

## Message from the President



# In Tune for Further Growth

### Reflection on the Previous Medium-Term Management Plan, YMP2016

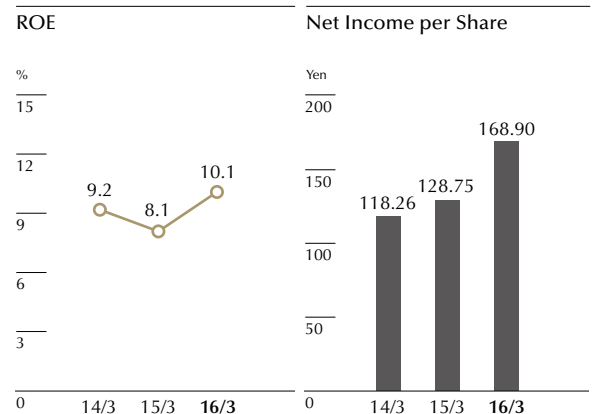
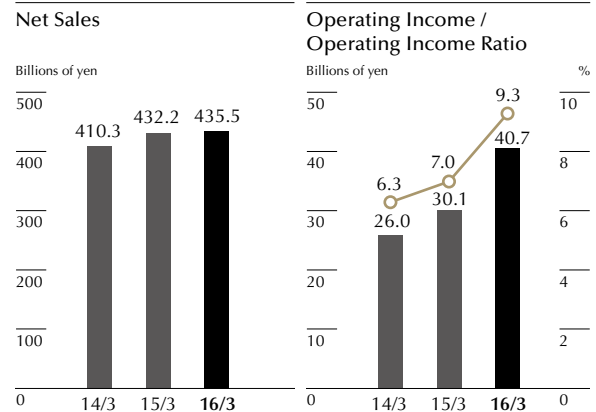
#### Overview

The Company benefited from favorable exchange rates, and we were able to reach the quantitative targets laid out in YMP2016. However, I believe that the solid results we achieved in the plan were the culmination of the initiatives we steadily promoted thus far, and not solely due to these favorable exchange rates.

Looking back on the final year of YMP2016, our sales growth in the Japanese market was on a par with the previous year, much as we had anticipated.

Meanwhile, in the global market, while we expected sales growth in China and emerging countries, our overall performance in these countries was below expectations due largely to stagnant economic conditions in South American countries as well as in Russia. On the other hand, solid sales achieved in Europe and North America—markets in which we anticipated stable growth—were able to offset unfavorable sales in emerging countries, with the strong performance of our business in the United States, in particular, contributing significantly to this. As a result, we recorded robust global sales overall.

Under these conditions, net sales in fiscal 2016 were up 0.8%, to ¥435.5 billion, despite decreased revenue from music schools caused by the transfer of management to the Yamaha Music Foundation. In addition, we realized significant year-on-year increases in operating income and net income, with operating income climbing 34.9%, to ¥40.7 billion, and net income attributable to owners of parent rising 30.9%,



to ¥32.6 billion. These increases were attributable primarily to an improved profit margin in the musical instruments business, which resulted from an improved product model mix, reinforced efforts toward price adjustments, and comprehensive initiatives to lower manufacturing and other costs. Further, the recovery in AV products, which performed poorly in the previous fiscal year due to a delayed response to such market changes as the expansion of network audio products, and the continued healthy sales of PA equipment, which are always anticipated to be a driving force for growth, also contributed to these increases. Although we had already reached YMP2016's numerical targets for net sales, operating income, and operating income ratio by fiscal 2015—a year ahead of schedule—thanks to the positive effects of structural reforms and favorable exchange rates, we continued to make earnest efforts Companywide in the final year of the plan, resulting in our favorable performance for fiscal 2016.

### Accomplishments of Key Business Strategies and Issues Still Remaining

Under YMP2016, we made efforts in four key business strategies. While targets laid out in the “expanding sales in the electronics business domain” and “strengthening cost-competitiveness” strategies were accomplished, issues still remain in the strategies of “accelerating growth in China and emerging countries” and “developing new businesses.”

The first strategy that we made significant accomplishments in was “expanding sales in the electronics business domain.” In this domain, we took various initiatives in the three fields of digital keyboard instruments, professional audio equipment, and information and communications technology (ICT) devices. The ¥151.7 billion we recorded in sales greatly surpassed our target of ¥134.6 billion. The main factor behind this solid performance was the fact that the high fundamental performance of our keyboards and sound generators, especially our digital pianos, received significant praise around the world, allowing us to realize sales growth on a global scale. For professional audio equipment, which will play a major role in our future growth, we advanced the introduction of new digital mixers, primarily into the European market. The positive

feedback we received for these digital mixers should tie into further sales growth. Turning to the consumer audio market, we faced extremely difficult conditions in the previous fiscal year due to the fact that we were unable to fully respond to changes in consumer demand, including the expansion of network audio products. However, we have been launching network-based products since fall 2015 and I believe we will begin to see positive results during the three years of the new medium-term management plan.

