Achieving the Targets of the Medium-Term Management Plan and Reaching the Next Stage for Future Growth

Fiscal 2019 represents the last year of our current medium-term management plan NEXT STAGE 12. In this message, I will explain the actions we undertook and results we achieved during fiscal 2018 under the aim of strengthening our brand value and, by doing so, reaching our targets for improving profitability (operating income ratio of 12%, ROE at the 10% level, and EPS at the ¥200 level). I will also explain the policies and initiatives we will implement in the final year of the plan.
As well, I will give my opinions on the direction for which Yamaha should aim over the medium to long term, including in regard to the structure of the next medium-term management plan.

Yamaha's Mission, Value System, and Strengths That Support Growth

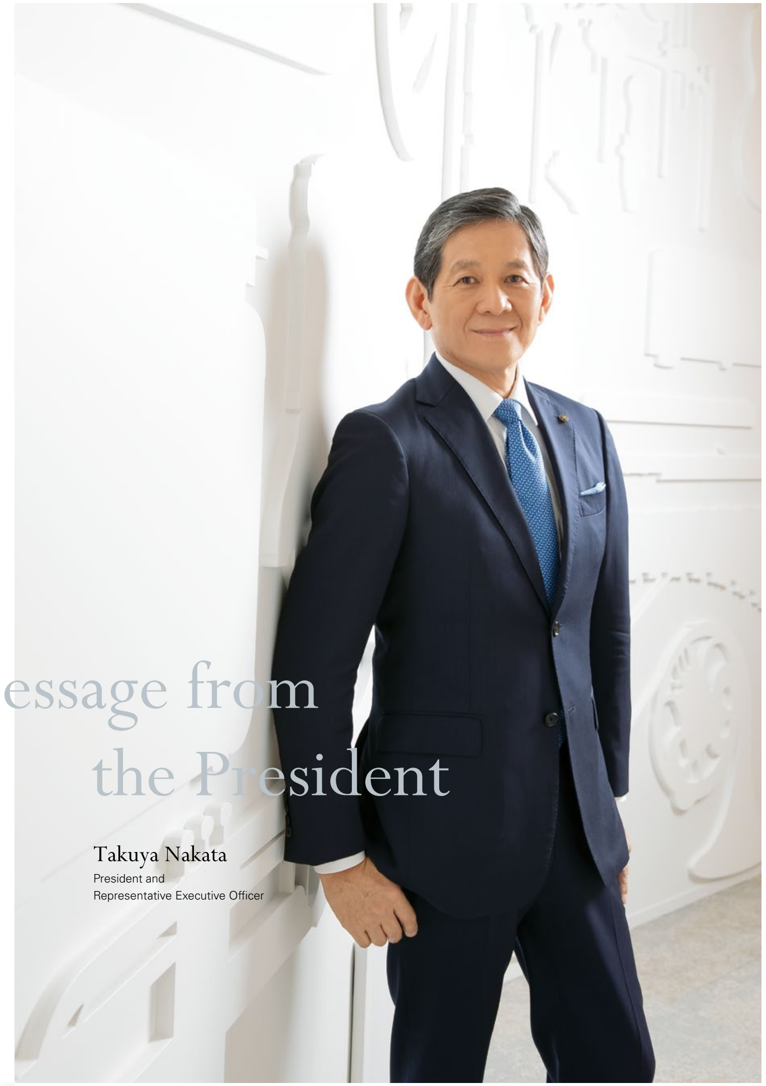
Creating Our Management and Business Strategies from the Perspective of Social Issues

Since its founding in 1887, the Yamaha Group has provided various products and services centered on sound and music and continued to meet a wide range of needs related to music, education, and culture. Music has the amazing power to warm people's hearts and can transcend language barriers to inspire people around the world. We therefore believe that music has the potential to resolve various social issues. Our unshaken faith in the power of music acts as the core of the Company's management. Conversely, products and businesses that do not help resolve social issues quickly become commoditized and are unable to establish a competitive position. Accordingly, companies with such products and businesses cease to grow. In addition, if a company is unable to offer a rewarding work experience to its employees, then in-house motivation levels will fall, and in time this will lead to the decline of that company. We are aware that creating management and business strategies from the perspective of social issues is extremely important for achieving the sustainable growth of the Yamaha Group, and we formulated the medium-term management plan NEXT STAGE 12 under this awareness. If you look at the smooth progress we have made toward achieving our key indicators for operating income ratio, return on equity (ROE), and earnings per share (EPS), then you can gain a sense of how the resolution of social issues through sound and music and the Group's profit growth are linked.

