

YAMAHA CORPORATION
**Briefing on the Musical
Instruments Business**

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Outline of Today's Presentation



- I. Progress in Implementation of the YSD50 Management Plan**
- II. Sales Expansion Plan**
- III. Cost Reduction Measures**

I. YSD50's Musical Instruments Business Strategy



Goals for fiscal year ending March 31, 2007

Net sales: ¥334.0 billion
Operating income: ¥31.0 billion

Medium-term Management Plan



Progress in Implementation of the Management Plan and Plans Going Forward

(Billions of yen)

	YSD50 3-Year Plan
Net sales	
Increase	40.6
Operating income	
Improvement	20.5

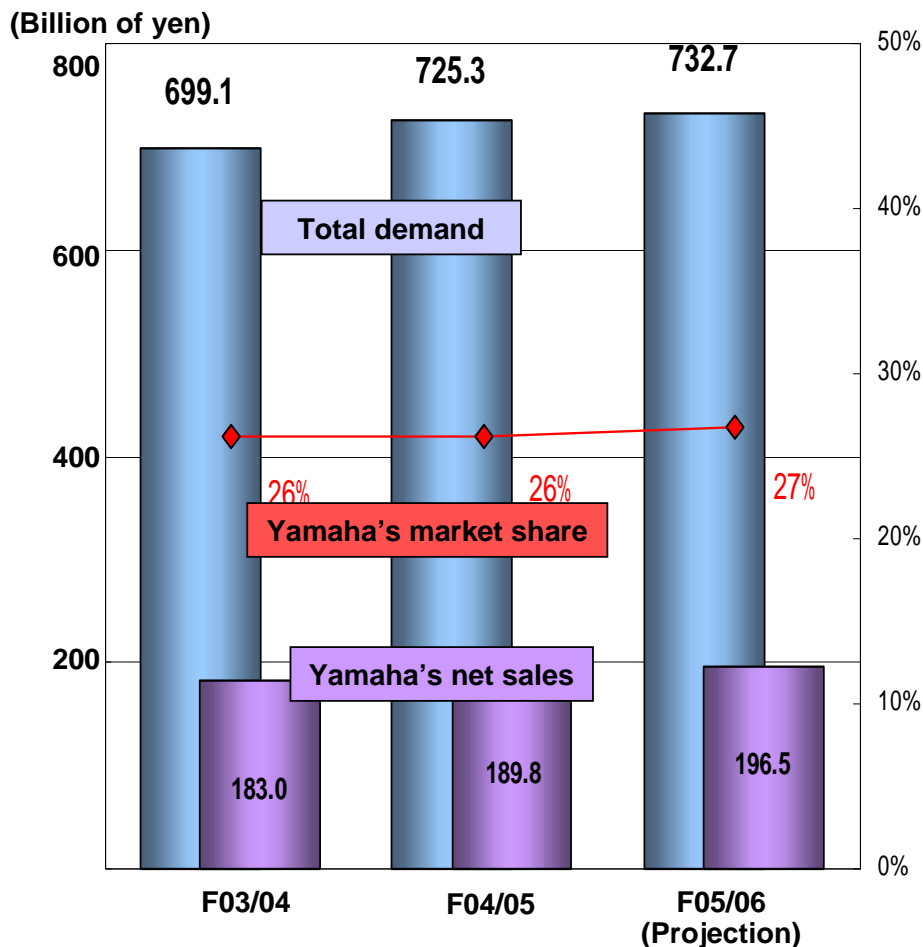
Operating income	YSD50 3-Year Plan
Growth in sales	14.6
/improvement in gross margins	
Decrease in SG&A	(0.9)
Reforms in manufacturing	3.2
Reforms in personnel composition	3.6
Total	20.5

F03/04 Actual	F04/05 Actual	F05/06 Projection	F06/07 Projection
293.4	302.6	313.0	334.0
	9.2	10.4	21.0
10.5	14.2	21.5	31.0
	3.7	7.3	9.5

F04/05 Actual	F05/06 Projection	F06/07 Projection
2.6	4.5	7.5
(1.7)	0.8	0.0
1.3	0.9	1.0
1.5	1.1	1.0
3.7	7.3	9.5

II. Sales Expansion Plan

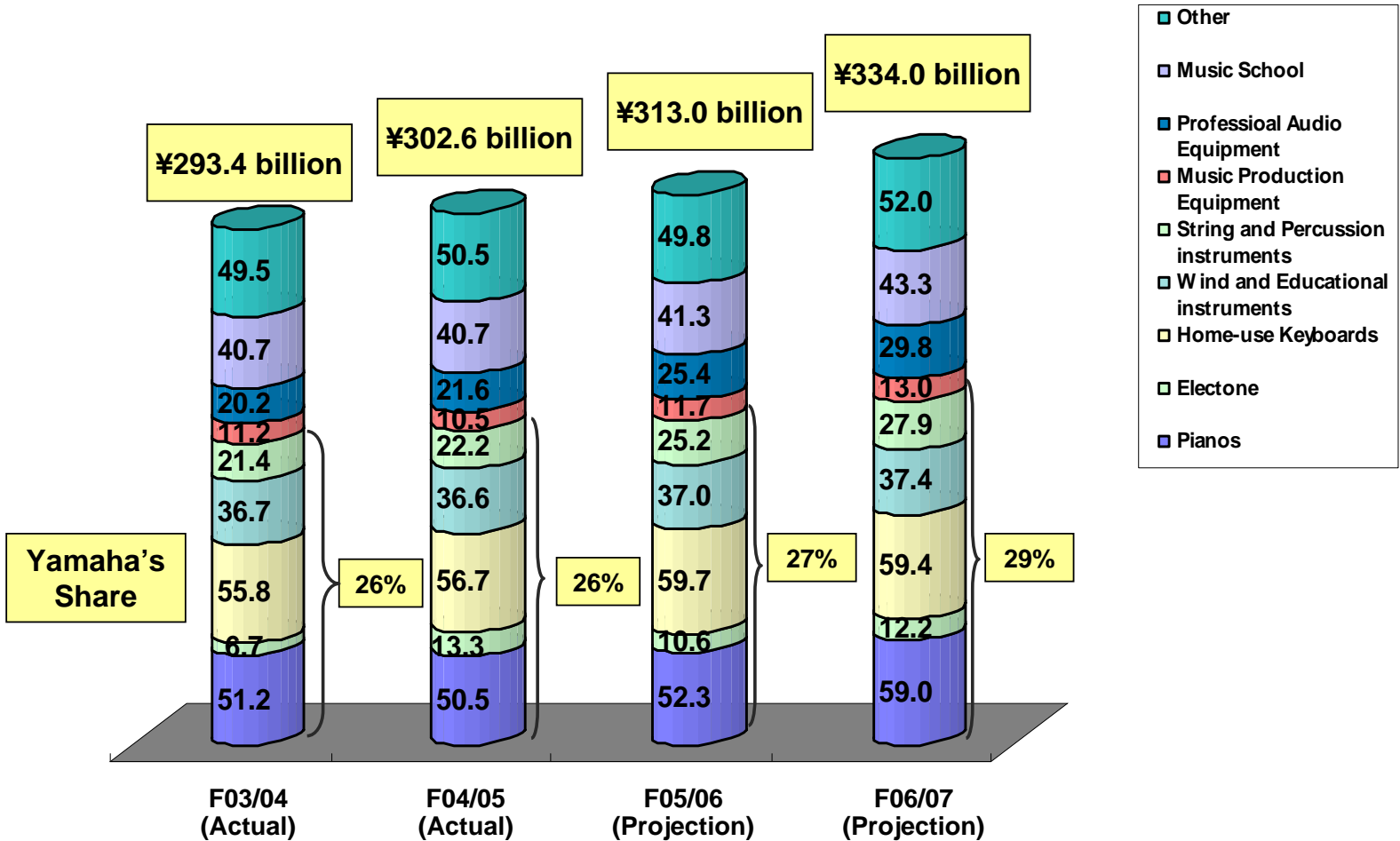
Total Demand for Musical Instruments (Excluding Professional Audio Market)



- Total demand of F04/05 expanded 3.7% from the previous fiscal year.
- The trend toward lower prices is continuing, and, the unit volume of sales increases, demand for high- and medium-quality models is firm. The movement toward bipolarization is continuing.
- Demand for digital pianos is increasing worldwide (on a unit volume basis). On the one hand, prices are declining and there is a continuing trend to move up-market from purchases of portable keyboards. At the same time, we are seeing expansion in demand as a result of efforts to diversify designs in response to customer tastes.
- Yamaha's market share in the acoustic product group declined 1.2 percentage points, as competition became more intense. However, Yamaha's share in the digital musical instrument group rose 1.2 percentage points, leaving overall market stable at 26%.

(Total demand was revised by reviewing the expanded EU)

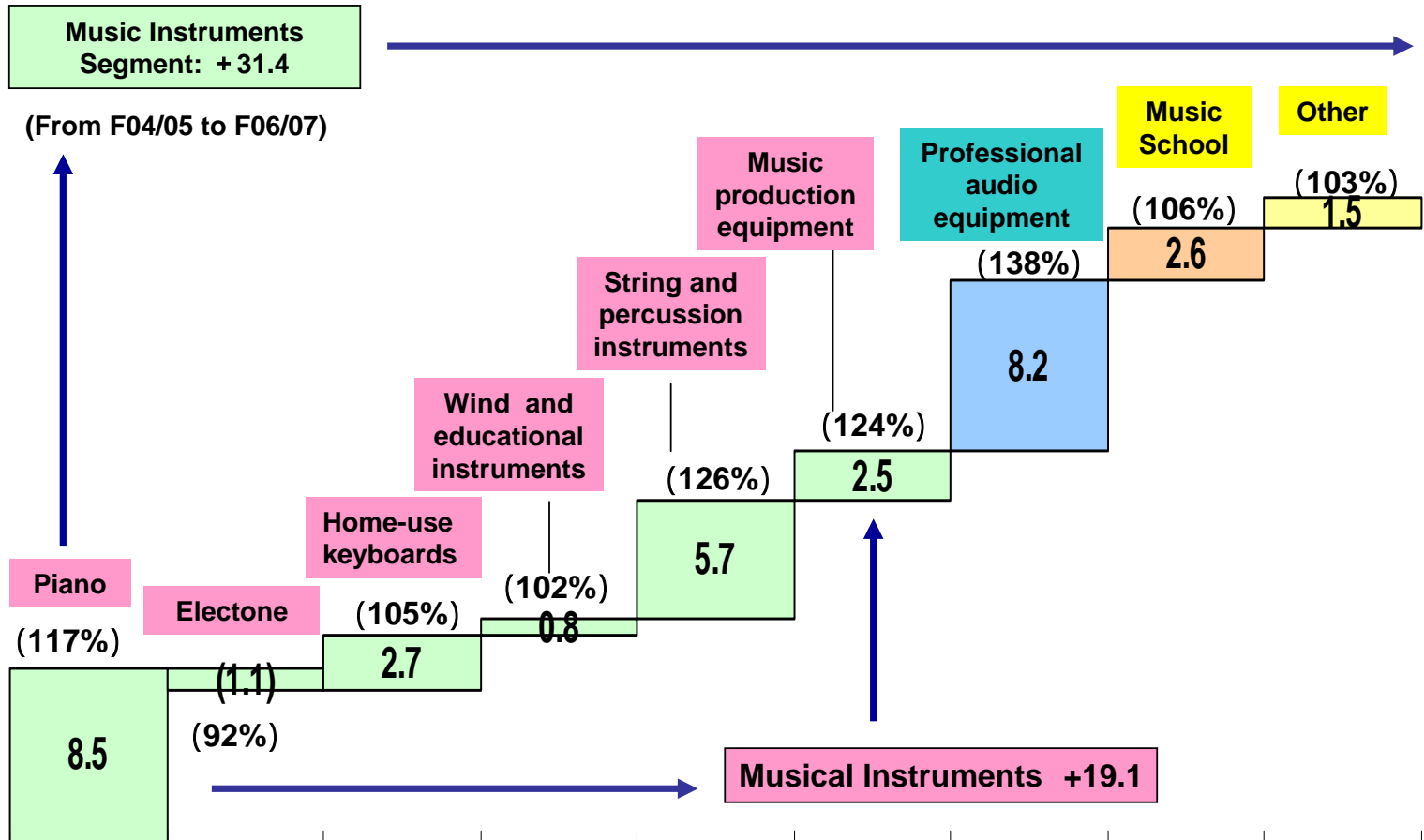
Sales by Product (Worldwide)