The next strategy in which we had success was “strengthening cost-competitiveness.” Even before the initiatives we implemented in YMP2016, we made efforts to strengthen cost-competitiveness, including structural reforms, during the three years of Yamaha Management Plan 125 (YMP125), which began in fiscal 2011. I believe we have seen solid results from these efforts and the efforts made under YMP2016. Specifically, we took initiatives to reduce fixed costs through structural reforms and improve the operating ratio at our manufacturing bases through multi-item production, in addition to working to bring down procurement costs. As a result, we reduced costs by ¥16.8 billion during the three-year period covered by YMP2016, which exceeded our target of ¥15.0 billion.

While we made strides in the aforementioned strategies, there are also strategies where issues still remain. One of those strategies is “accelerating growth in China and emerging countries.” In regard to musical instrument sales in China, I consider the sales growth we saw in musical instruments besides pianos, such as digital musical instruments, wind instruments, and guitars, to be an accomplishment made under this strategy. Despite the success we had in China, the impact of economic stagnation in South American countries and in Russia, as well as a delay in business investments, resulted in overall sales of ¥108.2 billion, which was just slightly lower than our target of ¥110.2 billion. The “developing new businesses” strategy presented us with the future challenge of accelerating the pace of synergy generation with U.S.-based Revolabs, Inc., and Line 6, Inc., which were included in the Company's scope of consolidation in April 2014. In addition, while we established a business incubation system in-house, it will take time for this system to produce positive results.

## Message from the President

## The New Medium-Term Management Plan, NEXT STAGE 12

### Awareness of the Business Environment

While uncertainty remains in the global macroeconomic environment, gradual economic growth is expected over the medium term.

When we look at the global macroeconomic environment, I believe we are seeing a gradual recovery occurring over the medium term. In particular, while South American countries and Russia are currently facing difficult economic conditions, the upcoming three years should set these economies on a course for recovery.

Meanwhile, the spread of Internet of Things (IoT), one of the social phenomena that will likely have a major impact on the Company's business, is accelerating the pace of coordination between people, goods, and things, and I believe that IoT will offer new value and excitement going forward. With the opportunities that IoT present us, I believe it is time to start examining ways to incorporate network technology into our musical instruments and audio equipment. In fact, the possession of network technology, in addition to the acoustic and digital technologies we have maintained over the years, will likely be the key to future growth.

### Outline of NEXT STAGE 12

We have adopted "Becoming an Indispensable, Brilliantly Individual Company" as our medium- to long-term management vision and are implementing the new medium-term management plan, NEXT STAGE 12, to act as a steppingstone toward achieving this vision.

If we reflect on past medium-term management plans, YMP125 (fiscal 2010–fiscal 2013) initially aimed for significant growth. However, with the occurrence of the Lehman collapse during the first year of the plan's implementation, we had no choice but to shift the direction of the plan to focus on restructuring our business. We positioned the three-year period of the following plan, YMP2016 (fiscal 2013–fiscal 2016), as the time to achieve results from the restructuring initiatives we engaged in under YMP125. Accordingly, we shifted the Companywide organization from a business-specific

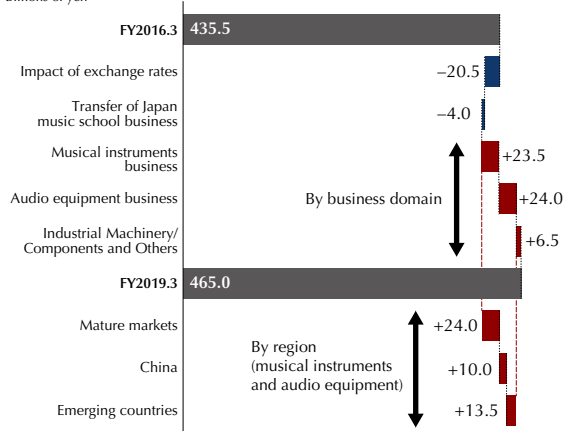
organization to a function-specific one. Under YMP2016, our business performance continued to be supported by the positive impact of exchange rates, thereby allowing us to increase our profits.

As we move forward, we will boost profitability by aiming to further improve the strength of the Yamaha brand. Guided by this ambition, we adopted "Becoming an Indispensable, Brilliantly Individual Company—Boosting Brand Power to Become a Highly Profitable Enterprise" as our medium- to long-term management vision, and, as a future target, we intend to grow into a highly profitable company with an operating income ratio of over 20%. While working toward realizing this vision, we aim to reinforce our brand power under NEXT STAGE 12 and improve our profit

