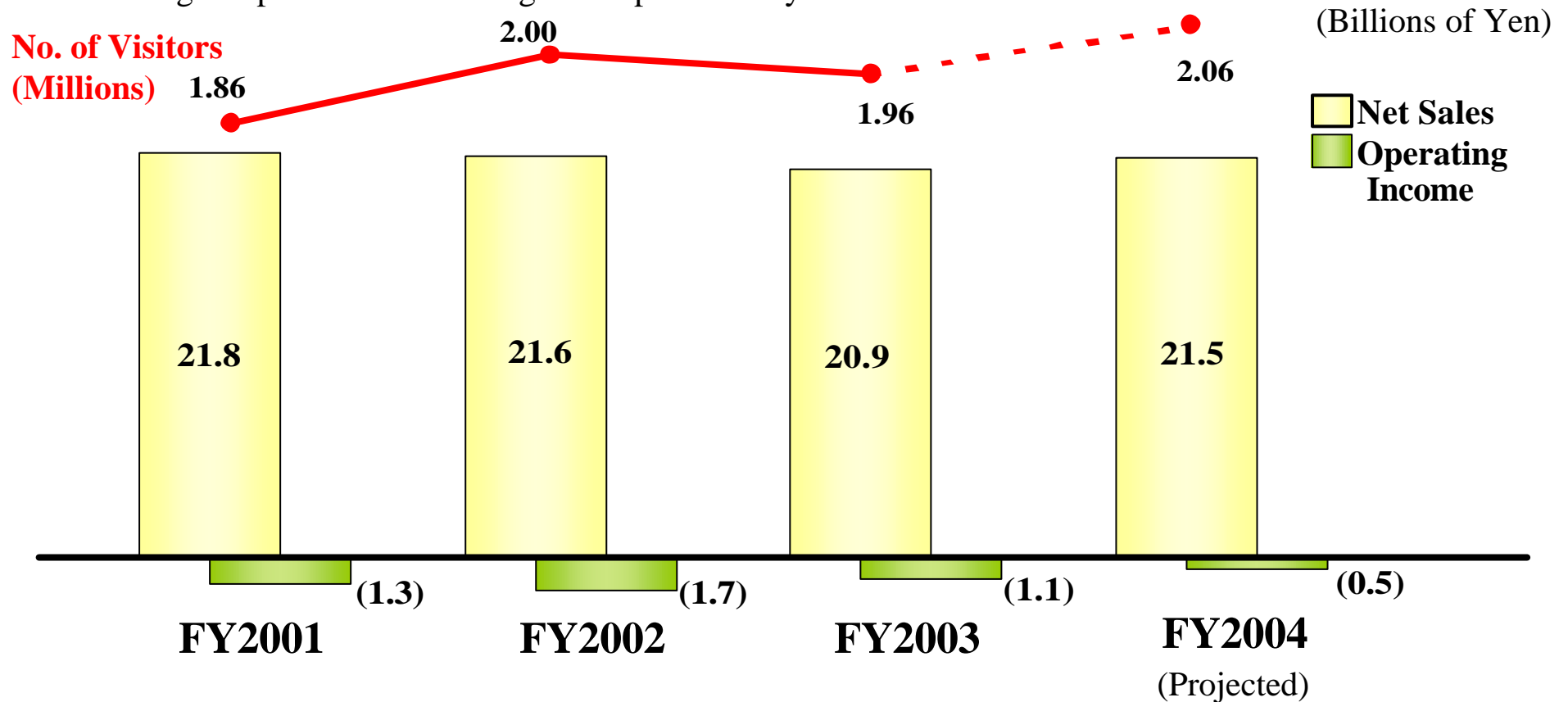
# Recreation Business

## ■ Market Environment

- Continued slack conditions in the domestic economy and lifestyle changes in Japan

## ■ Priority Policies

- Reducing the breakeven point by boosting operating efficiency and otherwise reducing costs
- Securing at least two million visitors annually
- Regular periodic monitoring of the profitability of individual facilities