Sales Plan by Product (Worldwide)

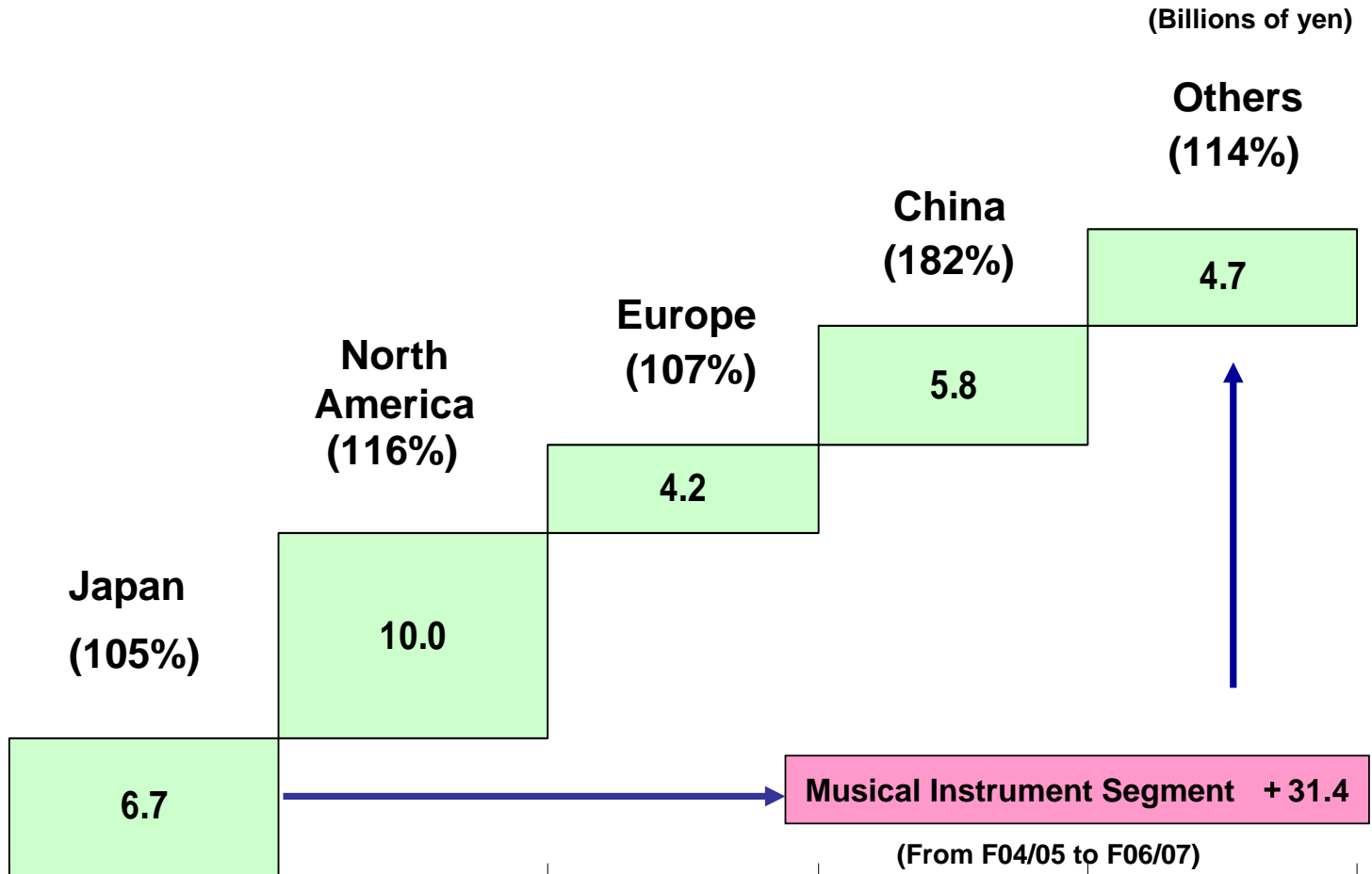


(Billions of Yen)



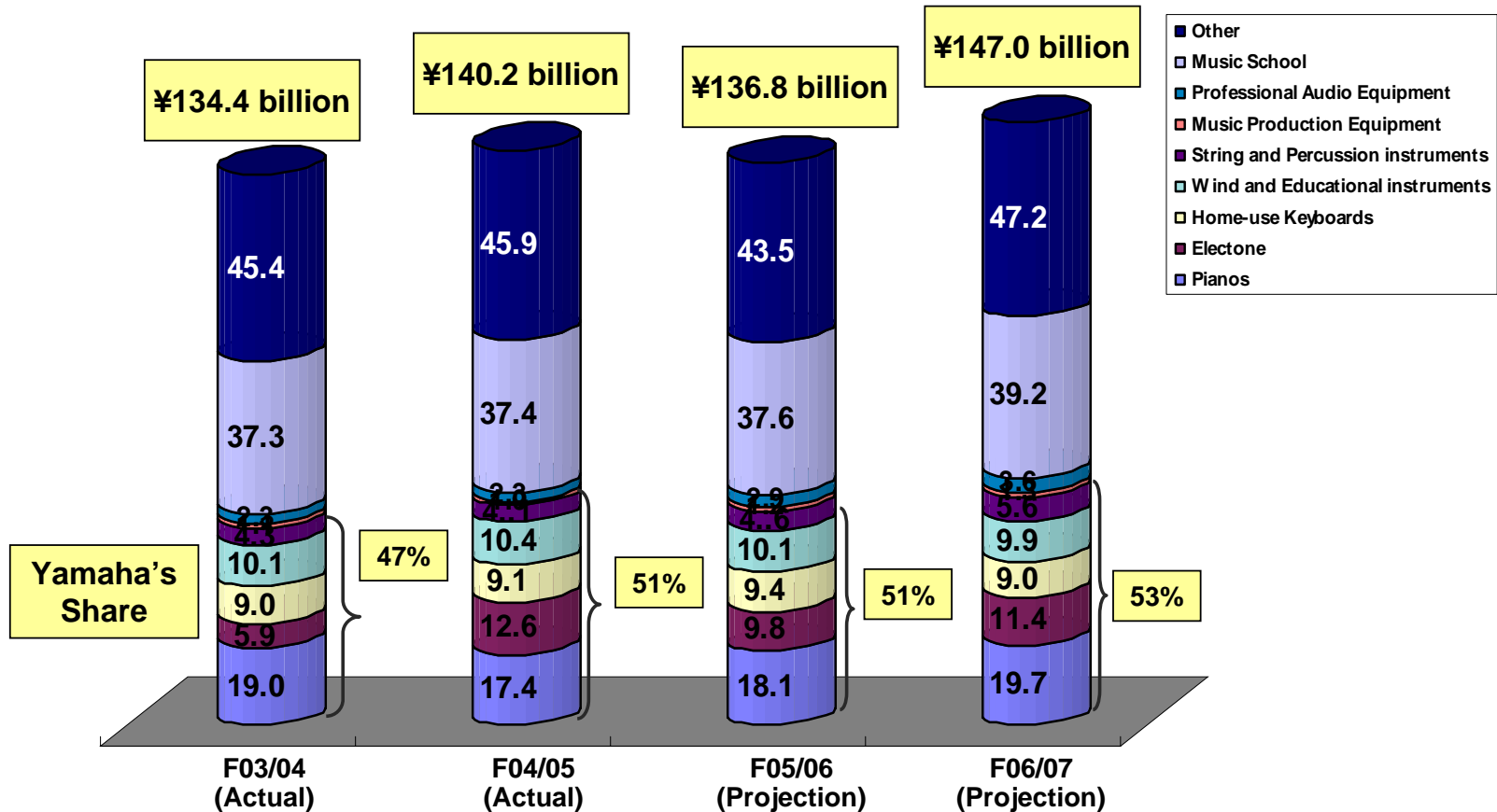
*Figures in parentheses represent changes from F04/05 to F06/07.

Sales Plan by Geographic Region (Worldwide)



*Figures in parentheses represent changes from F04/05 to F06/07.

Sales Plan by Product (Japanese Market)

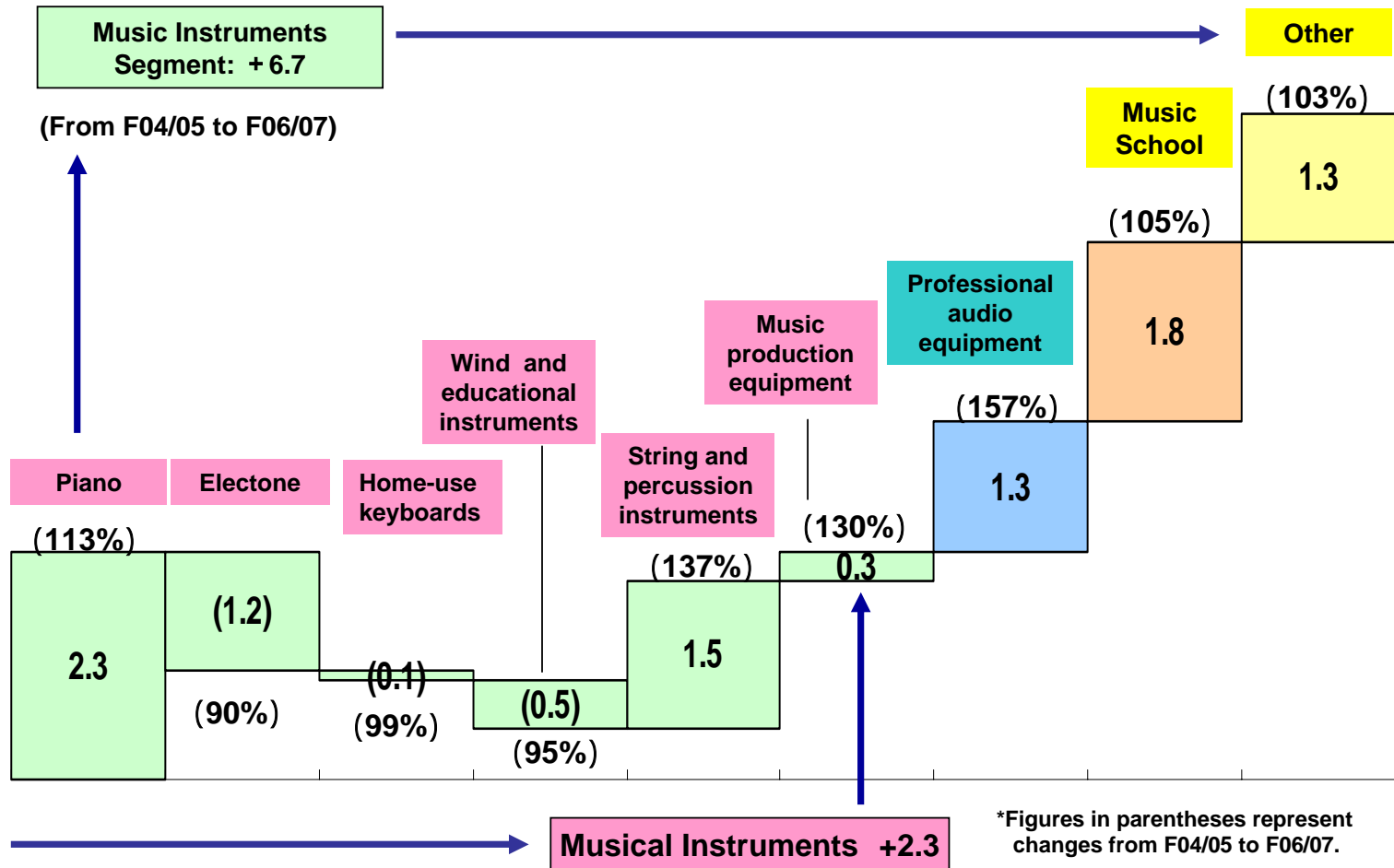


- A continuing falling birthrate
- Increasing leisure time of baby boomers
- Expanding market accelerated by an increase of *Electone* sales