## Net Sales and Operating Income Targets

### Net Sales

Billions of yen



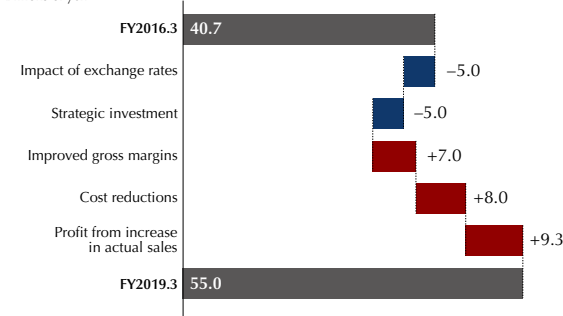
\*Exchange rate assumptions

Fiscal 2016: ¥120 per US\$1; ¥133 per €1

Fiscal 2019: ¥115 per US\$1; ¥125 per €1

### Operating Income

Billions of yen



\*Exchange rate assumptions

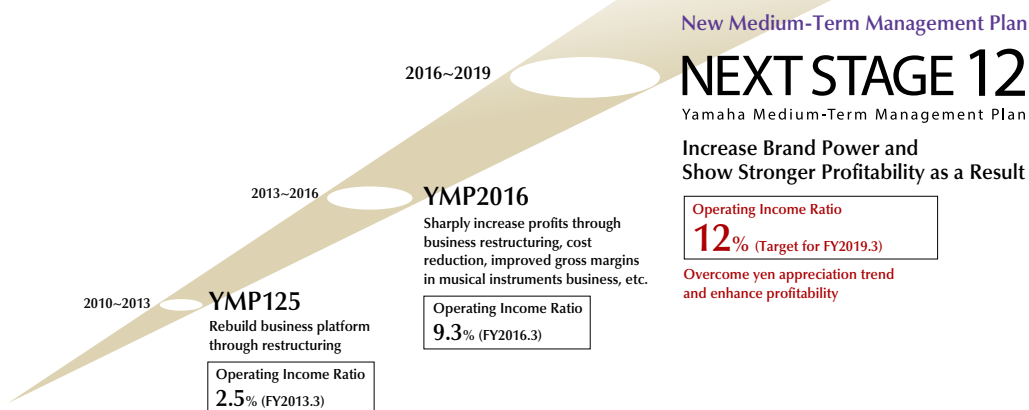
Fiscal 2016: ¥121 per US\$1; ¥134 per €1

Fiscal 2019: ¥115 per US\$1; ¥125 per €1

ratio as a result. Accordingly, our basic strategy is to “consolidate competitive superiority through adding new value and differentiation.” Under YMP2016, we were able to recover profitability, realizing an operating income ratio that exceeded 9%. With NEXT STAGE 12, we are targeting an operating income ratio

of 12% and will work to improve the ratio average 1% each year over the next three years. We will also aim to maintain ROE at the 10% level and EPS at the ¥200 level. The number “12” is included in the title of the new plan to ensure that all employees are aware of our aim to increase the operating income ratio.

## Positioning of the New Medium-Term Management Plan, NEXT STAGE 12



**Become an indispensable,  
brilliantly individual company**  
Boosting brand power to become a highly profitable enterprise  
(operating income ratio of 20%)

### Basic Strategy and Management Targets

Our basic strategy is to “consolidate competitive superiority through adding new value and differentiation.”

Under NEXT STAGE 12, our basic strategy is to “consolidate competitive superiority through adding new value and differentiation.” To succeed in this strategy, we will further strengthen the connection we have with our customers and enhance the attractive quality of our products. At the same time, we will work to constantly provide solutions for new value. Further, we have put into place three specific targets to help us reach the greater target of an operating income ratio of 12%. These targets are to further raise profitability of the musical instruments business, expand the audio equipment business to rival the musical instruments business in the future, and establish a platform for the industrial machinery and components business to act as the third key business domain following musical instruments and audio equipment. Due to the fact that musical instruments are a business to consumer (BtoC) business, and audio equipment is both a BtoC and business to business

(BtoB) business, the primary reason behind positioning the industrial machinery and components business as our third key domain is that we believe it is necessary to expand our BtoB business in order to establish a more balanced customer portfolio.



Message from the President

**Four Key Strategies**

We have adopted four key strategies in NEXT STAGE 12 in order to realize the management targets that we have established.

**1. Develop Products with Distinct Individuality**

We will develop products with new, original value through the fusion of technologies.

I believe that the strength of the Company lies in its extensive and highly specialized technological capabilities that can create a diverse array of products. We possess unique technologies that span a wide range of fields, from materials to networks and communications. By fusing these diverse technologies together, we are offering our customers products with new, original value that cannot be imitated by competitors. One example of this fusion is our hybrid instruments that meld traditional acoustic instruments, which create natural sounds, with digital instruments, which utilize innovative sound generation and signal processing technologies.

Further, we are currently constructing a new R&D building, Building No. 21, on the grounds of our headquarters to complement existing buildings, No. 18 and No. 20. These three buildings will function together as the “Yamaha Innovation Center.” The center will bring together a large number of engineers—primarily at Building No. 21, which is scheduled to be completed

