MESSAGE FROM THE PRESIDENT

Launching the New Medium-Term Management Plan Make Waves 1.0

Before discussing the new medium-term management plan Make Waves 1.0 (hereafter, the new plan), I will first reflect on the Group’s management over the past 10 years. Directly after the global financial crisis that occurred in 2008, we faced extremely difficult conditions such as declining demand and the rapid appreciation of the yen. However, I believe that those difficulties helped strengthen the Group overall and allowed us to refine our individuality. I also believe that when looking at the accomplishments we made under the medium-term management plans we have promoted to date, it is clear that we are steadily making progress toward realizing our management vision of becoming an indispensable, brilliantly individual company. Under these plans, we have revised our business structure, rearranged our business organizations, and improved profitability. I therefore can say with confidence that we have steadily overcome the challenges we have faced, one step at a time.

Reflecting on the Previous Medium-Term Management Plan NEXT STAGE 12

Over the three-year period of the previous medium-term management plan NEXT STAGE 12 (hereafter, the previous plan), we took steps to enhance our brand value with the aim of realizing our medium- to long-term management vision of becoming an indispensable, brilliantly individual company, which in turn helped us improve our operating income ratio. As a result, we made solid accomplishments over the past three years from both a financial and non-financial perspective, achieving our management target for an operating income ratio of 12%. Additionally, we were able to reach our targets for ROE at the 10% level and EPS (earnings per share) at the ¥200 level.

While we still face several issues, including the lower-than-expected growth levels in emerging countries and the slow progress of AV products, we were able to achieve all of the quantitative targets we adopted. In particular, for the musical instruments business, we realized sales growth in both advanced and emerging countries, which helped drive profits. In addition, the professional audio equipment business, which we positioned as a growth driver under the previous plan, made significant contributions to our business results, despite the performance fluctuations of certain products and services. We still have some work to do in terms of cost reductions, but our efforts have been greatly impacted by external factors such as the cost of raw materials rising to a level that exceeded our expectations.

Regarding our transition from a business-unit structure to a function-specific structure, we pursued various efforts to enhance efficiency by streamlining production and development functions. One of these efforts included the establishment of the Yamaha Innovation Center, a new research and development base constructed on the grounds of our headquarters in 2018. By increasing the amount of interaction between our engineers, the Innovation Center is helping to create new kinds of value through the combination of our various technologies. I also feel that the Innovation Center has provided us the ability to provide cutting-edge value that cannot be imitated by our competitors through the combination of the diverse elemental technologies we have cultivated over the years. These types of organizational and structural changes have undoubtedly enhanced our roles and functions.

Now the question is the next step we need to take to further realize our medium- to long-term management vision. As represented by our choice to incorporate our brand promise of Make Waves into the title of our new plan, the key to realizing further growth is enhancing our brand value to the greatest extent possible.
MESSAGE FROM THE PRESIDENT

Yamaha aims to take a proactive step forward to Make Waves and deliver exciting experiences to its customers. In January 2019, the Yamaha Group unveiled its new brand promise, Make Waves. The expression Make Waves captures the moment when customers feel enthusiastic excitement. Yamaha wants to be a company that encourages its customers’ passions and helps them take a step forward to express their individuality, emotion, and creativity. Through Make Waves, we promise our customers we will become an indispensable, brilliantly individual company that can make customers feel enthusiastic excitement. We position the new plan as a management plan that can first put the words Make Waves into action, which is why we chose to call it Make Waves 1.0. For our customers, we want Make Waves to be the first thing that comes to mind when they hear the name Yamaha. For our employees, we hope that Make Waves encourages them to take on new challenges without fear while always keeping the Yamaha Philosophy in mind, which acts as the cornerstone of the Group’s management. In this way, I am certain that Make Waves will afford both our customers and the Group with the opportunity to take the next step forward.

