YAMAHA CORPORATION
Briefing on the Musical Instruments Business

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Managing Director

Hiroo Okabe
Director

July 10, 2006
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

 FY2004.3 FY2005.3 FY2006.3

Actual Actual Actual

Net Sales

Operating Income

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

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2005.3</th>
<th>FY2006.3</th>
<th>FY2007.3 projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>42.6</td>
<td>43.3</td>
<td>44.9 (+1.6)</td>
</tr>
<tr>
<td>Content</td>
<td>4.3</td>
<td>4.8</td>
<td>4.4 (-0.4)</td>
</tr>
<tr>
<td>English schools</td>
<td>3.6</td>
<td>4.1</td>
<td>4.3 (+0.2)</td>
</tr>
<tr>
<td>Music schools</td>
<td>40.7</td>
<td>41.7</td>
<td>43.0 (+1.3)</td>
</tr>
<tr>
<td>String &amp; percussion instruments</td>
<td>17.8</td>
<td>18.1</td>
<td>19.3 (+1.2)</td>
</tr>
<tr>
<td>Wind &amp; educational instruments</td>
<td>41.0</td>
<td>43.6</td>
<td>44.2 (+0.6)</td>
</tr>
<tr>
<td>Professional audio equipment</td>
<td>21.6</td>
<td>26.1</td>
<td>29.7 (+3.6)</td>
</tr>
<tr>
<td>Electronic instruments</td>
<td>67.2</td>
<td>70.3</td>
<td>74.1 (+3.8)</td>
</tr>
<tr>
<td>Electones</td>
<td>13.3</td>
<td>8.9</td>
<td>7.7 (-1.2)</td>
</tr>
<tr>
<td>Pianos</td>
<td>50.5</td>
<td>53.2</td>
<td>53.4 (+0.2)</td>
</tr>
</tbody>
</table>

Operating Income

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2005.3</th>
<th>FY2006.3</th>
<th>FY2007.3 projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>14.2</td>
<td>14.1</td>
<td>19.0</td>
</tr>
<tr>
<td>Europe &amp; U.S.</td>
<td>14.2</td>
<td>14.1</td>
<td>19.0</td>
</tr>
<tr>
<td>China</td>
<td>14.2</td>
<td>14.1</td>
<td>19.0</td>
</tr>
<tr>
<td>Other Asia, Latin America</td>
<td>14.2</td>
<td>14.1</td>
<td>19.0</td>
</tr>
</tbody>
</table>

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.
Forecast for FY2007.3

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

Change from previous year

Sales by Product

Billions of yen

Pianos
Electones
Wind & educational instruments
Professional audio equipment
Electronic instruments
String & percussion instruments
Music schools
English schools
Content
Other

FY2006.3 actual
+¥10.9 billion
FY2007.3 projection

314.1
325.0

+¥10.9 billion
Worldwide Sales Growth by Region

Change from previous year

Sales by Region

Billions of yen

Japan: -3.0
North America: 7.0
Europe: 2.6
China: 1.7
Other: 2.6

FY2006.3 actual: 314.1
FY2007.3 projection: 325.0

Change from previous year: +¥10.9 billion
Breakdown of Operating Income

Change from previous year

Billions of yen

Operating Income

Impact of exchange rates

Impact of exchange rates

Gross profit from sales

Decrease in manufacturing cost

Unrealized profit on inventory

SG&A expenses

+¥4.9 billion

FY2006.3 actual

FY2007.3 projection

14.1

2.2

1.4

-0.5

1.1

19.0

Billions of yen

Change from previous year

1.1

Operating Income

19.0

FY2007.3 projection

+¥4.9 billion

FY2006.3 actual

Impact of exchange rates

Gross profit from sales

Decrease in manufacturing cost

Unrealized profit on inventory

SG&A expenses
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

<table>
<thead>
<tr>
<th></th>
<th>YSD50 3-year plan</th>
<th>FY2004.3 actual</th>
<th>FY2005.3 actual</th>
<th>FY2006.3 actual</th>
<th>FY2007.3 projection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td></td>
<td>293.4</td>
<td>302.6</td>
<td>314.1</td>
<td>325.0</td>
</tr>
<tr>
<td><strong>Increase</strong></td>
<td>31.6</td>
<td>9.2</td>
<td>*</td>
<td>11.5</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td></td>
<td>10.5</td>
<td>14.2</td>
<td>14.1</td>
<td>19.0</td>
</tr>
<tr>
<td><strong>Improvement</strong></td>
<td>8.5</td>
<td>3.7</td>
<td>-0.1</td>
<td>4.9</td>
<td></td>
</tr>
</tbody>
</table>