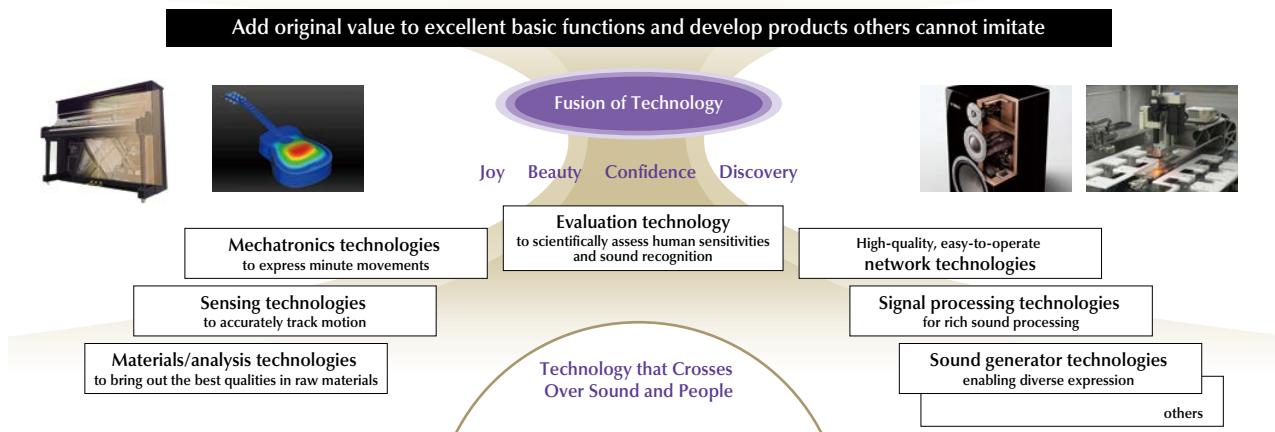
in spring 2018—and provide additional opportunities for further enhancing the efficiency of our development activities, in addition to encouraging exchanges between engineers and collaboration both internally and externally. At the same time, to accelerate the pace of our efforts to fuse technologies, we will work to ensure that the center maintains the necessary environment to facilitate various kinds of high-level research related to sound.

**2. Enhance Customer Interaction**

We will implement various policies geared toward consumers as well as our BtoB customers and corporate clients.

At Yamaha, we have yet to truly emphasize the idea of strengthening and expanding our relationship with customers. Until now, I believe our basic way of thinking was that if we make quality products that leverage our cultivated technologies and know-how then those products will sell. In order to become an enterprise that is valued by society as well as realize sustainable growth, I believe it is necessary for us to change our basic way of thinking. This is due to the fact that, no matter how superior our products are, if we do not properly convey that point to our customers then they will not be interested. Accordingly, it is important for us to reinforce the idea that not only do we need to deliver high-quality products to customers but that we

**Develop Products with Distinctive Individuality**



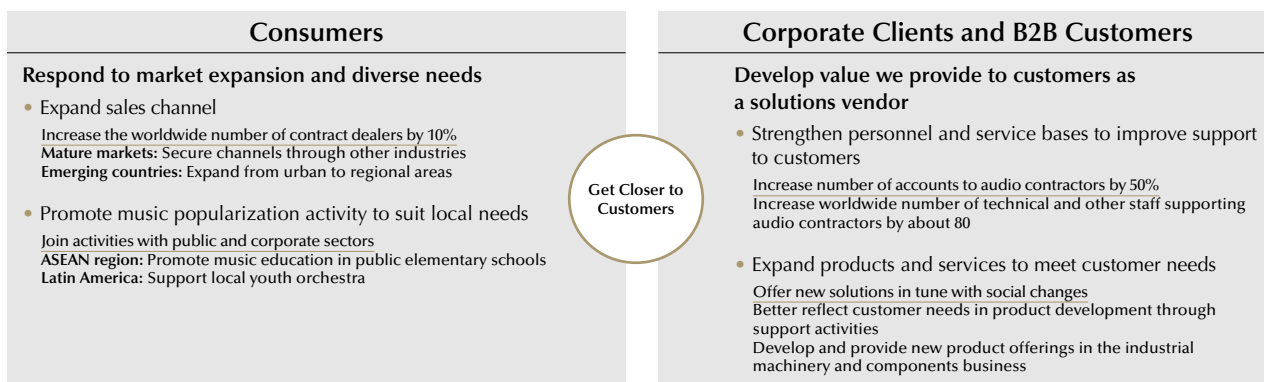


also have to properly convey that quality to them. This kind of reflection on our basic way of thinking led to the formation of this strategy.

Regarding consumers, we aim to develop marketing activities that cater to diverse regions and needs as well as expand our sales network. Specifically, we will acquire new sales channels in mature countries and increase our contract dealers by 10% over the next three years in emerging countries through the expansion

of our sales networks. For our BtoB customers and corporate clients, we will work to fully understand the special characteristics of their business and enhance the value we offer them as a solutions provider. We will also expand our customer base by upgrading our product appeal as well as our ability to provide support. To increase the number of accounts we have with audio contractors, we will reinforce our personnel systems and locations for customer support.

### Forge Stronger, Broader Ties with Customers



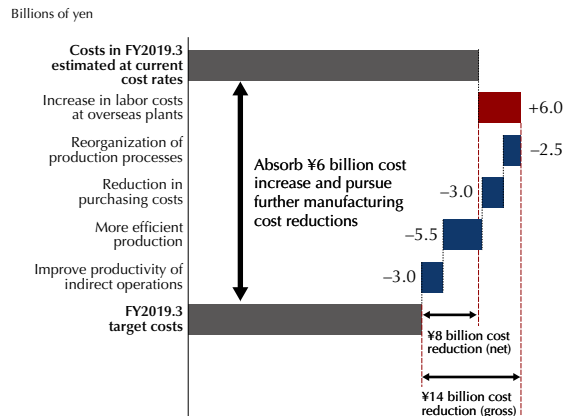
### 3. Continually Reduce Costs

We are moving forward with efforts to reduce costs by ¥8 billion (net) over the three-year period.