Based on our corporate slogan of "Sharing Passion & Performance," we will draw on the technologies, know-how, and sensitivities that we have cultivated throughout our long history to provide products and services that exceed customer expectations. By doing so, we will realize growth together with customers and society as a whole.

Our Strengths as a Comprehensive Musical Instruments Manufacturer in a Highly Competitive Environment

As the world's largest comprehensive musical instruments manufacturer, we handle a wide range of instruments such as keyboards, wind instruments, string instruments, and percussion instruments, which has enabled us to refine various kinds of technologies. One strength of ours that is particularly worth mentioning is the high level of technologies we possess in both the acoustic and electronic domains. In terms of musical instruments, there are acoustic instruments that make sound through the oscillations of such materials as strings and boards, and there are digital instruments that create oscillatory waves through electrical circuits and change these waves into sound. In 1959, we began the production of the Electone™ electronic organ, which means we have over 60 years of history in the development of digital musical instruments. In recent years, we have created unique new hybrid products that combine and leverage the strengths of our acoustic instrument and digital instrument



Message from the President

Takuya Nakata
President and
Representative Executive Officer

technologies. We have also conducted research on materials themselves through the creation process of these hybrid instruments, and we have used this research to evolve our technologies related to sound sources and audio. By handling a wide variety of materials, from the timber, wool, and metals needed to manufacture pianos and wind instruments to plastics used in the manufacture of moderately priced recorders, we have acquired technologies that can draw out the qualities of each individual material.

Our core technologies not only include our sound generation methods that use digital technologies, they also include technologies for processing sound and signals, and I am confident in the superior nature of these technologies. Through various kinds of processing, we can make sounds easier to listen to and also create new sounds. These processing technologies also make it more enjoyable to sing karaoke through the use of the echo effect. By enhancing sound processing technologies, we can improve the sound quality of musical instruments and create new products in the audio equipment business. We possess an extensive range of technologies related to sound, and one of our strengths is our ability to combine these technologies to create new products and services.

In addition, since commencing organ classes in 1954, which were the predecessor to the Yamaha Music School, we have expanded music education businesses in over 40 countries and regions, bringing more people the joy and excitement that music creates. Without limiting ourselves to simply being a musical instruments manufacturer, our mission is to spread music culture and contribute to its development around the world. Our ability to do so is also one of our strengths.

Performance in Fiscal 2018 and Achievement of the Current Medium-Term Management Plan

Realizing Record-High Profits Due to the Solid Sales of Each Product

Fiscal 2018 marked the second year of our current medium-term management plan. During the year, there were several factors that had a negative impact on performance, including an increase in procurement costs, the bringing forward of various expenses, and a decrease in production in light of inventory adjustments. However, these factors were offset by the favorable sales of each product, centered on musical instruments, the revision of selling prices (see page 37), and the further reduction of costs. As a result, we were able to realize year-on-year increases in terms of both sales and profits, with operating income reaching a record high. Also, our operating income ratio steadily improved, up 0.4 of a percentage point, to 11.3%, with ROE and EPS reaching 14.5% and ¥292, respectively. All of these results exceeded our targets under the medium-term management plan. In fiscal 2019, the final year of the plan, we anticipate that growth in sales will be held to the single digits. However, as we will focus our efforts more sharply on revising selling prices and reducing costs, especially in the musical instruments and audio equipment businesses, where profitability did not improve as much as we expected, we aim to achieve an operating income ratio of 12.0% and operating income of ¥55.0 billion.