*Including impact of exchange rates: 8.3

### Initial Projections

<table>
<thead>
<tr>
<th></th>
<th>YSD50 3-year plan</th>
<th>FY2004.3 projection</th>
<th>FY2005.3 projection</th>
<th>FY2006.3 projection</th>
<th>FY2007.3 projection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td></td>
<td>296.0</td>
<td>303.0</td>
<td>317.0</td>
<td>334.0</td>
</tr>
<tr>
<td><strong>Increase</strong></td>
<td>38.0</td>
<td>7.0</td>
<td>14.0</td>
<td>17.0</td>
<td></td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td></td>
<td>12.0</td>
<td>15.5</td>
<td>22.0</td>
<td>31.0</td>
</tr>
<tr>
<td><strong>Improvement</strong></td>
<td>19.0</td>
<td>3.5</td>
<td>6.5</td>
<td>9.0</td>
<td></td>
</tr>
</tbody>
</table>
## Breakdown of Improvement in Income

### Progress in increasing income and projections for FY2007.3

<table>
<thead>
<tr>
<th>Operating income</th>
<th>YSD50 3-year plan</th>
<th>FY2005.3 actual</th>
<th>FY2006.3 actual</th>
<th>FY2007.3 projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in sales/ improvement in gross margins</td>
<td>3.2</td>
<td>2.6</td>
<td>-1.4</td>
<td>2.0</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>0.0</td>
<td>-1.7</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Reforms in manufacturing</td>
<td>1.8</td>
<td>1.3</td>
<td>-0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Reforms in personnel composition</td>
<td>3.5</td>
<td>1.5</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8.5</strong></td>
<td><strong>3.7</strong></td>
<td><strong>-0.1</strong></td>
<td><strong>4.9</strong></td>
</tr>
</tbody>
</table>

### Initial Projections

<table>
<thead>
<tr>
<th>Operating income</th>
<th>YSD50 3-year plan</th>
<th>FY2005.3 projection</th>
<th>FY2006.3 projection</th>
<th>FY2007.3 projection</th>
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<tbody>
<tr>
<td>Growth in sales/ improvement in gross margins</td>
<td>15.0</td>
<td>2.4</td>
<td>5.8</td>
<td>6.8</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>-2.8</td>
<td>-1.5</td>
<td>-1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Reforms in manufacturing</td>
<td>3.2</td>
<td>1.3</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Reforms in personnel composition</td>
<td>3.6</td>
<td>1.3</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19.0</strong></td>
<td><strong>3.5</strong></td>
<td><strong>6.5</strong></td>
<td><strong>9.0</strong></td>
</tr>
</tbody>
</table>

Positive figures show increased income, while negative figures show decreased income. Reforms in manufacturing include impact of changes in capacity utilization and materials prices.
Progress in Implementing YSD50

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 targets: 334.0 billion yen
New projection for FY2007.3: 325.0 billion yen

-9.0 billion yen gap

Pianos: -5.6
Electones: -4.5
Electronic instruments: 1.7
Professional audio equipment: -0.1
Wind & educational instruments: 5.7
String & percussion instruments: -7.4
Music schools: -0.3
English schools: 0.5
Content: -1.0
Other: 2.0

Steinberg, etc.
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

YSD50: 334.0

- Japan: -13.2
- North America: 2.9
- Europe: 1.9
- China: -2.3
- Other: 1.7

New projection for FY2007.3: 325.0

Gap: -¥9.0 billion
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.
Sales Growth in the Japanese Market

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

Sales by Product in FY2007.3

YSD50 targets: 147.0 billion yen
New projection for FY2007.3: 133.8 billion yen

- Pianos: -3.0 billion yen
- Electones: -4.5 billion yen
- Professional audio equipment: -1.2 billion yen
- Electronic instruments: -1.2 billion yen
- Wind & educational instruments: -0.7 billion yen
- String & percussion instruments: 2.0 billion yen
- English schools: -1.2 billion yen
- Music schools: 0.5 billion yen
- Content: -2.4 billion yen
- Other: 130 billion yen

Total sales gap: ¥13.2 billion
Sales Growth in the North American Market

- 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

- 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

- Accelerate growth of professional audio business
  - Established Yamaha Commercial Audio Systems Inc.
  - Started distribution of Nexo S.A. products in North America.
The gap between YSD50 targets and new projection for FY2007.3

Sales by Product in FY2007.3

Billions of yen

YSD50 74.4 billion yen

new projection for FY 2007.3 72.8 billion yen

(After adjustment for impact of exchange rates)

+¥2.9 billion

Pianos -2.0
Electronic instruments 1.3
Professional audio equipment 0.5
Wind & educational instruments 3.1
String & percussion instruments -3.3
Music schools 0.2
Other 3.1

77.3

new projection for FY2007.3

Sales Growth in the North American 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)
Sales Growth in the European Market