Over the three-year period of NEXT STAGE 12, we expect to reduce costs by ¥8 billion (net) through the continuation of cost-reduction efforts we made under YMP2016. We will engage in various initiatives to bring down costs, including the shift from structural reforms in Japan to a sharp focus on our overseas reforms including the reorganization of our production bases. For example, we are already combining functions at several of our 10 overseas productions bases so that they can produce a variety of products, including musical instruments, AV products, and PA equipment, rather than being limited to one production item. This has allowed us to use fixed costs effectively, flexibly formulate plans regarding changes in production, and reinforce our ability to respond to risk. Going forward, we will promote these types of initiatives at other

production bases and work to reorganize production processes to realize a comprehensive production system where manufacturing and assembly are carried out at the same location. In addition, we will introduce new production methods that boost efficiency. In these ways, we will focus our efforts on reducing costs.

#### Continually Reduce Costs



## Message from the President

## 4 Strengthen Global Business Platforms

We will strengthen our human resources development as well as infrastructure.

Overseas sales already account for two-thirds, or 67%, of Yamaha's entire sales, and the Company has 51 overseas locations in 32 countries. In this setting, I believe we must work to reinforce our marketing activities and reduce costs on a global basis. As well, to move forward with enhancing our operating foundation I also feel a need to leverage human resources who are globally

active. To this end, we will manage key Group talent around the world under consistent standards and promote personnel deployment that puts the most qualified person in the position where they can be best utilized. In addition, we will establish roughly 200 key positions at Group companies and promote human resources development in accordance with each succession plan.

Also, we will promote initiatives to optimize our IT, logistics, finance, and administrative functions on a global scale, including establishing regional IT control functions in Europe, the United States, and Japan (Asia), and creating a 24-hour surveillance and service system.

## Develop Human Resources to Support Global Business Operations and Reinforce Infrastructure

### Facilitate international careers

- Establish global core positions (approx. 200) to implement global grading system
- Promote cross-border personnel assignment
- Select candidates for core positions of the next generation and promote development program

### Optimize IT, logistics, finance, and administrative functions on a global scale

- Establish regional IT headquarters in three regions: Europe, U.S., and Japan (Asia)
  - Establish 24-hour surveillance and service system using resources in the three regions
- Build efficient logistics system
  - Aim for logistics cost reductions through optimizing distribution network, improving efficiency of packing and lading, centralizing procurement distribution, and promoting application of preferential tariffs
- Prepare for introduction of International Financial Reporting Standards (IFRS) \* Consider introduction of IFRS in fiscal 2020
  - Aim for improvement in possibilities for international comparability of financial information and uniformity in Group financial information
- Strengthen global support systems of HQ corporate staff
  - Improve management level of regional offices in all countries

Proportion of total sales made overseas

67%

Overseas business bases

51 in 32 countries\*  
(\* As of April 2016)

### Major Business Strategies

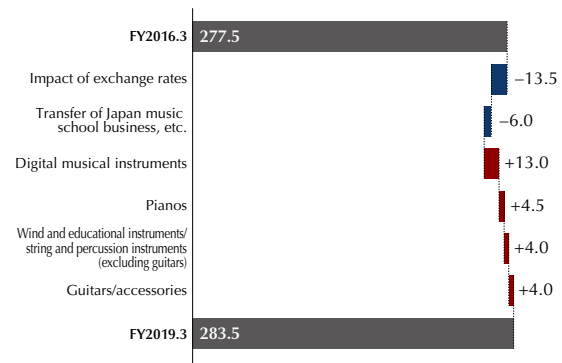
We will engage in a wide range of initiatives in the musical instruments, audio equipment, and industrial machinery and components businesses, which we position as strategic business domains.

## 1. Musical Instruments

Looking at the market for musical instruments from a short-term perspective, we are not likely to see significant sales growth. As such, more than valuing sales, our goal is to establish a highly profitable business with an operating income ratio of 15% level. To realize this goal, we will leverage our global sales system and the scale of our development as a comprehensive musical instruments manufacturer to promote region-specific initiatives.

### Net Sales

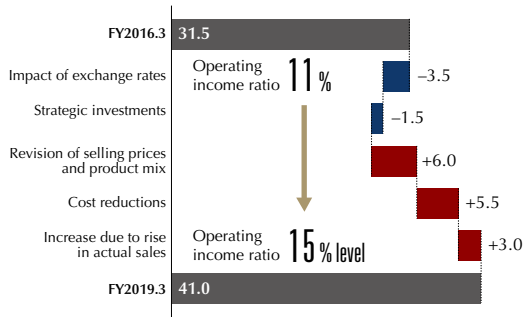
Billions of yen



\* As of fiscal 2017, the soundproof room business which was previously reported as part of the musical instruments segment was included in the audio equipment segment. Accordingly, figures for fiscal 2016 have been adjusted to reflect these segment composition changes.