Sales Expansion Plan by Product (Japanese Market)



(Billions of Yen)



Growth in the Japanese Market



- **Investment: Business expansion to match customer lifestyles**
 - Develop new business models for music schools and stores through the creation of renewed value
- **Develop new customer groups**
 - Adult market
 - Musical instrument rental systems
- **Work to expand EL performance population**
 - Appeal to young people
 - Model rental program for EL beginners



楽器レンタルプランも選べるから、暮らしにもっと笑顔が増えました。 **楽器レンタル**

フルトサックス 楽しサントリープラン (9ヶ月-20ヶ月) 月額1,980円(税込)
楽しサントリープラン (12ヶ月-12ヶ月) 月額2,070円(税込)

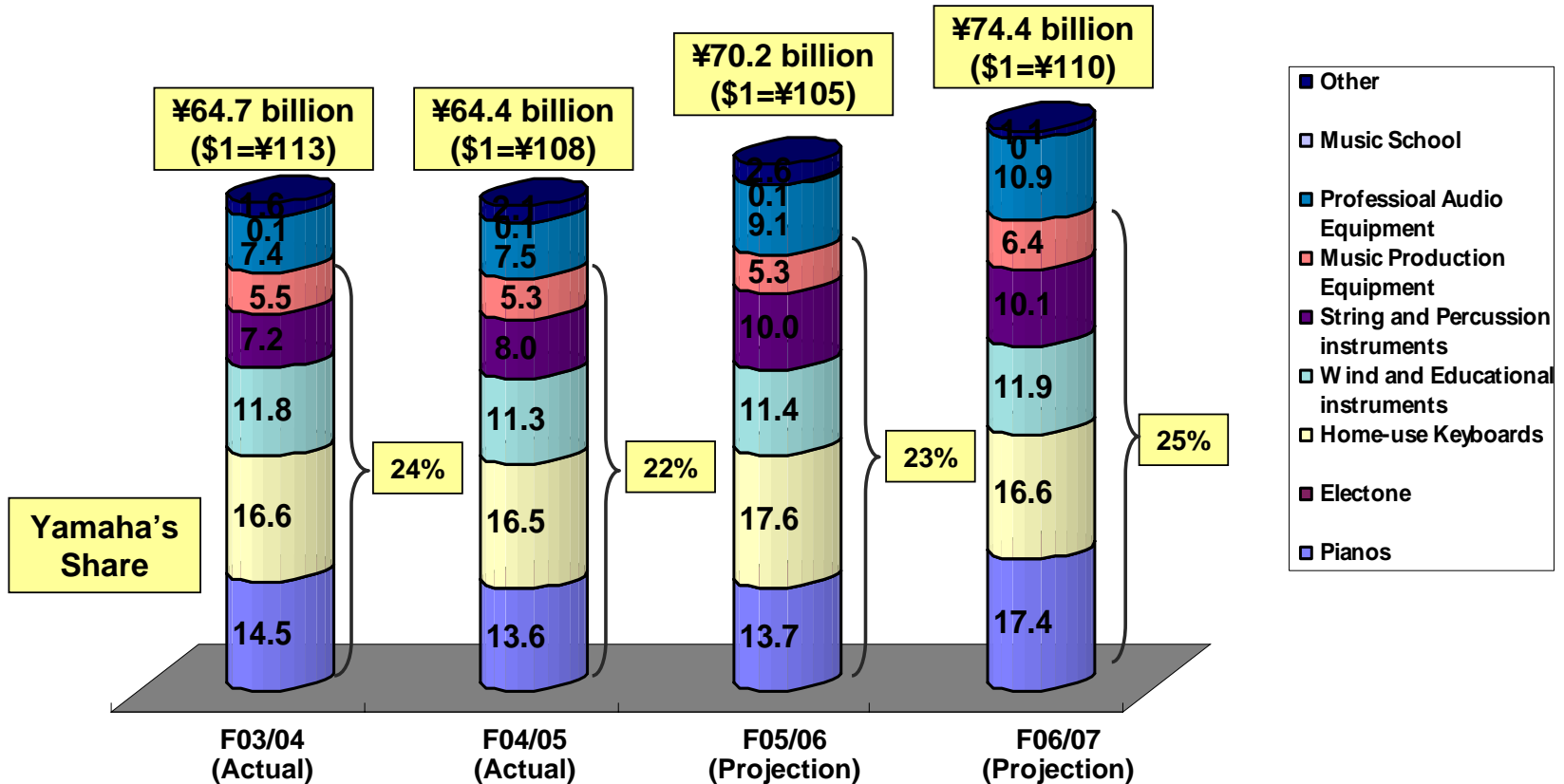
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3ヶ月レッスンのご案内

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50歳からの音楽レッスン

Sales Plan by Product (North American Market)

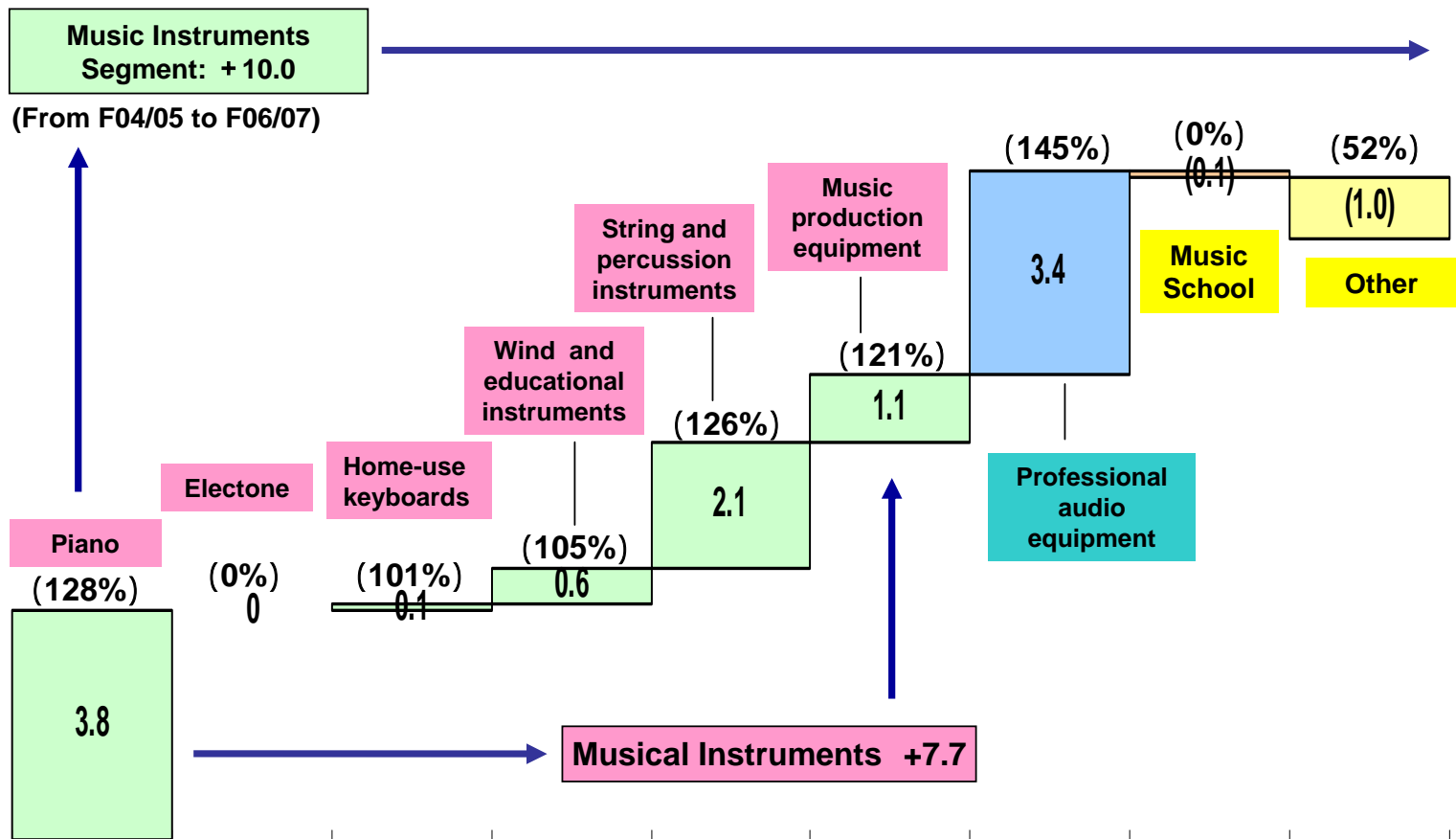


- Market value of pianos and wind instruments decreasing slightly
- Sales of pianos made in China expanding

Sales Expansion Plan by Product (North American Market)



(Billions of Yen)



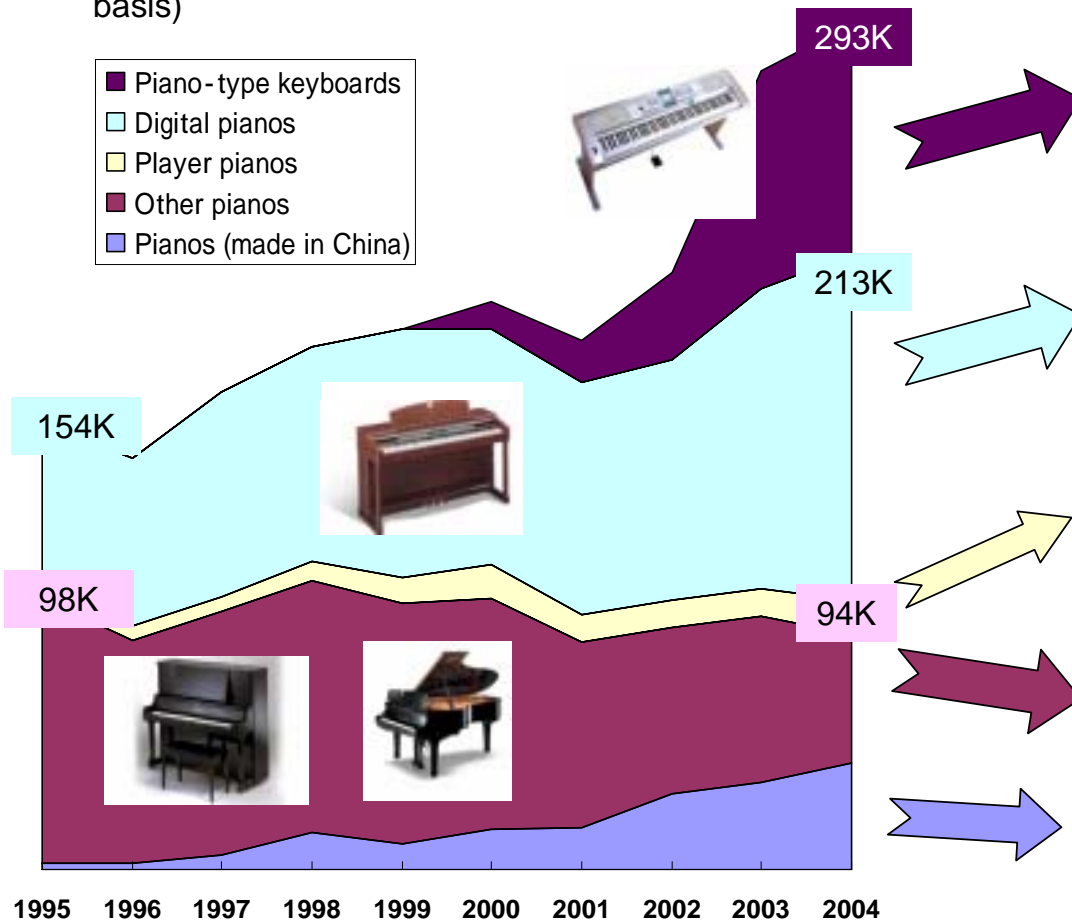
*Figures in parentheses represent changes from F04/05 to F06/07.