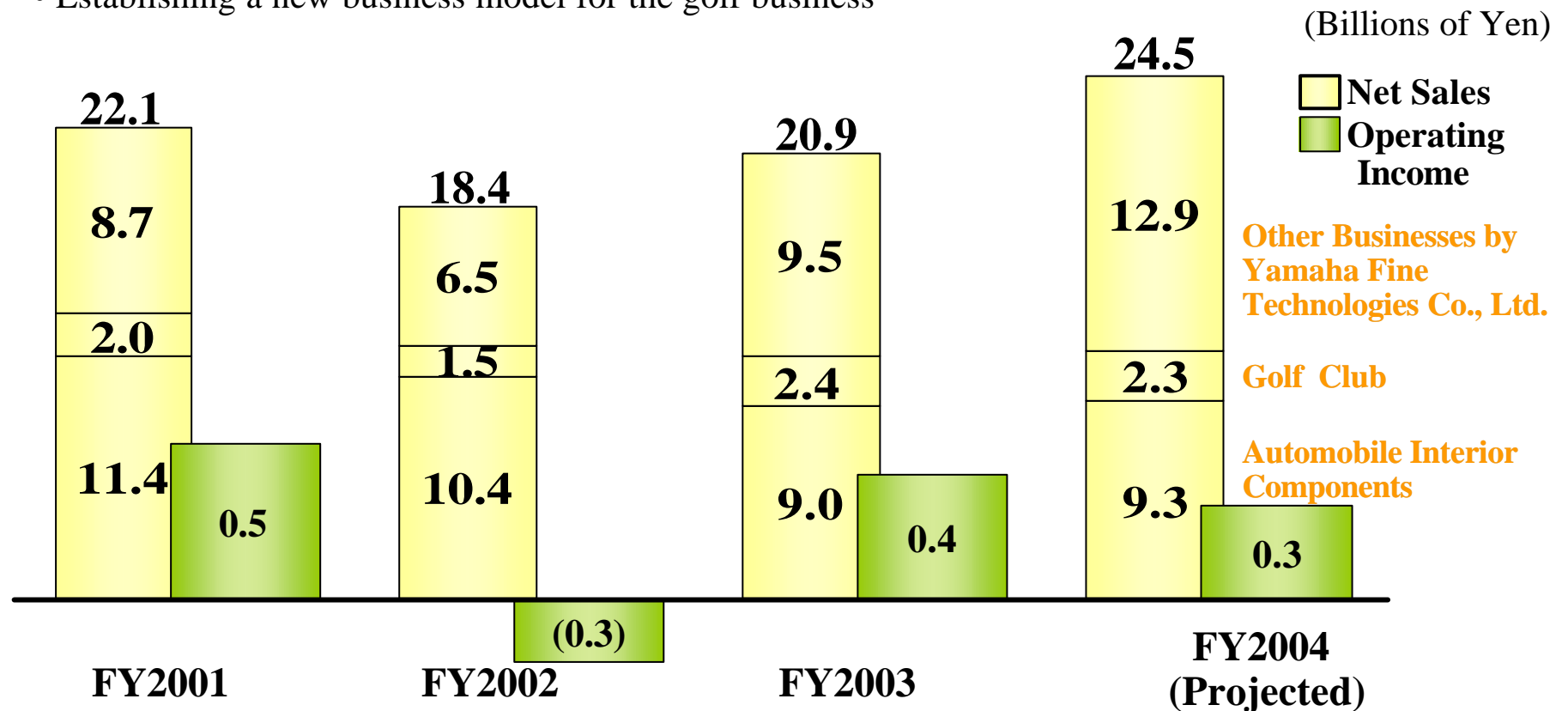
# Others

## ■ Market Environment

- Intensifying competition amid continued slack conditions in the domestic economy
- Pressure from finished product manufacturers for additional reductions in component prices

## ■ Priority Policies

- Improving the profitability of business in magnesium components for mobile phones
- Implementing manufacturing reforms for automobile interior components and fittings that enable cost reductions and the expansion of business with new customers
- Establishing a new business model for the golf business



**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.**



CREATING 'KANDO' TOGETHER