Seeing Organizational Reforms Steadily Take Hold and Drive Further Growth

The first major initiative I was involved in after I assumed the role of president in June 2013 was the abolishment of the business unit structure we had adopted in the musical instruments and audio equipment businesses. With the abolishment of this structure, we transitioned from a vertically divided structure in which development, production, and sales functions were separated by business unit, to a function-specific structure that establishes production, development, and other functional units. By doing so, we were able to change over our production operations from factories that focused on one specific product category to factories with multi-functions to handle the manufacture of products from multiple categories. This allowed us standardized utilization rates and significantly reduced costs in such ways as curtailing procurement costs for components via centralized purchasing. At the moment, we are constructing new factories in India and Indonesia. The factory in India, which is slated to begin operations in January 2019, will serve as an integrated factory for production and sales that provides affordable products with high levels of cost competitiveness through planning, procurement, production, and distribution that is optimized for India. Accordingly, this factory reflects the positive impact brought about by transitioning to a function-specific structure.

Both of these factories will help us enhance our cost competitiveness through the reorganization of our production structure. In addition, as we expect further growth in the sales of all our products, these factories will help us prepare for future business opportunities by allowing us to raise our production capacity, which already has a tendency to tighten.

In terms of product development, we have developed a great number of products that provide higher levels of added value by working to transcend the boundaries of specific business domains and encouraging our employees to motivate each other. In this way, we have naturally broadened our perspective, which has allowed us to come up with development ideas that involve even larger investment sizes. In addition, based on the Yamaha Philosophy, which was newly adopted after I became president, we have been developing highly unique products that have embodied keywords essential to the customer experience, such as joy, beauty, confidence, and discovery. Our new product Venova™, which was developed as a casual wind instrument, is a symbolic example of these keywords. Starting with design, Venova™'s product concept and functionality have earned overwhelmingly high praise, with Venova™ receiving the highest award at the 2017 Good Design Awards—the Good Design Grand Award. Out of 4,495 products submitted to the competition, Venova™ was chosen to receive this prestigious award. I believe that winning this award is proof of our ability to develop unique products with high added value. By offering value from completely new perspectives, we are able to draw out latent needs and enhance our in-house motivation to take on the challenge of developing new products.

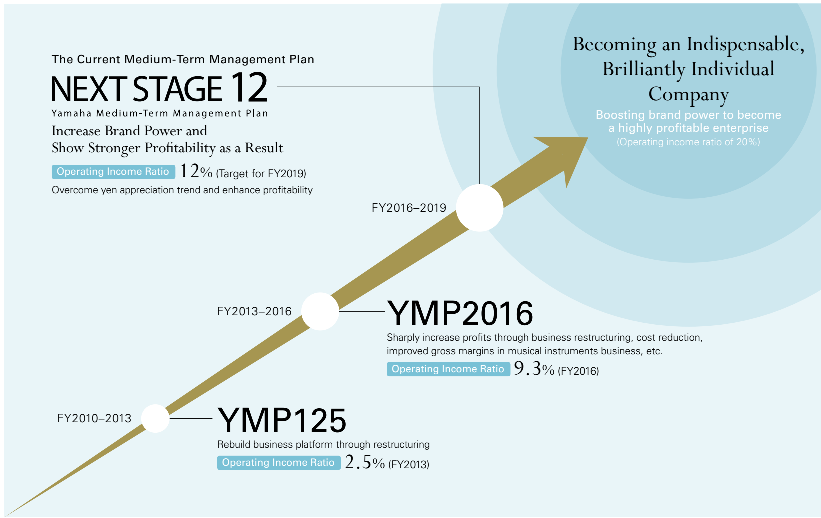
In July 2018, we commenced operations at our Innovation Center (see page 42), which brings together all of our research and development staff at one location in our head office. By shortening the physical distance between our researchers, we will further accelerate technological integration to create products and services that offer more value than ever before.