"Total Piano" Demand in the United States



(Unit basis)

- Piano-type keyboards
- Digital pianos
- Player pianos
- Other pianos
- Pianos (made in China)



Since 2002, the market for piano-type keyboards sold in mass merchandise outlets has expanded. Further growth in demand is forecast.

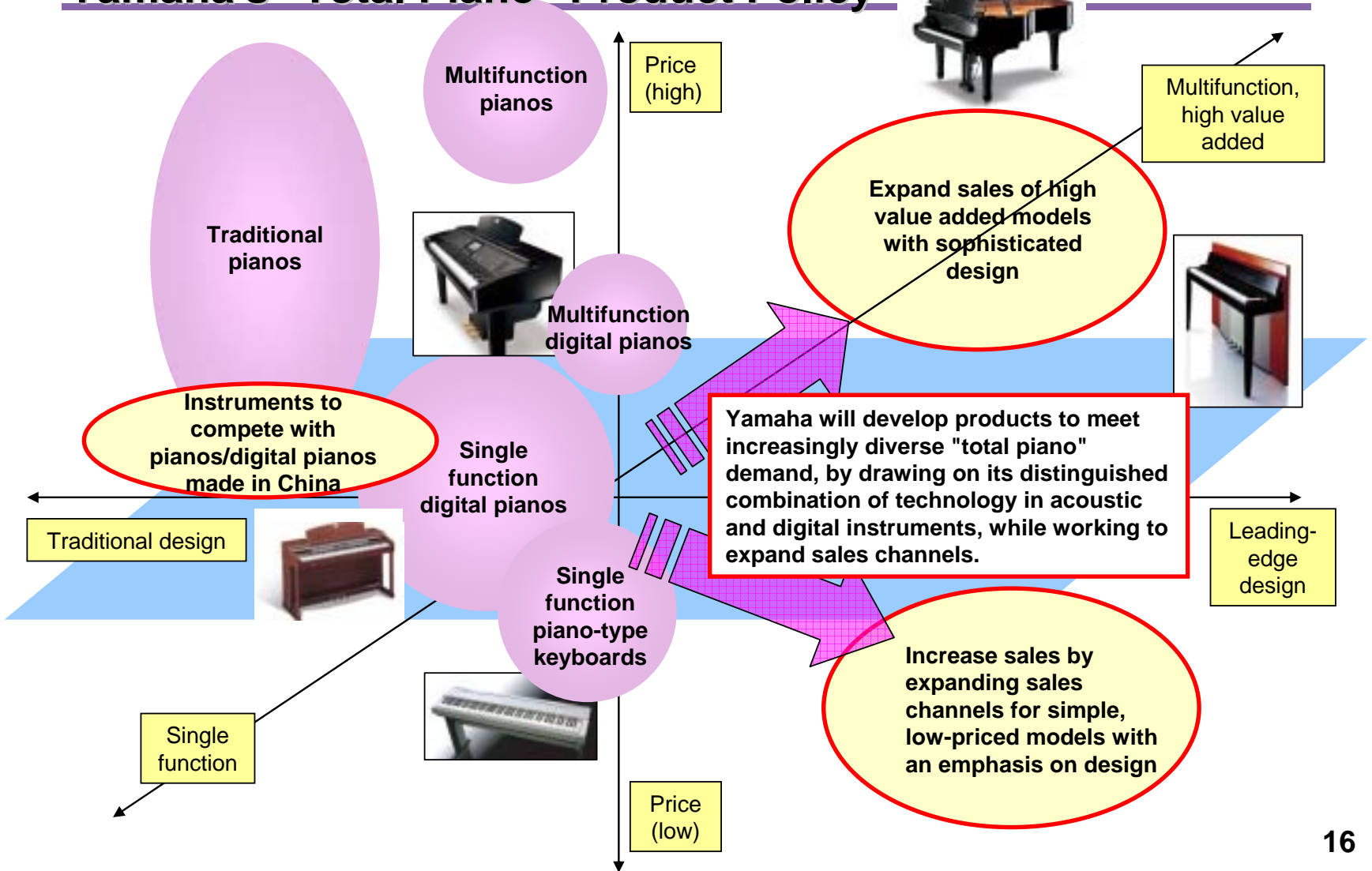
The expansionary trend in demand for digital pianos will continue. As unit prices decline, the greater diversity in functions and design is expected.

Demand for player pianos has been on a recovery trend since 2001. As a result of improvement in functions and playability, demand is expected to expand.

Total demand for upright pianos will continue on a gradual downward trend.

While the inflow of extremely low-priced types will begin to decline, the increase in pianos made in China, especially grand pianos, will continue

Yamaha's "Total Piano" Product Policy



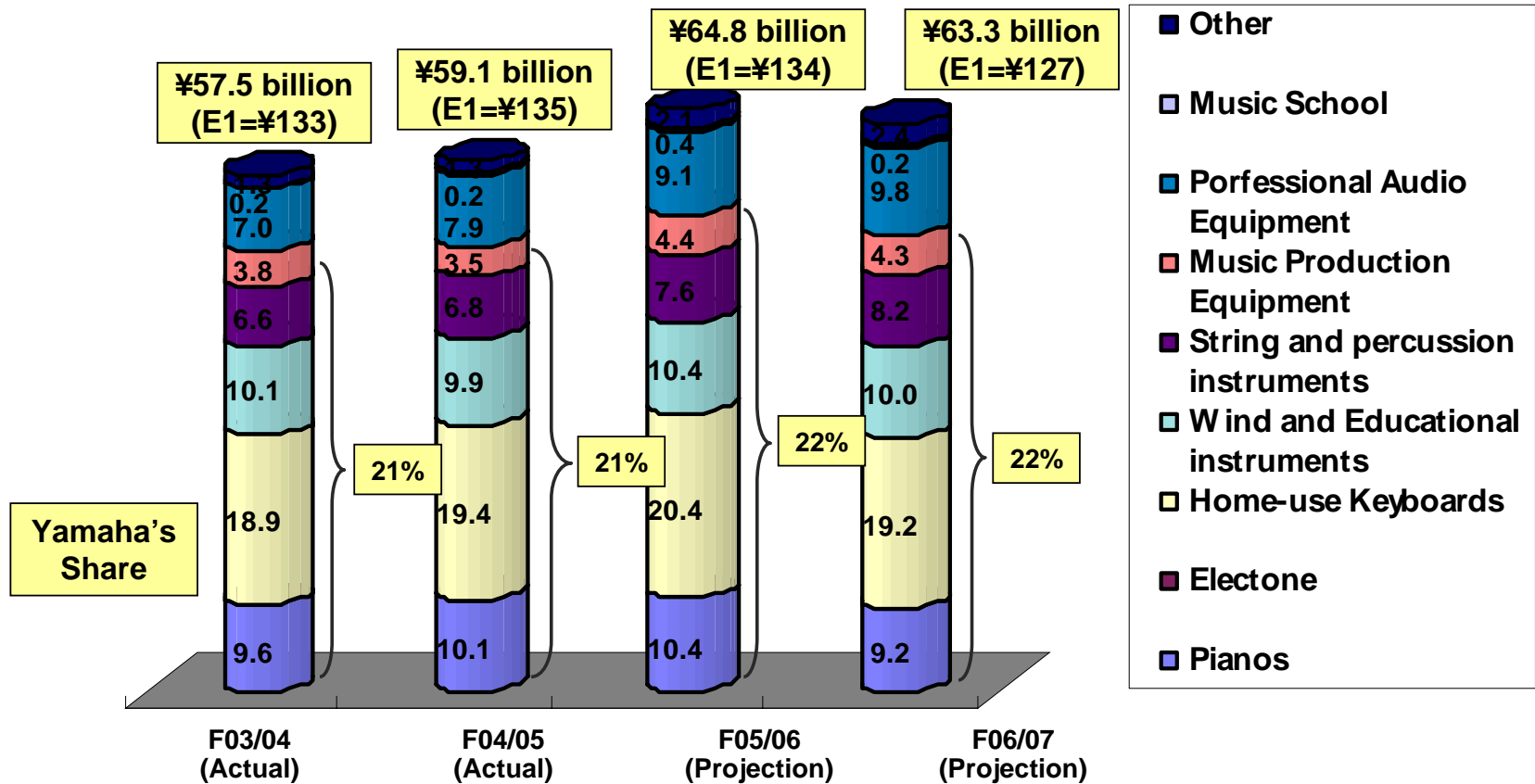
Growth in the North American Market



- **Expand innovative, high-quality products and services**
 - Introduce innovative, high-quality products: DKV-Mark IV, CLP-F01, Artist Model wind instruments, etc.
 - Draw on relationships with artists: Yamaha Artist Services Inc. (YASI)
 - Propose new customer services: Internet Direct Connection (IDC), Digital Music Notebook (DMN)
- **Strengthen product competitiveness and expand sales network**
 - Pursuing “Total Piano” strategy
 - Strengthening sales capabilities and expanding sales channels for string and percussion instruments
- **Accelerate growth of commercial audio business**
 - Strengthen personnel resources
 - Improve communication about product value
 - Relocate facilities for YCATS and R&D



Sales Plan by Product (European Market)

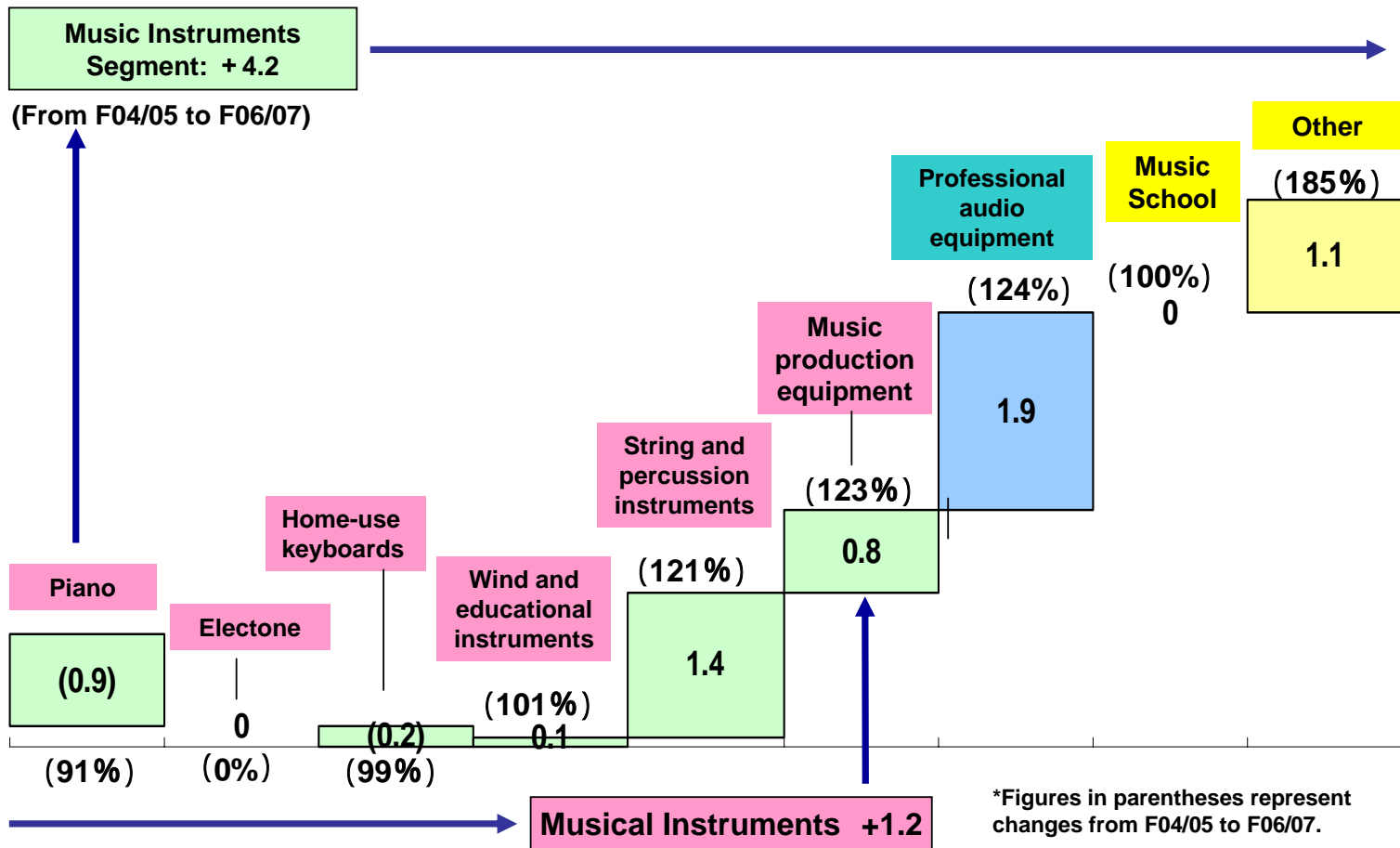


- Demand for electronic keyboards reducing slightly
- Especially in the wind instruments, expansion of E-commerce fueling price competition
- Piano sales are expanding slightly