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

Sales by Product in FY2007.3

<table>
<thead>
<tr>
<th>Product</th>
<th>Billions of yen</th>
<th>YSD50</th>
<th>New Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pianos</td>
<td>1.4</td>
<td>63.3</td>
<td>65.2</td>
</tr>
<tr>
<td>Electronic instruments</td>
<td>-0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional audio equipment</td>
<td>0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wind &amp; educational instruments</td>
<td>-0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>String &amp; percussion instruments</td>
<td>0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Music schools</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>63.3</td>
<td>65.2</td>
</tr>
</tbody>
</table>

+¥1.9 billion

(After adjustment for impact of exchange rates)
Sales Growth in the Chinese Market

- **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

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Yamaha's Shanghai center (music school)

Hangzhou plant, China
Sales Growth in the Chinese Market

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

Sales by Product in FY2007.3

YSD50 new projection for FY2007.3

-¥2.3 billion

YSD50 12.9 billion yen

new projection for FY2007.3 9.9 billion yen

(After adjustment for impact of exchange rates)

Billions of yen

FY2004.3 FY2005.3 FY2006.3 FY2007.3

12.9 billion yen

Pianos Electones Electronic instruments Professional audio equipment Wind & educational instruments String & percussion instruments

-1.4 0.1 -1.1 0.1 0 0

10.6

YSD50

new projection for FY2007.3
Sales Growth in Other Markets

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
Sales Growth in Professional Audio Equipment

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

Sales by Region in FY2007.3

- Japan - 29.8 billion yen
- North America - 0.5 billion yen
- Europe - (-0.6) billion yen
- Other - 0.7 billion yen

YSD50

new projection for FY2007.3 - 29.7 billion yen

FY2004.3 FY2005.3 FY2006.3 FY2007.3

- ¥0.1 billion
Musical Instruments Production Network

Xiaoshan (Piano parts, wind)
Hangzhou (Pianos, guitars)
Guangzhou (Pianos)
Tianjin (DMI*)
Taiwan (Pianos)
Kaohsiung (Guitars)
Taiwan (Pianos) Kaohsiung (Guitars)
YI (Pianos) YMMI (Guitars, drums)
YMMA (PA, DMI)
YMPI (Wind, educational)
YMP (Wind)
YMM (Pianos, PA)
Kemble & Co. (Pianos)
Hamamatsu (Grand pianos)
Kakegawa (Upright pianos)
Iwata (Piano frames)
Toyoooka (Wind, PA, DMI)
Saitama (Wind)

Yamaha Production Facility Employees (FY2006.3)
Japan: 2,400 (Yamaha employees: 2,000; employees of subsidiaries: 400)
Overseas: 9,200

Black: Yamaha wholly-owned
Blue: Joint venture

*DMI: Digital Musical Instruments
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”

<table>
<thead>
<tr>
<th>Group</th>
<th>Manufacturing Base</th>
<th>Japan</th>
<th>China</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic instruments</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Professional audio equipment</td>
<td>○</td>
<td>—</td>
<td>△</td>
<td>—</td>
</tr>
<tr>
<td>Pianos</td>
<td>○</td>
<td>△</td>
<td>○</td>
<td>—</td>
</tr>
<tr>
<td>Wind &amp; educational instruments</td>
<td>○</td>
<td>△</td>
<td>○</td>
<td>—</td>
</tr>
<tr>
<td>Guitars</td>
<td>△</td>
<td>△</td>
<td>○</td>
<td>—</td>
</tr>
<tr>
<td>Drums</td>
<td>△</td>
<td>—</td>
<td>○</td>
<td>—</td>
</tr>
</tbody>
</table>

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

### Strengthen production capability in Japan, China and Indonesia

<table>
<thead>
<tr>
<th></th>
<th>FY2005.3</th>
<th>FY2006.3</th>
<th>FY2007.3</th>
</tr>
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<tbody>
<tr>
<td><strong>YSD50</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **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**
- **Increase models produced and production volumes in China, Indonesia**
- **Begin integration of Japan bases**
- **Increase factory size, start exports**
- **Investment in enhanced wind instrument production (Xiaoshan, Indonesia)**
- **Selection and concentration of production bases in Japan (Factories for high-grade products, Saitama factory specializing in mid- and low-pitched brass instruments)**
- **Construct new guitar production facility at Hangzhou, increase export volume**
- **Started production at Hangzhou Yamaha (Integration of divisions)**
- **Expand models produced**
- **Strengthen capability to design/produce high-grade products in Japan**
- **Reduce cost of hardware procurement**

---

29
Cost Reductions in Manufacturing: Results and Projections

Cost Reductions

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

Unit: billions of yen

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.
Post-YSD50 Measures

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
Post-YSD50 Measures

- **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

Wholesale Amount
(By category, excluding professional audio equipment)

Yamaha’s Wholesale Amount
(By category, excluding professional audio equipment)