With the aim of becoming an indispensable, brilliantly individual company, and in light of our performance under the previous plan, under the new plan, we have set a core operating profit ratio of 13.8%, a ROE of 11.5%, and EPS of ¥270 as our financial targets. For non-financial targets, we aim to achieve a 30% increase in the value of our corporate brand (which is shared between Yamaha Corporation and Yamaha Motor Company). We also aim to popularize music education to a cumulative total of one million people in emerging countries and ensure that certified timber accounts for 50% of the total timber we use. Our financial targets are achieved through the results of our various business initiatives, which means they represent the strength of our management at a given point in time. Our non-financial targets, however, serve as indicators that measure the extent to which we have cultivated competitiveness as a company from a long-term perspective. As well, corporate value is generally calculated using the formula of market capitalization plus debt. However, as the Group has very little debt, we measure corporate value improvement by multiplying our EPS with PER (price-to-earnings ratio). While EPS represents one of our financial targets, PER is greatly impacted by our non-financial targets. We believe that if we achieve our management targets, we should be able to realize corporate value (roughly similar to market capitalization) of over ¥1 trillion.

To elaborate on our core operating profit ratio, we improved this ratio from the 9% level by one point each year under the previous plan, achieving a core operating profit ratio of over 12% in fiscal 2019. With the new plan, we aim to continue to increase this ratio by one point each year. However, doing so would mean that after the three-year period of the new plan, our core operating profit ratio would exceed 15%, which is one point higher than our target of approximately 14%. We therefore intend to allocate this extra point to growth investments. These growth investments, which do not include ordinary depreciation, include investments in brand-related efforts to improve the emotional value we offer as well as R&D efforts related to new technologies and products.

In terms of improving profitability going forward, we will maintain our basic approach of increasing revenue and decreasing expenditures. From the perspective of revenue, achieving growth in emerging countries will be crucial. To that end, without missing out on the opportunities afforded to us due to rising income levels in emerging countries, we will strive to increase our customers while elevating our brand image. As our marginal income ratio is high, profits will naturally increase if we are able to boost sales. In addition, we will continue to engage in efforts to optimize our selling prices, which we have thus far promoted. Our selling price optimization for existing products is nearing its completion, and it may seem as if there is limited space to further optimize these prices as many of our products possess the top market share. However, we will work to add new value to such products and optimize prices in amounts that correspond to this added value, thereby improving profitability.

For the use of cash, our conventional approach has been to allocate the majority of cash into improving functional value and profitability, including efforts to develop technologies, reduce costs, improve quality, and enhance production processes. Going forward, we intend to allocate a greater amount of cash to new efforts aimed at enhancing the emotional value we offer. Of course, with our product development, we will be able to actively incorporate new development methods, starting with AI, to an extent greater than ever before.

Meanwhile, we will naturally continue our pursuit of thorough cost reductions. Under the previous plan, we set a target of reducing costs by ¥8.0 billion on a cumulative three-year basis. However, we were only able to reduce costs by ¥5.3 billion due to such factors as the rise in procurement prices. Over the three-year period of the new plan, we will strive to reduce costs by a total of ¥5.5 billion. The reason why this target is close to the results achieved with the previous plan is that, in the first year of the new plan, we still have to make up for a certain portion of cost reductions that we were unable to achieve in the previous plan. There are still many things we can accomplish when it comes to cost reductions. These include streamlining our purchasing functions, which are currently dispersed across the globe, and further reorganizing the roles of our production plants to improve their operating ratios. These also include promoting a shift to robotic process automation (RPA) in our workplace.