## Operating Income

Billions of yen



## Reinforcing Brand Appeal

Leveraging the world's largest development scale in the musical instruments industry, we will strengthen our technologies and bolster the competitiveness of our products. We will enhance the essence of acoustic instruments by using our extremely unique evaluation technology for assessing human sensitivities—a core competence of the Company—thereby reaching new heights in sound, expressiveness, and playing comfort. Moreover, we will further evolve the expressive capabilities of our digital instruments by using our expertise in acoustic instruments to create new technology and subsequently fusing that technology with mechatronics and audio technologies. In this way, we will develop musical instruments that are on a level that our competitors are unable to match. In addition, we will continue to offer new excitement by combing smart devices and networks with our digital instruments, which in turn will innovate the value that only these instruments can provide.

We will also work to strengthen our ability to offer brand new ideas for musical instruments through the fusion of acoustic and digital technologies. These ideas will allow us to provide value unheard of before. For example, regardless of the time or place, we can make it possible to experience a genuine acoustic performance, even under a restricted environment. Or, we can draw on our new TransAcoustic™ technology for pianos, which recreates sound by vibrating the piano's soundboard, to realize an acoustic piano performance using digital sounds. In these ways, we will be able to achieve an overwhelming level of product differentiation.

## Region-Specific Initiatives

### China

In China, we aim to increase our share in the piano market. Following the increase in China's GDP per capita, the piano market is shifting to higher price ranges. Accordingly we are increasing our share in the Chinese market. To steadily capture demand for high-value-added piano models going forward, we will work to improve our brand recognition and continuously promote the expansion of our sales networks into provincial cities. In addition, we will take initiatives to grow in the digital piano market, where demand is increasing on a global scale.

### Emerging Countries

Under YMP2016, we made efforts to expand Yamaha Music Schools in emerging countries. However, we were unable to achieve the results we expected. In the new medium-term management plan, while we intend to continue efforts to expand the Yamaha brand through our music schools and increase

opportunities for people to enjoy music, we will not necessarily insist on using methods we have cultivated in Japan. Rather, we will develop educational programs that suit local needs and promote activities to popularize musical activities. Specifically, in the ASEAN region we plan to implement a variety of initiatives such as developing music and extracurricular lessons, cooperating with local schools and public interest corporations to provide musical instruments and dispatch teachers to our existing schools, and offering new programs at these schools. In fact, we have already begun the process of implementing these initiatives and are receiving high praise. Further, we aim to have a total of 100,000 students participate in our Music Time Program, which we carry out in collaboration with music classes at elementary schools, over the next three years.

In addition, we will work together with Yamaha Motor Co., Ltd., to improve brand recognition in countries such as India, Taiwan, Vietnam, and Malaysia, and



Joint display of Yamaha guitar and motorcycle in Malaysia



Yamaha concert at 30th Anniversary of Yamaha Motor in Taiwan



## Message from the President

have already started conducting collaborative initiatives in India. In these initiatives, we dispatch musicians to safe riding programs and mobile stores in regions throughout the country to demonstrate our musical instruments. While providing information on motorcycles to adults at these locations, we offer opportunities for children to enjoy music through these initiatives.

**Mature Countries**

The guitar market is the largest musical instrument market in the world. The reality of the situation is that Yamaha's stake in this market is relatively small compared to the market's overall size. Giving consideration to the fact that consumers often select a guitar based on its brand, we will work to expand our share in the guitar market by taking initiatives ahead of other companies to further establish our brand name. For the first time in 25 years, we launched a new series of electric guitars in January 2016 entitled REVSTAR™, focusing particularly on design and surface finishing. Going forward, we will develop similar products with distinct individuality that are highly differentiated from those of other companies.



Mike Stern



David Bilger

Not restricting ourselves only to guitars, we will focus on improving our brand power by strengthening our relationships with musicians. As further establishing a foundation for the Yamaha brand in mature countries, from where Western musical culture originates, will in turn lead to an increase in the number of Yamaha fans around the world, including emerging countries, we will make wholehearted efforts to do so.

**2. Audio Equipment**

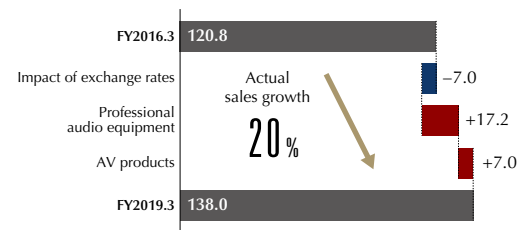
Going forward, we are anticipating significant sales growth in professional audio equipment. Accordingly, we will expand our business domain and work to accelerate the pace for overall growth in audio equipment sales by combining technological innovations with enhanced customer support.