Sales Expansion Plan by Product (European Market)



(Billions of Yen)



Growth in the European Market



■ Expand innovative, high-quality products and services

- Increase sales of innovative, high-quality products and services: Silent Piano, CLP-F01, medium to high-quality wind instruments, etc.
- Draw on relationships with artists: Paris (pianos), London (guitars), Frankfurt (wind instruments)
- Propose new customer services: IDC, DMN



■ Enhance sales systems in growth markets

- Established YMCE branch in Poland (August 2004)
- Set up representative office in Moscow (April 2005)
- Making preparations for direct sales in the expanded EU (Czech Republic, Slovakia, Hungary, Slovenia)

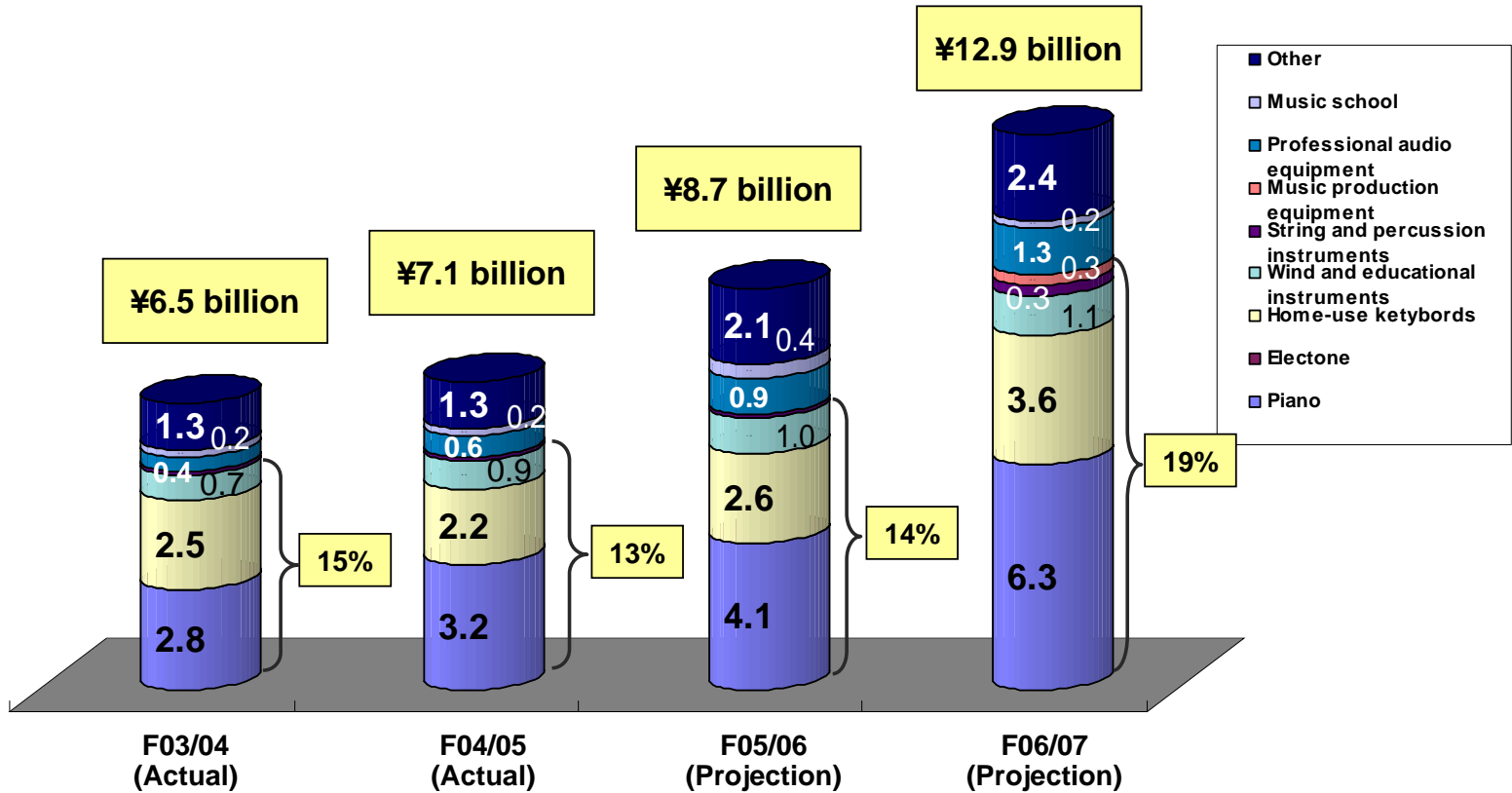


■ Step up initiatives in the growing commercial audio (CA) business

- Established commercial audio support center for the EU (in London, April 2005)
- Training professional staff teams in each country
- Conducting training to improve product knowledge

■ Expand sales channels to include mass sales of electronic keyboards (EKB)

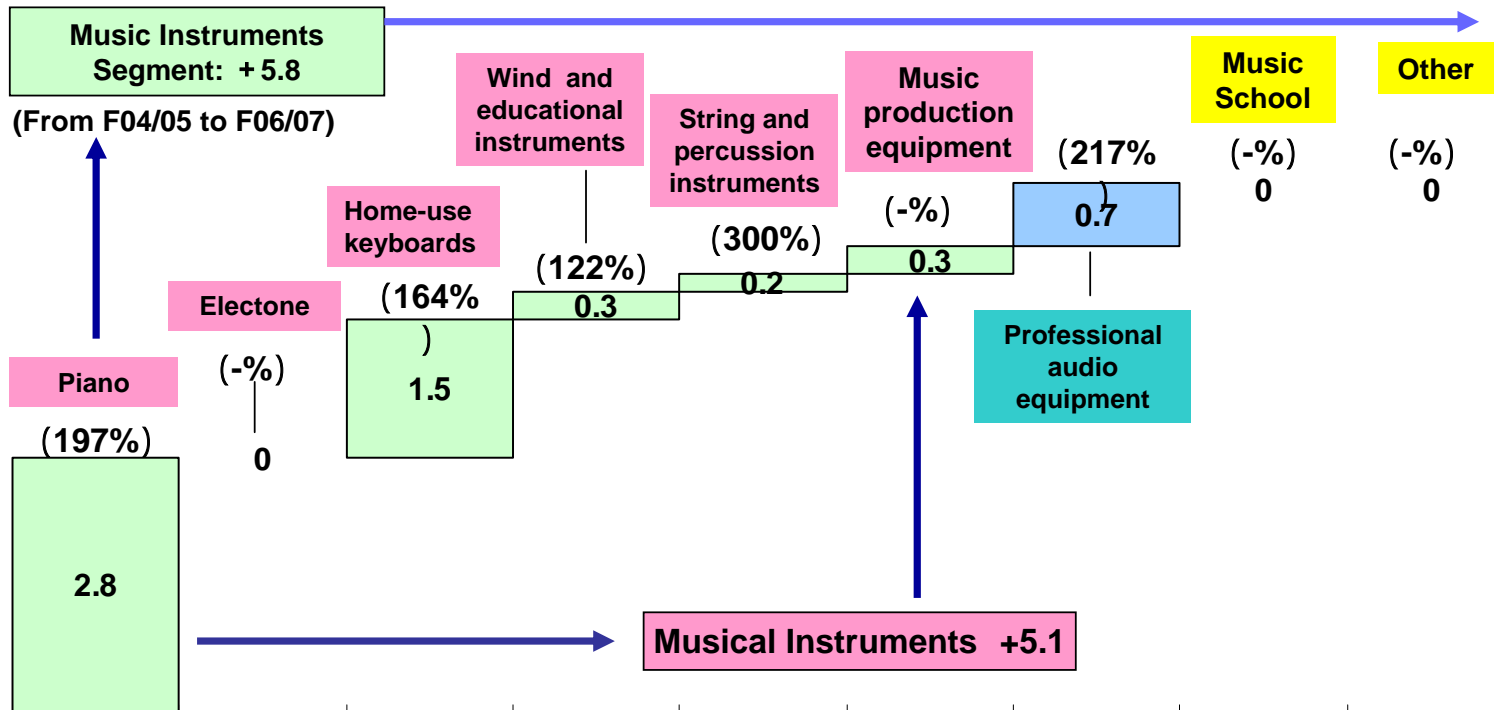
Sales Plan by Product (Chinese Market)



• China recording rapid market expansion, especially in the piano market

Sales Expansion Plan by Product (Chinese Market)

(Billions of Yen)



*Figures in parentheses represent changes from F04/05 to F06/07.

Expand Sales in the Chinese Market



- Accelerate growth through improvement in the business infrastructure
 - Improve human resource capabilities (especially of local staff)
 - Build the YAMAHA brand
 - Establish and strengthen the sales network
 - Enhance manufacturing strengths at Hangzhou Yamaha