When formulating the policies within the new plan, we incorporated not only the macroeconomic environment and market forecasts in each region but also future estimations and integrated thinking. This helped us discuss the kinds of changes that will occur around the world as well as the risks and opportunities that the Group will be faced with. Going forward, the structure of industries will rapidly change due to the acceleration of digitalization. As lifestyles and value systems diversify amid this change, we believe we will see the dawning of an era where there

New Medium-Term Management Plan—Four Key Strategies

Develop closer ties with customers and society, and boost value creation capabilities

Make Waves 1.0

- 1. Develop closer ties with customers
- 2. Create new value
- 3. Enhance productivity
- 4. Contribute to society through our businesses

When formulating the policies within the new plan, we incorporated not only the macroeconomic environment and market forecasts in each region but also future estimations and integrated thinking. This helped us discuss the kinds of changes that will occur around the world as well as the risks and opportunities that the Group will be faced with. Going forward, the structure of industries will rapidly change due to the acceleration of digitalization. As lifestyles and value systems diversify amid this change, we believe we will see the dawning of an era where there
will be a greater demand for emotional satisfaction and authenticity, not simply affluence in terms of material things. Additionally, with heightened social awareness of sustainability around the globe, corporations will be expected to fulfill their responsibilities to an even larger extent, which in turn will make corporations more aware of the link between social contributions and medium- to long-term corporate value improvement. These circumstances will lead to strategic shifts in various business opportunities for Yamaha, as we boast strengths in combining technology and sensibility.

In light of the accomplishments we have made to date, under the new plan, we have adopted the four key strategies of "develop closer ties with customers," "create new value," "enhance productivity," and "contribute to society through our businesses," which will all pivot around the basic strategy of "develop closer ties with customers and society, and boost value creation capabilities." One area of focus with this new plan that differs from previous plans is in particular our approach to linking social value creation with Yamaha value creation. While we pursued sustainability as a key initiative under previous plans, these initiatives were always positioned separately from our business strategies. With the new plan, we will no longer consider these two aspects as separate things, and will adopt an approach that focuses on how we can create social value centered on our business strategies.

There are actually still few companies which create strategies that combine the directions of business growth and social value creation. However, we are a corporate group that has the ability to form such strategies as we have long engaged in efforts to naturally spread and develop music culture as well as sustainability activities such as the procurement of sustainable timber. I am confident that we will realize new value from the perspective of social value creation even in our existing fields such as the musical instruments and audio equipment business. In addition to leveraging our long-cultivated core technologies, I believe we can contribute to society with completely new fields. While this will be no easy task, we will aim to accomplish both.

Key Strategy 1: Develop Closer Ties with Customers

First, in order to "develop closer ties with customers," we will accelerate various initiatives aimed at promoting our brand and deepening our relationship with our customers. In this way, we can create new value from the perspective of social value creation we are pursuing under the new plan, and we are actively promoting efforts to do so. Additionally, in India, we expect that the high popularity of the film industry will provide major opportunities for our audio equipment business. Not limiting ourselves to just China and India, we are also focusing on the markets in ASEAN countries, which are currently in a growth phase. To improve our brand value in these markets, it is important that we create new value even in the local production plants and factories on the nation’s economic landscape, and the nation’s economic landscape. In the long run, there is a risk of counterfeit products circulating wildly in the market. However, if we are able to instill a music culture, then we can refine people's sensibilities to a level where counterfeit products will lose all appeal. We know firsthand that genuine products offering expressive power that goes above and beyond their price are the preferred choice of customers, no matter the region.

As there is still a great deal of room for spreading music culture around the world, we recognize that there is still a lot of work to be done to expand our operations. It will therefore be important to develop closer ties with our customers going forward.