**Professional Audio Equipment**

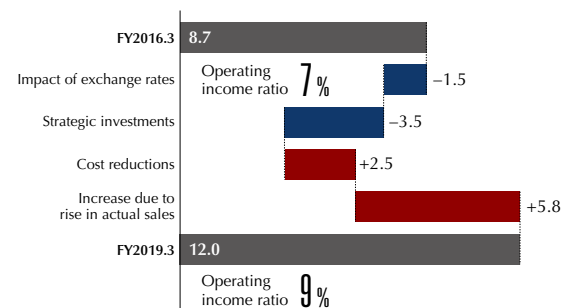
We will accelerate sales growth for professional audio equipment by expanding applications of this equipment for various venues. Until now, we have focused on developing PA equipment, which is used for live concerts, as well as certain products related to installed sound. However, around the world, PA equipment is being used in small-scale commercial spaces, such as cafeterias and retail stores. As such, we began introducing products into this market in the later end of YMP2016 and have been receiving an extremely positive response from consumers. In light of this, we plan to branch out from professional audio equipment domains in which we have been making efforts and promote initiatives that respond to new markets by incorporating communications technology into our products. The market for background music (BGM) at retail stores, where providing a high-value-added atmosphere through sound quality and services is becoming increasingly important, is a specific business domain that we are aiming to enter into further going forward. In addition, the market size for audio equipment for corporate conference rooms is nearing ¥400 billion.

**Net Sales**

Billions of yen

**Operating Income**

Billions of yen



\* As of fiscal 2017, the soundproof room business which was previously reported as part of the musical instruments segment was included in the audio equipment segment. Accordingly, figures for fiscal 2016 have been adjusted to reflect these segment composition changes.

In this market, we will be able to demonstrate our strengths by fusing audio equipment with communications technology. As this domain is expected to expand significantly around the world, including emerging countries, we believe it to be a major business

opportunity. Also, while custom installation of audio equipment in residential spaces has yet to catch on in Japan, it is becoming a major market in countries such as the United States. Accordingly, we aim to increase sales in this market by expanding our product lineup.

## Various Venues

### Live performances/concerts

Market scale after three years

¥550 billion

Market growth in three years

+8%



### Background music in retail stores

Market scale after three years

¥50 billion

Market growth in three years

+12%



### Corporate conference rooms

Market scale after three years

¥400 billion

Market growth in three years

+12%



### Residential spaces (custom installation)

Market scale after three years

¥100 billion

Market growth in three years

+9%



Moreover, we will meld our signal processing technology, which we have long cultivated through our experience with live concerts, with network technology in an effort to realize audio system innovation. Specifically, we will actively apply our PA equipment in the new venues mentioned earlier while working to improve the usability of our audio systems. Also, as a total solution we intend to offer our customers to create enhanced audio systems that integrate audio input (i.e., microphones) and audio output (i.e., speakers) into one complete system by working together and developing alliances with other companies.

In conjunction with expanding the areas in which our PA equipment are used, we will increase our system engineering and sales staff, primarily in Europe, the United States, Japan, and the ASEAN region. At the same time, we plan to increase the number of audio contractors who partner with the Company by 50% with the aim of enhancing customer support. Until now, IT and PA equipment contractors have operated separately from each other. However, as mutual operations with these contractors are likely to increase going forward, we will actively provide them with support in hopes that they develop good relationships with us.

Additionally, I believe that the communications and wireless technology of our subsidiary Revolabs will contribute greatly to the kind of product development for professional audio equipment we are looking to pursue going forward.

### Consumer Audio Products

In the second year of YMP2016, sales of consumer audio products declined sharply, resulting in a poor business performance. However, this decline does not mean that the audio market is shrinking overall. There have been major changes in the demand structure of customers as well as in the way they listen to music. Accordingly, manufacturers who have accurately assessed these changes have been increasing their share in the market, while many other manufacturers, not just Yamaha, have been unable to realize a proper response. In the final year of YMP2016, we launched the strategic product MusicCast™, which realizes an environment where all users can easily enjoy a variety of sound sources in every room of their home, as a new product that responds to the changing needs of the market. Accordingly, we will reinforce the MusicCast brand and focus our efforts on activities to market it, thereby increasing the product's sales.

### 3. Industrial Machinery and Components

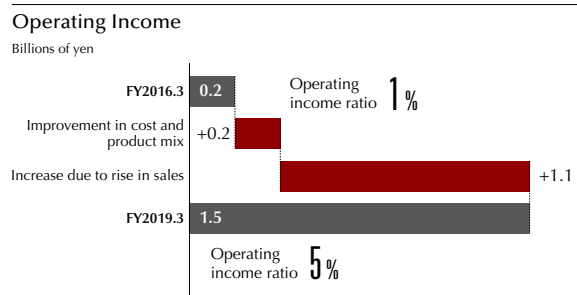
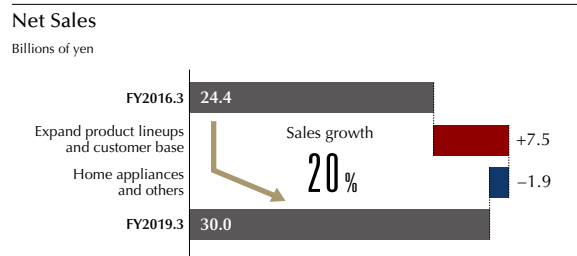
Shifting from a semiconductor manufacturer to a provider of solutions, we aim to develop the industrial machinery and components business so that it can act as our third key business domain.