Maximizing Earning Power from Both the Top Line and the Bottom Line

In fiscal 2018, we continued to realize top-line growth by revising our selling prices and expanding our customer base while improving bottom-line growth by thoroughly reducing costs.

During the fiscal year under review, our efforts to revise selling prices did not improve profitability as much as we anticipated due to the impact of changing the terms and conditions for selling instruments in Europe in the musical instruments business and the inventory adjustments we carried out in the United States. With that said, when speaking with those involved in our frontline production operations regarding selling price

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



revisions, rather than a sense of uneasiness toward sales decreases that I have seen thus far, I received constructive opinions related to such matters as the timing for making revisions. To me, this shows that our commitment to revising selling prices has been firmly entrenched within the Company. Our issue going forward is deciding on the appropriate selling price at the time of a new product's launch and improving value. If we raise the price of a product without improving its value, then naturally sales will decline. I have communicated throughout the Company that to revise selling prices going forward, it is imperative we further raise our awareness toward maximizing value and work to communicate that value to the customers both at our Innovation Center and in our production operations, which we have continued to evolve.

One of the key strategies in our medium-term management plan is to "enhance customer interaction." Under this strategy, we have gained approximately 300 new customers in our musical instruments business, an increase of 16% over the past two years. Additionally, in the same period of time in the audio equipment business, we have achieved a 37% increase in the number of audio contractors. These increases have far surpassed our expectations. With the aim of bolstering the support we offer audio contractors, we added over 20 new members to our engineering and sales staff. Moving forward, we will continue to increase customers as we steadily aim to achieve the targets of the medium-term management plan.

Meanwhile, compared with fiscal 2016, we have reduced net costs by ¥3.6 billion over the two-year period from fiscal 2017 through fiscal 2018. While our plan was to reduce net costs by ¥5.2 billion over this period, we were unable to achieve our target for reductions in fiscal 2018 due to the rising costs for materials and other factors. However, we are currently working on a global basis to optimize our procurement operations. We are also transferring component production processes previously conducted at domestic factories to overseas ones, and are promoting automation at these overseas factories. Through these efforts, we will continue to aim for our target of reducing net costs by ¥8.0 billion over the three-year period of the plan.

Steadily Building a Profit Base for Our Third Business Pillar

We have positioned the three-year period of the medium-term management plan as a time in which we will lay the foundation for turning the industrial machinery and components business into our third business pillar. We planned on using the first two years to lay the groundwork for this foundation and aimed for this business to contribute to profits starting from the third year. However, we were able to establish a profit base in this business earlier than we anticipated. In all our other businesses, which include industrial machinery and components, we have seen growth in net sales and operating income ratio at a rate greater than expected. In particular, the operating income ratio in other businesses has risen significantly, up 4.6 points, to 9.5%.

In Russia and Europe, all new vehicles will soon be required to be fitted with emergency alert systems. Amid these circumstances, our modules for in-vehicle hands-free telephone calls were selected to be installed in new vehicles of multiple manufacturers. In particular, these modules were valued highly for their quality of sound during phone calls, which is necessary during times of emergency. As of the first quarter of fiscal 2019, we have commenced the mass production and sale of these modules. Additionally, we have continued to see double-digit sales growth in the golf business due to the positive impact of new products and efforts to improve our brand. We foresee that this favorable sales momentum will continue going forward.

Responding to Risk as We Aim to Achieve the Targets of the Medium-Term Management Plan

As I have previously stated, in fiscal 2019 we will steadily implement a broad range of initiatives. In this section, I will briefly comment on the risks that could impact our ability to reach the targets of the medium-term management plan.