Key Strategy 2: Create New Value

It is imperative that we combine our unique technologies and sensibilities to create new value and offer products and services that deliver this value to our customers. To that end, to promote the key strategy of "create new value," we will mobilize the various technologies and sensibilities we possess to deliver one-of-a-kind products and services to our customers, taking into account the changes occurring around the world and the feedback we have received from customers. The value our products offer can be divided into two categories: functional value and emotional value. Through efforts to enhance our products' emotional value, we can term even closer connections with our customers and society as a whole, thereby further enhancing our brand power. The utilization of AI and IoT has led to dramatic improvements in terms of convenience. At the same time, consumer value systems are shifting away from the possession of material things and placing greater importance on the sharing economy and services, leading to a greater demand for emotional satisfaction and authenticity. In such an age, the need for emotional value is only increasing with no doubt, and this provides us with the necessary condition for functional value. Musical instruments have also been nothing more than something that customers purchase based on sensibilities and emotional expression. We view sound and musical instruments as a culture, and have continued to enhance our sensibilities alongside our technologies. As such, we will focus on prioritizing emotional value provided with a significant boost. Furthermore, throughout our history, we have been taking on the challenge of scientifically analyzing sensibilities, which is something that is extremely difficult to quantify. Our ability to quantify the aspects of emotional value improvement in numerical terms provides us with a tremendous competitive edge.

Key Strategy 3: Enhance Productivity

An important role in spreading and developing music that we can make into culture, we will be able to make count- less achievements. To me, giving consideration to the sustainability of music culture is the same as giving consideration to the sustainability of the Yamaha Group. While it is possible to consider the 17 sustainable development goals (SDGs) as a risk, I believe we can leverage the SDGs to improve our competitiveness if we approach each goal through efforts that are unique to Yamaha. For example, rare timber is often used as materi- als for musical instruments. If we are truly committed to ensuring the sustainability of the Group, the Yamaha Group will realize the sustainable procurement of rare timber on our own accord, rather than leaving that task up to a third party. Timber is not a resource that can be grown in the span of one to two years. Accordingly, if we wish to ensure the sustainable procurement of timber in the next 50 years, then it is imperative that we commence efforts now with that aim. In light of this, we will pursue efforts to reorganize our production processes, enhancing produc- tivity, and reducing procurement costs through global bulk purchasing and the promotion of value analysis / value engineering. We will therefore continue efforts to reduce costs going forward. Also, to improve our use of expenses not only at our production plants but also at a Groupwide basis, rather than simply curtailing expenses, we will per- form zero-based analysis of our expenses to promote a shift toward strategic spending aimed at improving our cus- tomar y value in the future. We will leverage expenses as an investment of resources in effort to bolster our profitability.

MESSAGE FROM THE PRESIDENT
The Yamaha Group has continued to make consistent efforts to strengthen its governance, steadily promoting governance reforms such as transitioning to a Company with Three Committees (Nominating, Audit, and Compensation committees), introducing a restricted stock compensation system, and adopting claw-back clauses. Rather than viewing governance as a formality, these reforms represent the results of our efforts to constantly consider how we as a company can achieve the best possible output and change our frameworks and systems to enable us to do so while setting in motion a PDCA cycle.

Based on the belief that we can strengthen our oversight functions and accelerate our business execution by separating the roles of oversight and execution and delegating major authority to the executive officers, we transitioned to a Company with Three Committees in June 2017. In addition, we decided to introduce a restricted stock compensation system with the aim of reinforcing our ability to generate profits while at the same time steadily surpassing the cost of capital and further enhancing our capital efficiency. In terms of shareholder returns, under the new plan, we set a new target for a total return ratio of 50% over the three-year period of the plan. This marks the first time we have set such a high target for total shareholder returns. We have thus far worked to flexibly implement shareholder returns with the aim of enhancing capital efficiency, giving consideration to achieving a balance between investments and returns to our shareholders. However, in order to communicate our commitment to our investors more clearly, we decided to establish a specific, quantitative target for shareholder returns.

At the moment, six of the eight directors on the Board are outside directors. For personnel on the business executive side, this composition provides a sense of tension that makes it feel as if we hold a General Meeting of Shareholders every month. Our outside directors possess various work careers and expertise, starting with corporate management, and the accuracy and quality of our management has improved thanks to these outside directors. Focusing on the future growth of the Group, we believe it is ideal to incorporate even more diverse perspectives on the Board of Directors. This is why two new outside directors were appointed. Mr. Mikio Fujiwara is well-versed in the finance activities of global corpora- tions, and Mr. Paul Candland has experience handling the Disney brand, which is one of the most prominent brands in the world. These two new directors are a perfect fit for the Group as we are working to enhance our brand power on a global basis. At every opportunity, I hope that these two new outside directors offer us their candid opinions and instructions based on their long-cultivated insight and expertise.