NEXT STAGE 12 positions industrial machinery and components as a business that we can develop to a level where it will act as our third key business domain. As such, we aim to establish a solid foundation for the business during the three-year period of the plan.

When it comes to expanding this business, we are aware of the importance of leveraging the diverse technologies that we have established over the years. We aim to shift to becoming a solutions provider that offers a total package of products, including not only semiconductors but also the microphones and speakers that are incorporated in the systems, as well as signal processing technology. By making this shift, we will help shorten the time it takes for our clients to commercialize their products. To go into detail, we will begin by developing products geared toward the market for onboard devices and then work to expand our customer base. By their very nature, automobiles make for a rather poor sound environment. As such, we intend to offer automobile and other manufacturers a package of products—including semiconductors—that provide solutions to counter this. At the same time, we are working to develop thermoelectric solutions that help resolve issues related to exhaust gas and fuel consumption. In this way, we will promote initiatives to realize an environmentally friendly motorized society going forward.

In addition, we are moving forward with the development of products for the home healthcare market. Leveraging the sensor technologies that we employ in our musical instruments, we will provide new products and solutions that contribute to a healthy daily life for the consumer. Further, we plan to introduce new products in the industrial equipment market. We will work to launch flexible printed circuit (FPC) detection devices that offer enhanced detection capabilities as well as detection systems that use hydrogen to measure leaks. At the same time, we will make efforts to enhance our customer support systems in China and Taiwan.

In regard to the onboard devices market, we will focus our efforts on Japan, North America, and Europe. Giving consideration to electronics manufacturing services (EMS), the markets of China and Southeast Asian countries will be our target for industrial machinery. Accordingly, we will establish customer support systems not only in Japan but also in Southeast Asia and North America. As the industrial machinery and components business does not deal with products for consumers, it will take time before we begin to see results from these efforts. Nonetheless, we aim to realize profitability in this business in the last year of NEXT STAGE 12.



#### Initiatives in ESG

We view the environment, society, and governance (ESG)-related initiatives as an important strategy of NEXT STAGE 12. As such, we will promote multifaceted efforts toward ESG.

Under NEXT STAGE 12, we are promoting a wide range of efforts geared toward ESG. We have been promoting initiatives within our business activities that focused on the needs of society from the perspective of ESG. By once again adopting ESG as a major theme of our medium-term management plan, we are able to convey to our stakeholders that we are continuing to promote business activities that give consideration to

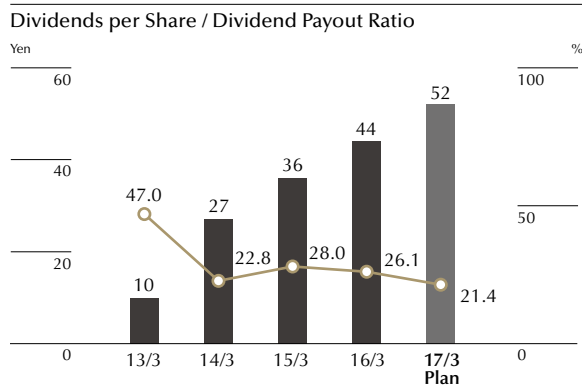
ESG. I believe that management that does not consider ESG is a type of management that will no longer be needed by society in the future. With that belief, we will steadily implement the ESG-related initiatives laid out in NEXT STAGE 12.

### Returning Profits to Shareholders

After allocating generated cash to investments, we will work to provide returns to shareholders in a flexible manner.

During the three-year period of NEXT STAGE 12, we plan to generate ¥150 billion in cash flows from operating activities.

As for the breakdown of growth investments, we intend to make a capital investment of ¥40 billion to support our existing business. In addition, we also plan on a strategic investment of ¥50 billion. With the aim of creating new value, the strategic investment will be put toward reorganizing our manufacturing bases, constructing the Yamaha Innovation Center, and conducting M&As and capital tie-ups. After allocating these funds to investments, we aim for a consolidated payout ratio of 30% or more. While we adopt a continuous and stable dividend as the base of our shareholder return policy, we also give consideration to maintaining a balance between an appropriate amount of internal reserves for future growth investments. As such, we intend to carry out shareholder returns in a flexible manner with the purpose of improving capital efficiency going forward.



### In Closing

With YMP2016, we maximized the results made in business restructuring efforts under the previous management plan, YMP125. We also aggressively promoted initiatives to reduce costs and improve gross profit from musical instruments, our mainstay business. Through these means, we were able to significantly increase profits. With NEXT STAGE 12, we will continue to build on the accomplishments of YMP2016 while implementing new initiatives that firmly address the issues we have yet to resolve.

To realize our medium- to long-term management vision of “Becoming an Indispensable, Brilliantly Individual Company,” we aim to further improve our brand strength and become a highly profitable enterprise under NEXT STAGE 12. I would like to ask our stakeholders for their continued support and to look forward with anticipation for the future of Yamaha.

Takuya Nakata  
President and Representative Director