YDACC in Beijing



Strategy for strengthening the sales network of pianos in China

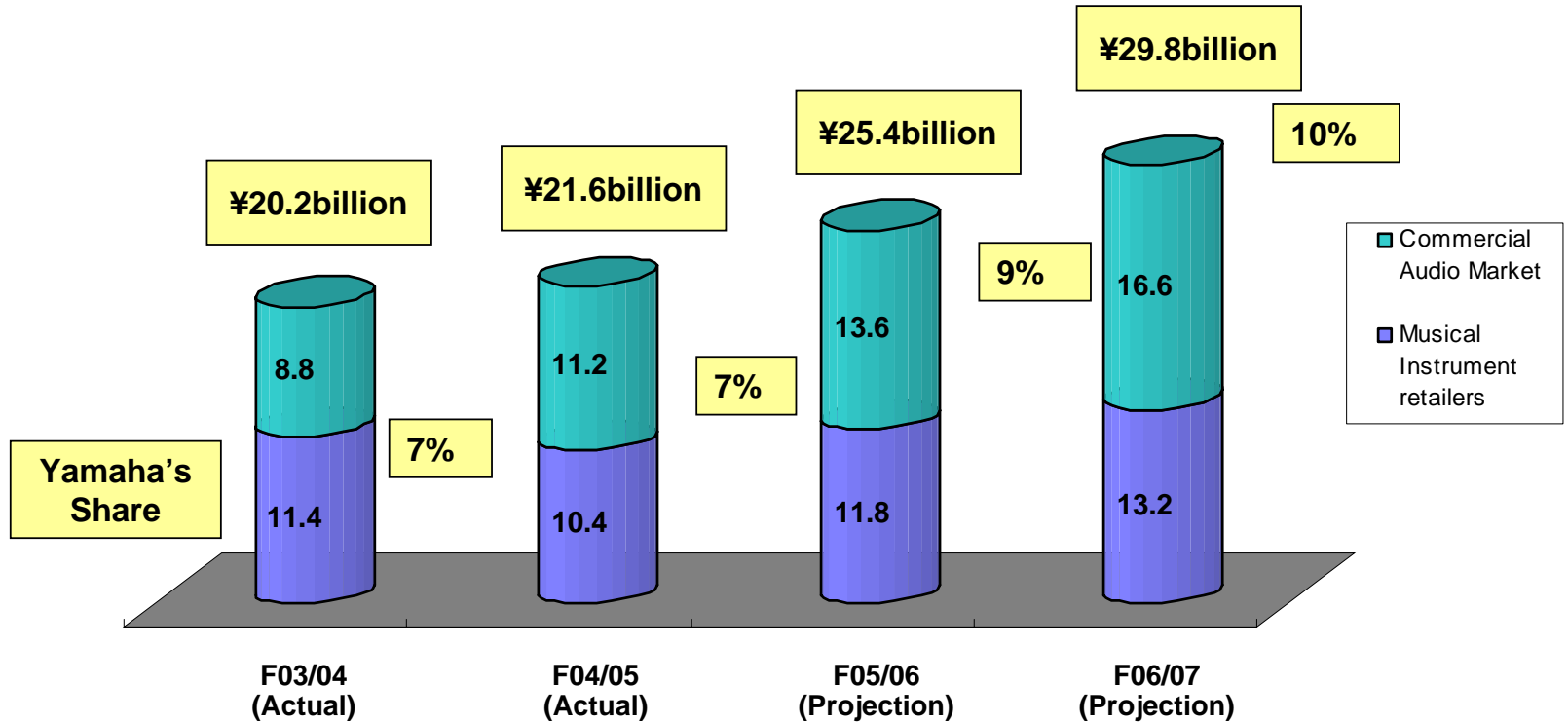
- Opened the first piano shop in Shanghai
- Opening 40 shops nationwide by the end of July



Other Growth Markets

- **Korea: Expected to grow ¥0.5 billion, from ¥4.0 billion in F04/05 to ¥4.5 billion in F06/07**
 - As demand for pianos recedes, Yamaha will strengthen its brand and artist relations
 - Establish Artist Center
 - Expand the music school business
- **The Gulf States: Expected to grow ¥0.4 billion, from ¥4.1 billion to ¥4.5 billion**
 - Step up marketing in major markets, including Iran, UAE, Saudi Arabia
 - Strengthen the sales base in markets under development, including the CIS and Khazafstan
- **Russia and Eastern Europe: Expected to grow ¥1.8 billion, from ¥5.4 billion to ¥7.2 billion**
 - Russia: Established a representative office in April 2005; will expand sales through developing a marketing base
 - Eastern Europe: Will expand sales by establishing a direct marketing base in Vienna
- **India: Expected to grow ¥0.4 billion, from ¥1.6 billion to ¥2.0 billion**
 - Will build a sales network along with implementation of market opening measures

Sales Plan of Professional Audio Equipment

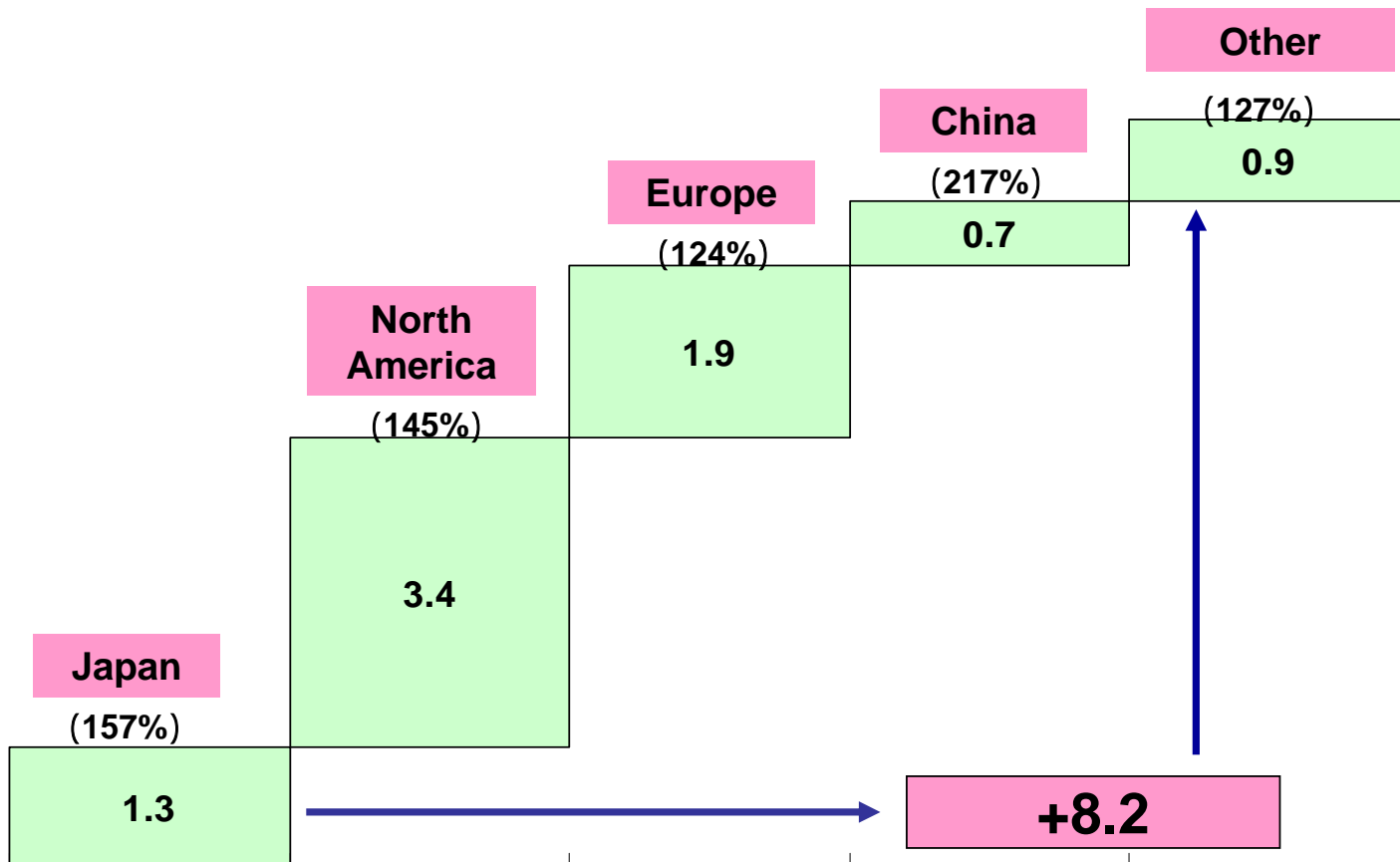


■ Scale of targeted market is expected to increase steadily at the level of ¥300 billion. Trends for digitalization, systemization and networking is accelerating.

Sales Expansion Plans of Professional Audio Equipment by Region



(Billions of Yen)



(From F04/05 to F06/07)

*Figures in parentheses represent changes from F04/05 to F06/07.

Growth Strategy for the Professional Audio Equipment Market



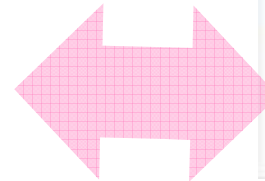
- **Make the transition from a "mixer manufacturer" to a "solutions provider" for the professional audio equipment market**
- **Establish a strong competitive position in applications**
- **Become a "one-stop" supplier for offering solutions**
- **Get closer to the market**
 - **Establish support centers in Europe and North America**
- **Achieve results through M&A strategy**
 - **Steinberg**
 - **NEXO**



Acquisition of Steinberg



Software

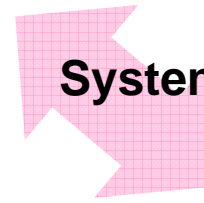
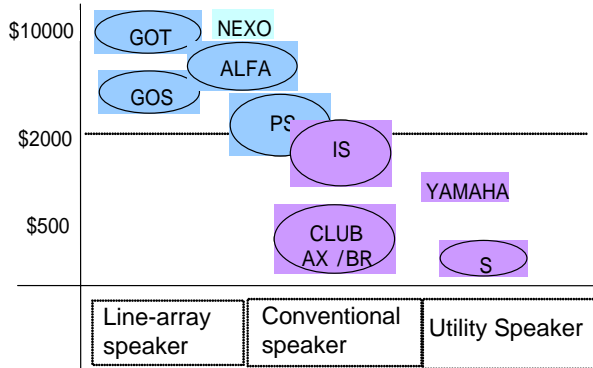


Studio Connections

- Seamless technological fusion for musica production software and hardware (YAMAHA's digital mixers and synthesizers + Steinberg's software)
- Expand sales in the market for commercial music production software
 - Enliven the musical production market and expand market share
 - Expand sales through YAMAHA's sales channels in North America
 - Cover customers from hobby users to commercial studios

Impact of the Acquisition (Compared with March 2005, ¥ billion)		
	March 2007	March 2009
Sales	¥4.0	¥4.5

Technology Alliance with and Investment in NEXO



System solution

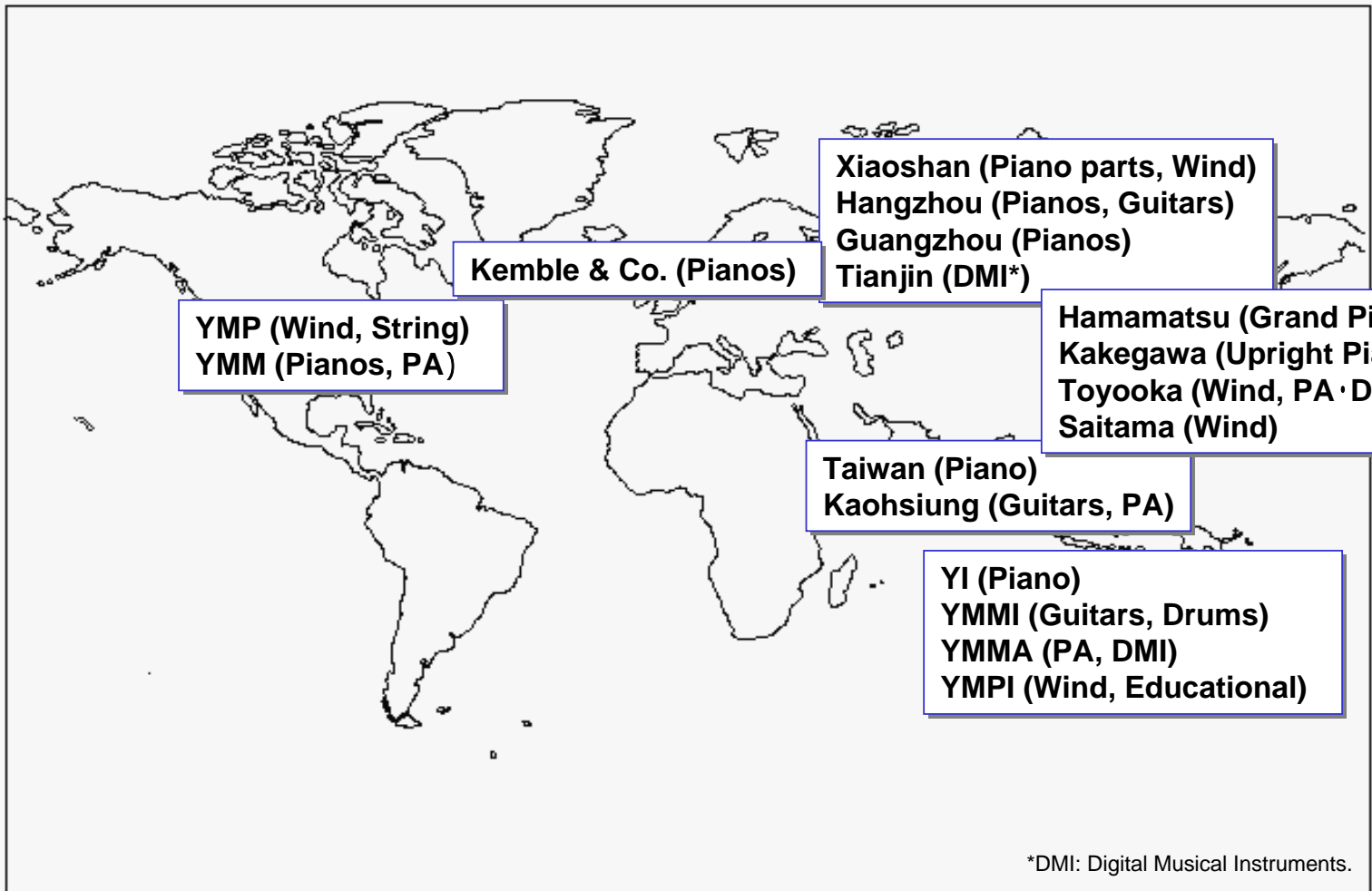


- **Joint development of products for system solutions**
(YAMAHA digital mixers/amplifiers + NEXO speakers)
- **Full-scale entry into the commercial speaker business**
Development of speakers for the YAMAHA sales network
Acquired sales right for NEXO products in North America

Impact of the Alliance and Investment (Compared with March 2005, ¥ billion)		
	March 2008	March 2010
Sales	¥4.0	¥6.0

III. Cost Reduction Measures

Musical Instruments Production Network



*DMI: Digital Musical Instruments.