The Yamaha Group carries out its operations on a global scale, with production bases and sales offices in countries and regions around the world. Out of the Group's 59 consolidated subsidiaries, 44 are based overseas, and 22 of these overseas subsidiaries are manufacturing and production companies primarily located in China, Indonesia, and Malaysia. Furthermore, overseas sales account for 69.1% of our overall sales, which means we are significantly affected by the macro economy and market conditions in each country and region around the world. Additionally, we use electronic components, metals, timber, resins, and other materials as components for our products. While one of the key strategies in our medium-term management plan is to continually reduce costs, there is a risk that increased manufacturing costs due to soaring material prices and procurement-related difficulties going forward may impact our progress in terms of profits under the plan. To respond to this risk, we are spearheading efforts at our head office to optimize suppliers and procurement processes at each factory on a global basis. By doing so, we are working to mitigate procurement-related risks. Moreover, we have thus far formulated risk maps and determined major risks Groupwide. We have also worked to visualize our activities to reduce risks and promote the establishment of PDCA cycles to improve our risk response capabilities. By continuing such efforts during fiscal 2019, we aim to steadily achieve our targets for the final year of the medium-term management plan.

Progress of the Four Key Strategies of the Current Medium-Term Management Plan

1 Develop Products with Distinctive Individuality

Musical Instruments Business

- Pianos for a new generation of continuous evolution
- Distinctive new product lineup that integrates a wide range of technologies

CSP Series Clavinova™ digital piano that links with tablet devices to enable automatic sheet music creation

REVSTAR series electric guitar

Audio Equipment Business

- New product lineup that fuses cutting-edge technologies to create new value

MusicCast™ products that respond to voice recognition technologies using AI

Note: Available for use in regions where Amazon's Alexa* has been launched

RIVAGE™ PM10 next-generation flagship digital mixing system

Other Businesses

- Modules for in-vehicle hands-free telephone calls geared toward emergency alert systems

In-vehicle communication modules

* Amazon Echo and Alexa are registered trademarks of Amazon.com, Inc. and its affiliates

2 Enhance Customer Interaction

Consumers

- **Expansion of Sales Network**
  Achieved a 16% increase in number of customers in emerging nations (approx. 300 new customers)
- **Strengthening Marketing Activities**
  - Gradually changed focus to sales promotion activities that reach end users and emphasize sell-through
  - Established new dedicated marketing division
  - Made solid progress with digital marketing that leveraged social media services, etc.
- **Enhancement of Store Displays for MusicCast™ Network Audio**
  Focused efforts on enhancing store product displays centered on key markets in Europe and North America

Corporate Customers and B2B

- **Expansion of Personnel Structure and Service Bases to Strengthen Support for Corporate and B2B Customers**
  - Increased the number of technicians by 20 compared with the previous fiscal year, primarily in Europe, North America, and emerging countries and regions; strengthened support for audio contractors, including enhancing content through online seminars and other means
  - Realized a 37% increase in accounts with audio contractors over a two-year period (target under the medium-term management plan: +50% over three years)
- **Decision by automakers to adopt our modules for in-vehicle hands-free telephone calls for emergency alert systems**

3 Continually Reduce Costs

Over the three-year period of the medium-term management plan, we intend to reduce net costs by ¥8.0 billion by realizing a decrease in manufacturing costs through such means as reestablishing production processes, reducing procurement costs, and determining new manufacturing methods. Over the past two years, while improved productivity led to a ¥5.7 billion cost reduction, the soaring price of materials such as electronic components and resins hindered our ability to reach our cost reduction targets for procurement. As a result, net cost reductions were held to ¥3.6 billion, which is ¥1.6 billion behind our two-year target for net cost reduction of ¥5.2 billion.

In the third year of the plan, we aim to realize a net cost reduction of ¥2.5 billion by further promoting global procurement led by our head office and improving productivity

4 Strengthen Global Business Platforms

- Introducing IFRS* (from the first quarter of the fiscal year ending March 31, 2020)
  * International Financial Reporting Standards
- Establishing efficient logistics systems
- Determined core positions and global grading system for Group personnel
- Formulating the organizational structure for global IT
- Established Yamaha Guitar Group, Inc. (U.S.A.)