% Change from the previous year

Billions of yen

**Wholesale Amount**

- **Wind instruments**
  - FY2005.3: 108.4 (96%)
  - FY2006.3: 104.1
  - FY2007.3 (Projection): 101.5 (98%)

- **String & percussion instruments**
  - FY2005.3: 108.4 (96%)
  - FY2006.3: 104.1
  - FY2007.3 (Projection): 101.5 (98%)

- **Synthesizers, etc.**
  - FY2005.3: 53.7 (91%)
  - FY2006.3: 48.7 (97%)
  - FY2007.3 (Projection): 47.0 (97%)

- **Portable keyboards**
  - FY2005.3: 53.7 (91%)
  - FY2006.3: 48.7 (97%)
  - FY2007.3 (Projection): 47.0 (97%)

- **Pianos**
  - FY2005.3: 53.7 (91%)
  - FY2006.3: 48.7 (97%)
  - FY2007.3 (Projection): 47.0 (97%)

- **Electronic pianos**
  - FY2005.3: 53.7 (91%)
  - FY2006.3: 48.7 (97%)
  - FY2007.3 (Projection): 47.0 (97%)

- **Electronic organs**
  - FY2005.3: 53.7 (91%)
  - FY2006.3: 48.7 (97%)
  - FY2007.3 (Projection): 47.0 (97%)

- **Pianos**
  - FY2005.3: 53.7 (91%)
  - FY2006.3: 48.7 (97%)
  - FY2007.3 (Projection): 47.0 (97%)
Musical Instrument Sales in the North American Market

**Wholesale Amount**
(By category, excluding professional audio equipment)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wind Instruments</th>
<th>String &amp; Percussion Instruments</th>
<th>Synthesizers, etc.</th>
<th>Portable Keyboards</th>
<th>Electronic Pianos</th>
<th>Electronic Organs</th>
<th>Pianos</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2005.3</td>
<td>282.5 (107%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>302.6</td>
</tr>
<tr>
<td>FY2006.3</td>
<td>302.6 (101%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>304.9</td>
</tr>
<tr>
<td>FY2007.3</td>
<td>304.9 (101%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>304.9</td>
</tr>
</tbody>
</table>

**Yamaha’s Wholesale Amount**
(By category, excluding professional audio equipment)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wind Instruments</th>
<th>String &amp; Percussion Instruments</th>
<th>Synthesizers, etc.</th>
<th>Portable Keyboards</th>
<th>Electronic Pianos</th>
<th>Electronic Organs</th>
<th>Pianos</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2005.3</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60.8</td>
</tr>
<tr>
<td>FY2006.3</td>
<td>60.8 (101%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60.8</td>
</tr>
<tr>
<td>FY2007.3</td>
<td>62.2 (102%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>62.2</td>
</tr>
</tbody>
</table>

% Change from the previous year

- Wind instruments: (107%)
- String & percussion instruments: (101%)
- Synthesizers, etc.: (101%)
- Portable keyboards: (101%)
- Electronic pianos: (101%)
- Electronic organs: (102%)
- Pianos: (102%)

Billions of yen

- FY2005.3: 60.3
- FY2006.3: 60.8
- FY2007.3: 62.2

(Projection)
Musical Instrument Sales in the European Market

<table>
<thead>
<tr>
<th>Wholesale Amount</th>
<th>Yamaha’s Wholesale Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(By category, excluding professional audio equipment)</td>
<td>(By category, excluding professional audio equipment)</td>
</tr>
<tr>
<td>Wind instruments</td>
<td>Wind instruments</td>
</tr>
<tr>
<td>String &amp; percussion instruments</td>
<td>String &amp; percussion instruments</td>
</tr>
<tr>
<td>Synthesizers, etc.</td>
<td>Synthesizers, etc.</td>
</tr>
<tr>
<td>Portable keyboards</td>
<td>Portable keyboards</td>
</tr>
<tr>
<td>Electronic pianos</td>
<td>Electronic pianos</td>
</tr>
<tr>
<td>Pianos</td>
<td>Pianos</td>
</tr>
</tbody>
</table>

% Change from the previous year

<table>
<thead>
<tr>
<th>Billions of yen</th>
<th>Billions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2005.3</td>
<td>FY2006.3</td>
</tr>
<tr>
<td>FY2006.3</td>
<td>FY2007.3</td>
</tr>
<tr>
<td>(Projection)</td>
<td>(Projection)</td>
</tr>
</tbody>
</table>

248.8 (101%) | 252.1 (103%) | 258.5 (103%) | 54.5 (101%) | 55.0 (103%) | 57.8 (105%)
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)

% Change from the previous year

Billions of yen

Wind instruments
String & percussion instruments
Synthesizers, etc.
Portable keyboards
Electronic pianos

Pianos

FY2005.3 FY2006.3 FY2007.3
(Projection)
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.