The development and fostering of music culture is also something that cannot be done in a short amount of time. In fact, there is no real way we can set a time period for such efforts. However, if culture becomes obsolete, then so do we as a company. On the other hand, if we can popularize the Yamaha brand alongside efforts to foster music culture, then we can establish a competitive edge that cannot be easily rivaled. In these ways, we understand how risks can be changed into opportunities.

Approach to Cost of Capital and Shareholder Returns

Alongside improving profitability, we recognize the enhancement of shareholder value as an important management issue. Under the new plan, we have adopted the financial targets of achieving a core operating profit ratio of 13.8%, ROE of 11.5%, and EPS of $0.70. With our target for ROE of 11.5%, we have thoroughly clarified our aim of reinforcing our ability to generate profits while at the same time steadily surpassing the cost of capital and further enhancing our capital efficiency. In terms of shareholder returns, under the new plan, we set a new target for a total return ratio of 50% over the three-year period of the plan. This marks the first time we have set such a high target for total shareholder returns. We have thus far worked to flexibly implement shareholder returns with the aim of enhancing capital efficiency, giving consideration to achieving a balance between investments and returns to our shareholders. However, in order to communicate our commitment to our investors more clearly, we decided to establish a specific, quantitative target for shareholder returns.

I have provided explanations on our various strategies and policies, centered on those under the new plan. Finally, I would like to brieﬂy explain our approach to risk and human resources.

As uncertainty grows in the macro environment around the globe, there are a great number of risks that are presenting themselves. Aside from sales-related risks, the procurement cost of raw materials and the stability of materials and components supplied to us are two risk factors that have the potential to impact our business operations. In fiscal 2019, despite making progress with initiatives to reduce costs, the actual amount of cost reductions we achieved was lower than we planned due to the soaring prices of electronic components and other materials. While the situation in terms of prices and supply have stabilized at the moment, we are further promoting efforts geared toward strategic procurement, such as global bulk purchasing, in order to address these risks.

Additionally, for timber procurement during the new plan, we will carry out due diligence to prevent the use of timber from illegal sources. Musical instruments in particular use a large amount of unique timber. However, even under this severe circumstance, we have set a target for raising the percentage of certified timber we use from the 20% range to 50% over the three years of the plan.

Turning to our current business activities, we are making use of information systems to a larger extent than ever before and the importance of doing so has become even greater. It is therefore crucial to pursue efforts to respond to risks such as cyberattacks and computer virus infections. Accordingly, in addition to enhancing the expertise of our Information Systems Division, we are stepping up efforts to address these kinds of risks on a Groupwide level.

Among these circumstances, as our businesses expand globally, I believe that the enhancement of human resources, who support the Company, is an extremely significant issue. The key focus of this issue is fostering a value system that is shared and respected among all employees, from management down. We have created new value by reorganizing into a function-specific organization. Going forward, we will need to pursue optimal organizational integration on a global Groupwide basis that transcends regional boundaries and helps each employee visualize their work. Although we are currently proceeding with efforts to build a talent management system that can support such an integration, a major aspect to achieving this integration is creating a value system that is shared across regions and roles. What I am looking for most when it comes to human resources is passion. I believe that passion is supported by a strong will, which is what enables people to achieve growth as professionals. People with passion underpinned by will are able to act on their own accord. We will therefore put forth the utmost effort to increase the recruitment of such employees and establish a shared value system as we move ahead with efforts to realize robust business growth. I would like to ask our stakeholders, starting with our shareholders and other investors, for their continued support as we pursue these endeavors going forward.

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November 2019

Takuya Nakata
President and Representative Executive Officer