Policies and Efforts to Achieve Growth Going Forward

Examining the Direction of the Next Medium-Term Management Plan Based on Three Guiding Principles

We are currently holding repeated discussions on the formulation of the next medium-term management plan based on three principles: making deeper connections with customers, creating new value, and contributing to society through our business. For making connections with customers, we are incorporating the general idea of "time" into our current strategy of "enhancing customer interaction." With this in mind, we will aim to deliver value to our customers at each life stage. In addition to expanding and deepening customer interaction, we view the perspective of lifetime value (page 38) itself as a type of contact point with our customers. By providing lifetime value, we will be able to further reinforce our three existing businesses and create new businesses.

In regard to creating new value, we will strive to create new value by combining a wide range of technologies, primarily at our Innovation Center, based on various needs. For technologies that are currently lacking from the perspective of customer and social needs, we will either create them in-house or work to complement existing technologies through M&A and open innovation. These efforts will be carried out in a well-balanced manner between these two options. We have currently passed the stage where we can simply enhance and apply one technology. Rather, now is the time to bring about chemical reactions through the combination of multiple technologies to expand value. We envision this process to be similar to how an amoeba grows.

Finally, for contributing to society through our business, as I stated at the beginning of my message, we are fully aware of how the resolution of social issues through our business is linked to our growth as a corporate group, and we will make this awareness clearer as we move forward with specific strategies. To address the issues pointed out by the Sustainable Development Goals (SDGs) (see page 49), which represent shared sustainability targets adopted by the international community, we will work to propose unique products and value as one of the key strategies of our next medium-term management plan. In the same manner as making connections with customers, accelerating our efforts to respond to the SDGs has the potential to give rise to a fourth business pillar, which will be positioned after the industrial machinery and components business. It will also help us reinforce our existing three businesses.

Elevating Yamaha into a Premium Brand and Implementing Marketing Activities with Brand Awareness

Until now, we have steadily improved profitability as intended by enhancing product value, revising selling prices in accordance with that value, and reducing costs. However, I believe the key to further increasing profitability is to elevate Yamaha into a premium brand and implement marketing activities with an awareness of that brand. The ideal way to do this is to have our brand send a strong message to the customers, a message that will give people an intuitive sense that a product or system is Yamaha's, even without writing the Yamaha name.

We generally divide our approach to improving brand value into two aspects: product development and information communication. To elevate Yamaha into a premium brand, we have to enhance both of these aspects at the same time. As an initiative to accomplish this task, we have incorporated our marketing divisions, the Design Laboratory, and our public relations divisions into our newly established Brand Strategy Division. Serving as Division Head, I intend to give my utmost effort in leading this division. Throughout Yamaha's history, there have been cases where, even though internally we felt that the efforts we were pursuing were meaningful, we were unable to properly convey that meaning externally. I firmly believe that many of our efforts are advanced in nature, including our efforts to expand and contribute to the development of music culture as well as our sustainability activities to ensure the sustainable procurement of timber. With the growing attention given to ESG investment and the SDGs, as well as the rising awareness toward society and the environment, one method to improve our corporate brand is to make the initiatives we are undertaking well known to a greater number of people.

Furthermore, from a marketing perspective, we established a new organization for our guitar business in the United States. While functions for formulating brand strategies for the Yamaha guitar brand and the Line 6 brand had previously been separated between Japan and the United States, we have now centralized those functions in the United States. While further accelerating planning, development, and marketing efforts for guitar-related products, we are working to develop new products that leverage the technologies and expertise of both brands. Additionally, our efforts to revise the term and conditions for sales through our sales network in Europe represent part of our marketing strategy to turn Yamaha into a premium brand. Revising our traditional sales method that focused on quantity, we transitioned to a sales method that gives our retailers an incentive to improve the Yamaha brand, and a large number of retail shops have agreed to adopt this method. In fiscal 2019, we commenced marketing activities under this new method. In China, we have been successful in carrying out digital marketing that utilizes social media services and the Internet, with numerous product categories recording double-digit sales growth. Going forward, we intend to draw on our success with digital marketing in China to extend these marketing activities to developed countries and other emerging countries.