Manufacturing Base Strategy by Product Group of Musical Instruments



Expanding production innovation as mother factories

Group	Market	Manufacturing Base		
		Japan	China	Indonesia
Electronic musical instruments	Stable	○ Evolution of cell manufacturing system	○	○
PA	Expand	○ Evolution of cell manufacturing system	—	△
Piano	Gradual decline (China growing)	○	△ Start-up and development at Hangzhou YAMAHA	○
Wind and educational instruments	Stable	○	△ Expansion of production, nurturing of skill at Xiaoshan YAMAHA	○
Guitars	Stable (YAMAHA share low)	△ Accumulate technology/skill in Japan	△ Start-up and development at Hangzhou YAMAHA	○
Drums	Stable (YAMAHA share low)	○ Expand share through differentiation	—	○

YSD-50		
F04/05	F05/06	F06/07
Strengthen production capability in Japan, China, and Indonesia		
Expand Electone production by establishing cell production	Selection and concentration of production items (low-price Clavinova, high-price PK)	
Concentrating low-price production of PA mixers (including OEM) in Indonesia		
Started Production at Hangzhou YAMAHA for Chinese market	Expand production	Export to the U.S. and European markets
Recorder production shifted to Toyooka Consolidating high-grade production factories	Selection and concentration of production base in Japan Saitama Factory concentrated on production of low-pitched brass instruments	
Started Production at Hangzhou YAMAHA		Expand production items
Cost down of hardware procurement		

○ Developed bases △ Under development — No corresponding

Establishment of New Bases in China



**Hangzhou Yamaha Musical Instruments Co.,Ltd.
(Established in November 2004)**

Establishment of New Bases in China (2)



Piano production at Hangzhou Yamaha



Guitar production at Hangzhou Yamaha

Improving profitability of Musical Instruments and Plans Going Forward



Decrease in production costs

(¥100 million)

Cost down Effects	YSD 50 Estimated effects (F03/04 vs.F06/07)	F04/05 Actual effects (against previous year)	F05/06 Estimated effects (against previous year)	F06/07 Estimated effects (against previous year)	3-Year Compound effects (against previous year)
Fixed costs	16.7	5.0	8.2	5.2	18.4
Various costs	32.0	12.8	9.0	10.2	32.0
Total	48.7	17.8	17.2	15.4	50.4

Amid a trend toward increases in production in the first year of the plan, we proceeded with cost reductions and were able to absorb ¥620 million in higher materials costs.

Personnel Composition

(Yamaha Corporation only)

(Number of employee)

Production	(162)	(51)	(16)	(60)	(127)
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Strengthening human resources

- ✓ Recruit personnel with necessary skills
- ✓ Training for core personnel
- ✓ Installing an educational program for managers in the new plant in China

■ Substantial improvement in overhead productivity

- ✓ Production process reform for improving productivity, operational process reform
 - ✓ Organization reform of wind, string, and percussion instruments for integration effect
- YSD50's goal for improvement in efficiency through reforms in personnel

+¥3.6 billion for 3 years

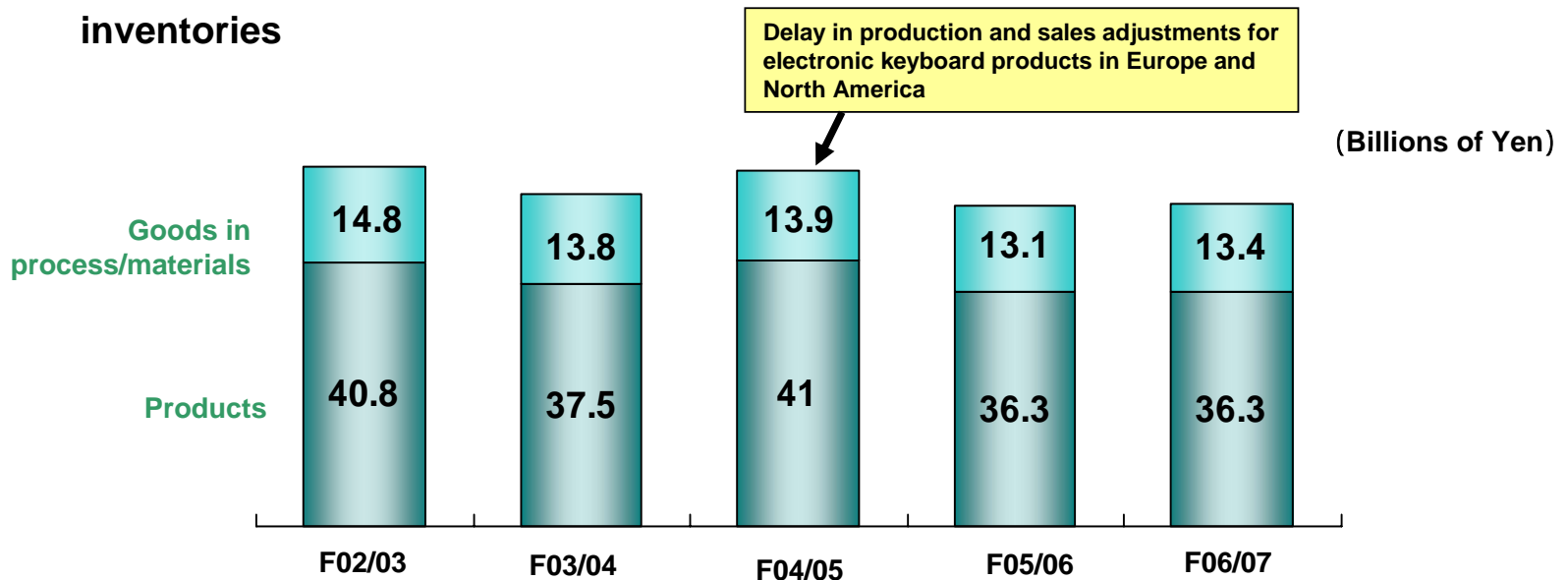
(Production: ¥1.7 billion + Domestic sales & other: ¥1.9 billion)

Reduction in Inventories due to SCM



- **Strict observance of delivery schedules**
 - Make weekly delivery response possible
- **Reduce lead times**
 - Pianos: Reduce 3 months
 - Other: Reduce 2 months
- **Elimination of dormant/excess inventories**

- **Establish methods of global inventory management**
 - Develop supply system responding to orders
 - Pull inventories of sales companies to the Head Office
 - >Goal of one months inventory overhead for sales companies

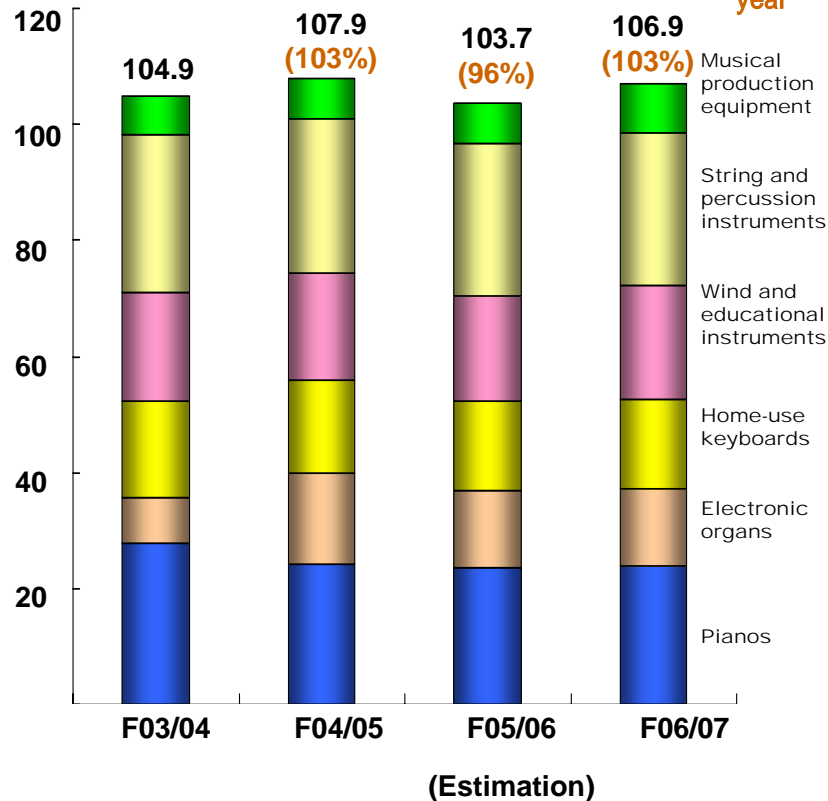


Appendix

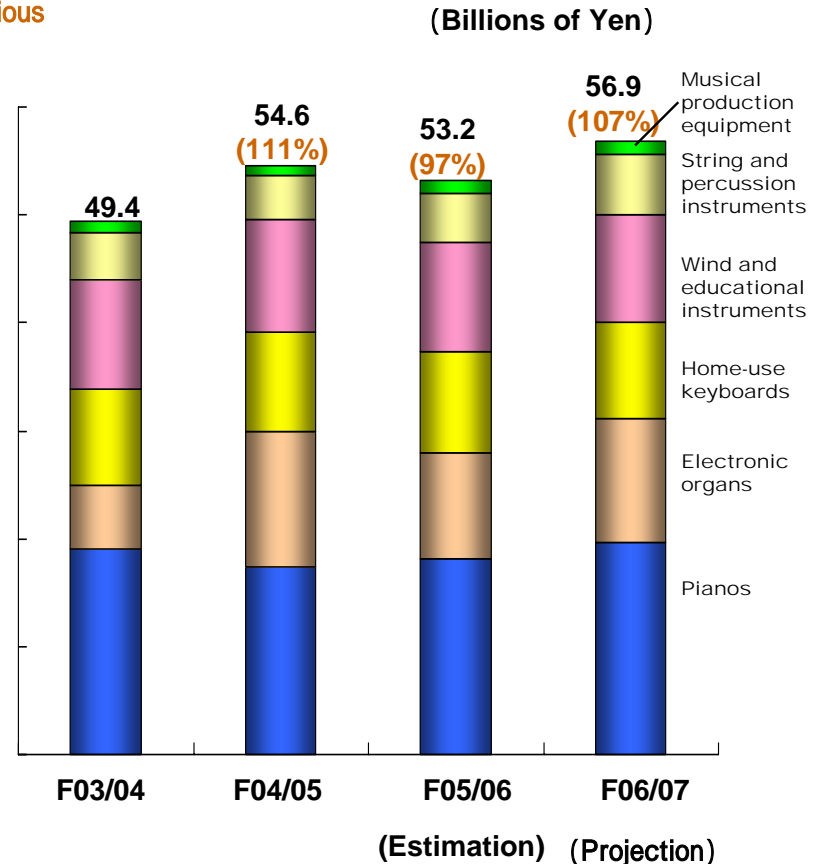
Musical Instrument Sales in the Japanese Market