Assessing Musical Instruments as a Meaningful and Cultural Item, Not Simply a Tool

While musical instruments are tools that give shape to sound, that is only one of their purposes. For example, if you use a tablet device to create the sounds of a piano through an app, you will not get the same feeling as if you were to play an actual piano. In other words, musical instruments differ from other tools in that they exist for reasons that go beyond their original purpose of producing sound. Playing a musical instrument has become a part of cultures around the world. So, in other words, musical instruments themselves represent an important part of culture. As long as musical instruments continue to provide this cultural value to people and society at large, then our business can continue in a stable manner well into the future. Conversely, if the purpose of musical instruments is no longer useful to society, then our business is at a great risk.

This is precisely why I feel that our "School Project" program (see page 37), which we are promoting in Asia and emerging nations, is an extremely important initiative. While this project does not directly contribute to profits, it helps increase the music-playing population by offering people a chance to experience the joy of music. Under the period of the current medium-term management plan, we set a target with this project to visit 1,000 public schools in Asia and offer music classes to a cumulative total of 100,000 students. As of the end of fiscal 2018, we have made solid progress toward this target, visiting 933 schools in Malaysia, Indonesia, Russia, and Vietnam, and offering classes to 124,000 students. We are also rapidly expanding efforts similar to the "School Project" in other countries around the world.

Furthermore, many of the products we produce use timber as their main raw material. To pass on an abundance of forests and ecosystems to the next generation, and to continue to sustainably create musical instruments, we have the responsibility to make use of timber in a sustainable manner. To this end, we confirm the traceability and ensure the legality of the timber we have procured. At the same time, in Tanzania, we are prompting a project to establish a business model under which we can sustainably use timber for the manufacture of musical instruments.

Addressing climate change is also a pressing issue. When we calculated the greenhouse gas emissions across our entire value chain, we discovered the emission levels were higher in places where our products are used compared with emission levels in our production activities. We therefore established the Yamaha Eco-Products Program (see page 51), which certifies products that have contributed significantly to the environmental quality targets that we have established as a company. We currently have a total of 320 models that have received this certification, and we will work to increase this number going forward, with a focus on energy conservation.

Fulfilling the Top Management's Role of Improving Corporate Value over the Medium to Long Term

While focusing our efforts on improving profitability, we are also fully aware of the importance of improving shareholder value. I have met a large number of investors, and through these meetings I have come to understand their strong interest in capital costs. To meet investor expectations while also improving corporate value over the medium to long term, our management approach has consistently been aware of capital costs. Specifically, from the perspective of assets and capital—the denominator, as well as expanding profits—the numerator, we have carried out repeated efforts to reduce inventories and revise investment securities held by the Company. Furthermore, in addition to Groupwide efforts to improve profitability and capital efficiency, the top executives in each business have pursued business management focused on return on invested capital (ROIC). By doing so, we have engaged in managerial efforts to raise profitability to a level higher than the weighted average cost of capital (WACC).

In the final year of the medium-term management plan, we have set a Companywide target of reaching the 10% level for ROE. While we as management must give first priority to improving profit rate and increasing profit, we are continuing to promote balance sheet management through such means as improving our asset turnover ratio, reducing inventories, and streamlining assets, including securities. The cash flow that we generate through this series of efforts will be set aside for allocation to our existing businesses and new businesses in order to enhance our earning power. This cash flow will also be utilized to continuously carry out stable shareholder returns. Furthermore, we will promote the appropriate disclosure of corporate information and increase the number of constructive dialogues we hold with investors.

In closing, during the second year of the medium-term management plan NEXT STAGE 12, we once again achieved a steady performance from both a financial and non-financial perspective. However, not being satisfied with these results, we will continue to leverage our cultivated and acquired strengths to their full potential as we take on a broad range of challenges with the aim of "Becoming an Indispensable, Brilliantly Individual Company." I would like to ask our stakeholders for their continued support as we pursue these endeavors going forward.

October 2018

Takuya Nakata
President and Representative Executive Officer