Wholesale Amount (By category, excluding PA)



YAMAHA's Wholesale Amount (By category, excluding PA)



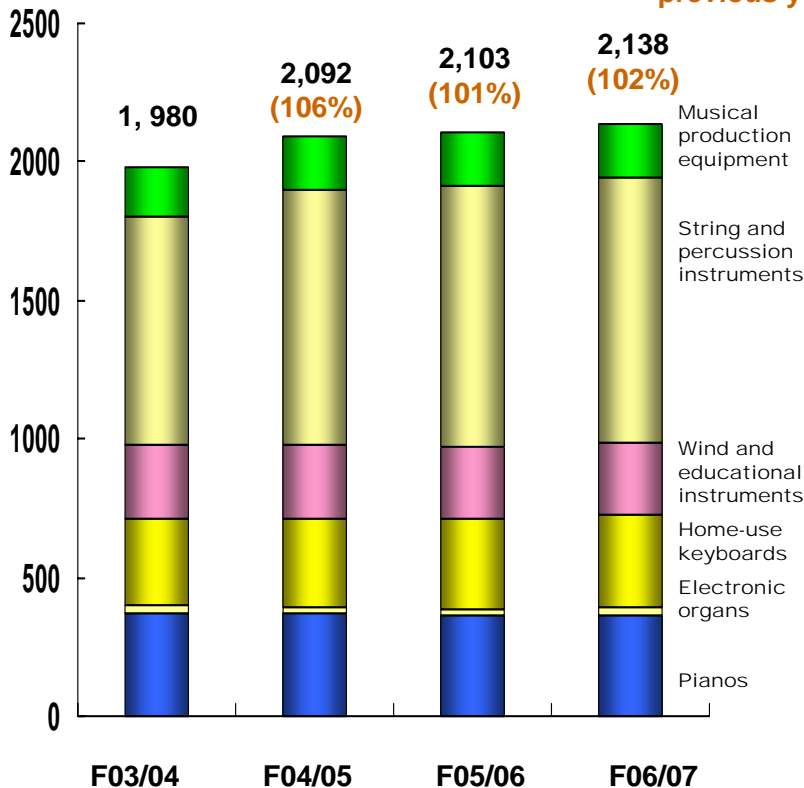
Musical Instrument Sales in the U.S. Market



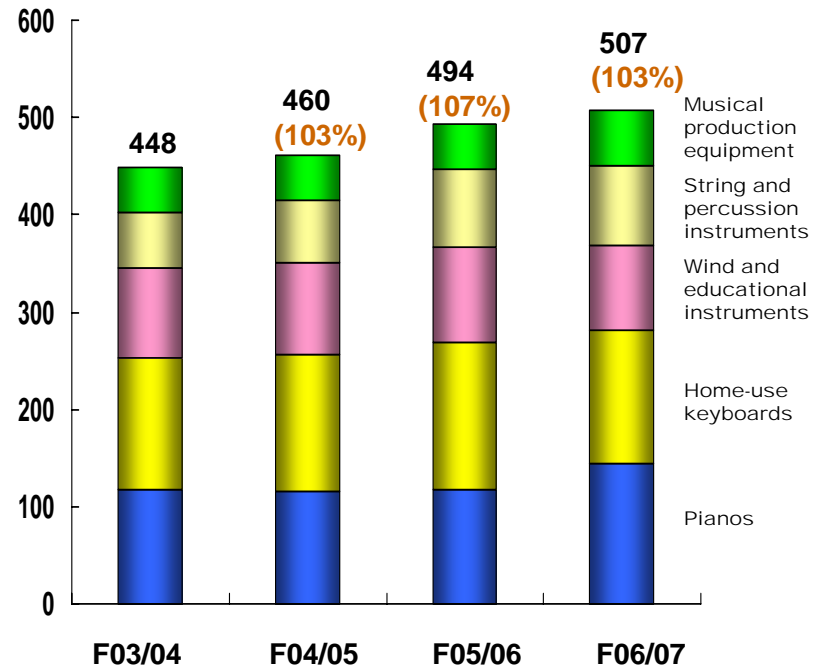
Wholesale Amount
(By category, excluding PA)

YAMAHA's Wholesale Amount
(By category, excluding PA)

% Change from the previous year



Wholesale Amount
(Millions of U.S. Dollars)



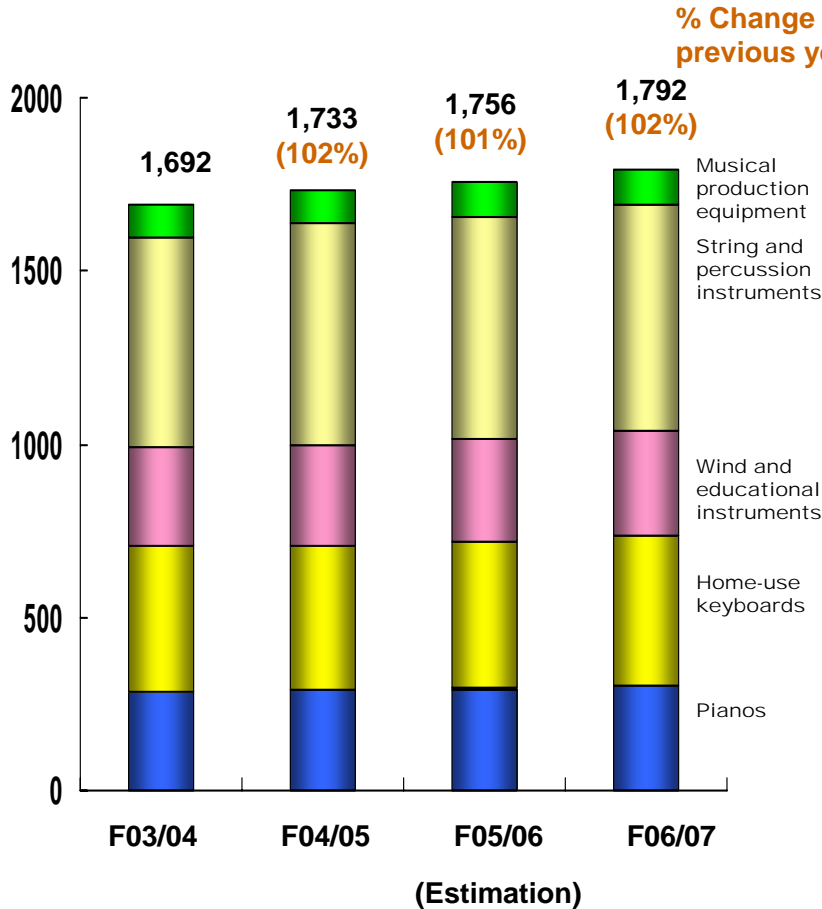
(Estimation)

(Estimation) (Projection)

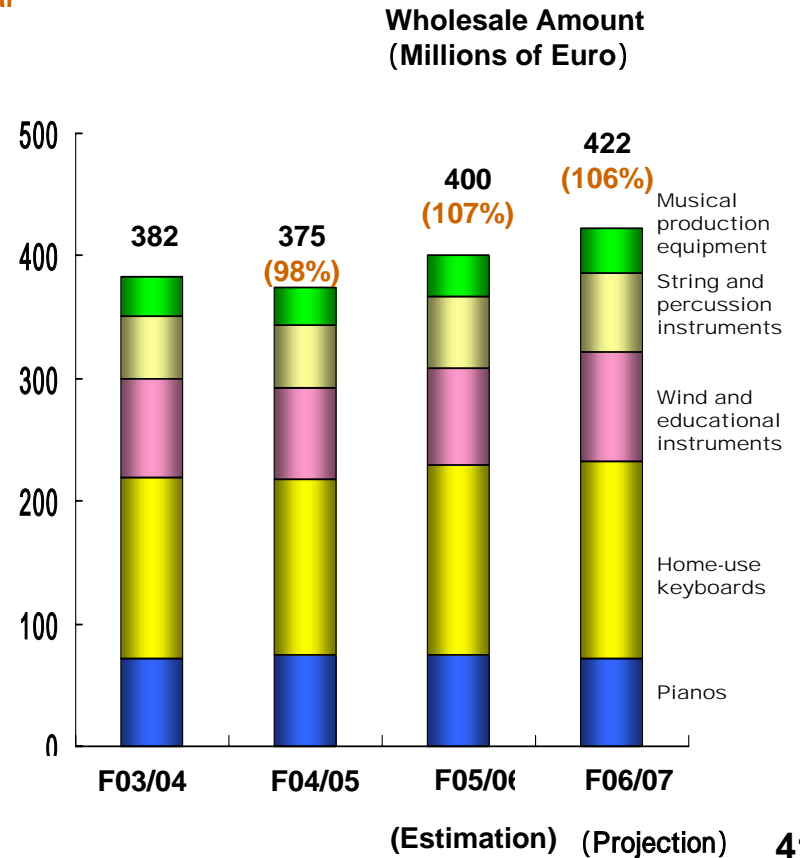
Musical Instrument Sales in European Market



Wholesale Amount
(By category, excluding PA)



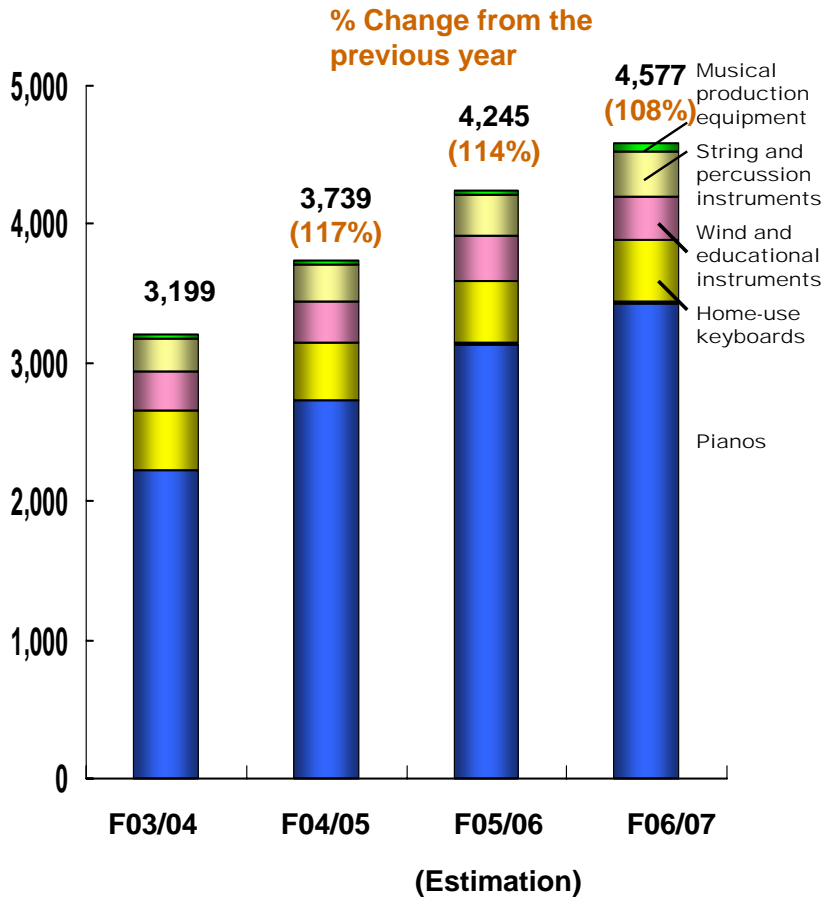
YAMAHA's Wholesale Amount
(By category, excluding PA)



Musical Instrument Sales in Chinese Market



Wholesale Amount
(By category, excluding PA)



YAMAHA's Wholesale Amount
(By category, excluding PA)

