

NEXT STAGE 12

Yamaha Medium-Term Management Plan

April 2016 – March 2019



Corporate Slogan

Sharing Passion & Performance

Corporate Philosophy

With our unique expertise and sensibilities, gained from our devotion to sound and music, we are committed to creating excitement and cultural inspiration together with people around the world.

**Becoming an indispensable,
brilliantly individual company**

Boosting brand power to become a highly profitable enterprise

Review of Previous Medium-Term Management Plan (YMP2016) (Yamaha Now)

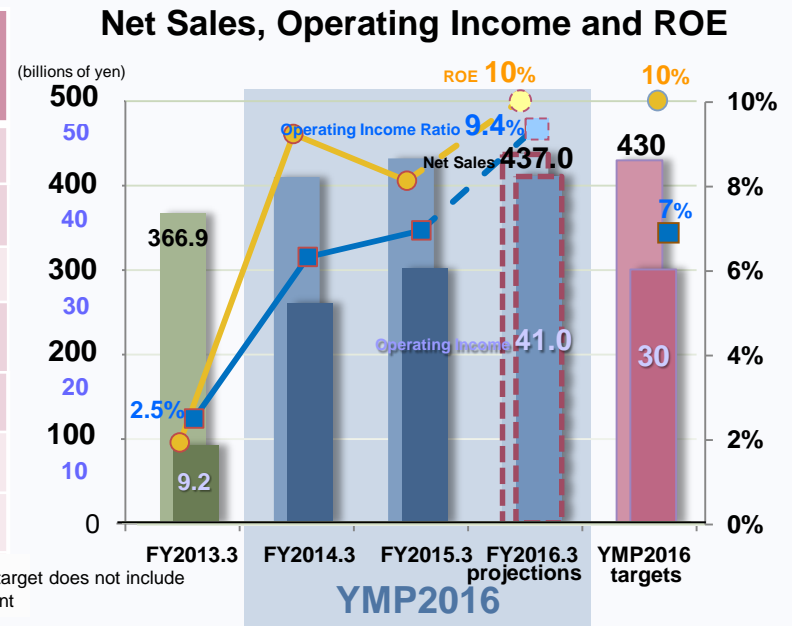


Business restructuring (sales and production in Japan, electronic devices) produced results, and profits grew sharply as costs were reduced and gross margins improved in the key musical instruments business

billions of yen	FY2013.3 Final Year of YMP125	FY2016.3 projections YMP2016	Growth	YMP2016 Targets
Net Sales	366.9	437.0	119 %	430.0
Operating Income	9.2	41.0	446 %	30.0
<i>Of which, Musical Instruments/ Audio Equipment</i>	<i>6.4 / 4.6</i>	<i>31.6 / 8.4</i>	<i>494% / 183%</i>	<i>18.5 / 8.5</i>
Operating Income Ratio	2.5 %	9.4 %	376 %	7 %
ROE	1.9 %	10.0 %	526 %	10 %
Earnings Per Share (EPS)	¥21	¥179	852 %	-
FCF (over 3 years)	10.0	69.6	696 %	50.0*
Market Capitalization	184.2	668.7**	363 %	

**As of end of March 2016

*YMP2016 FCF target does not include M&A investment



Achievements in Key Business Strategies

Achievements

- **Increased sales in electronics business domain:**
FY2013.3: ¥102.1 billion → FY2016.3: ¥151.9 billion
(Target: ¥134.6 billion)
- **Boosted cost competitiveness:**
Cost reduction target: ¥15.0 billion
→ Projected cost reduction: ¥16.4 billion (gross)

Issues Remaining

- **Sales growth in China and emerging countries:**
Delayed operational investment partly due to economic downturn in Latin America, Russia etc.
FY2013.3: ¥77.1 billion → FY2016.3: ¥109.9 billion
(Target: ¥110.2 billion)
- **New business development:**
Although two companies were acquired through M&A and an internal incubation structure was established, results will take time to emerge.

Outline of New Medium-Term Management Plan

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Yamaha Medium-Term Management Plan

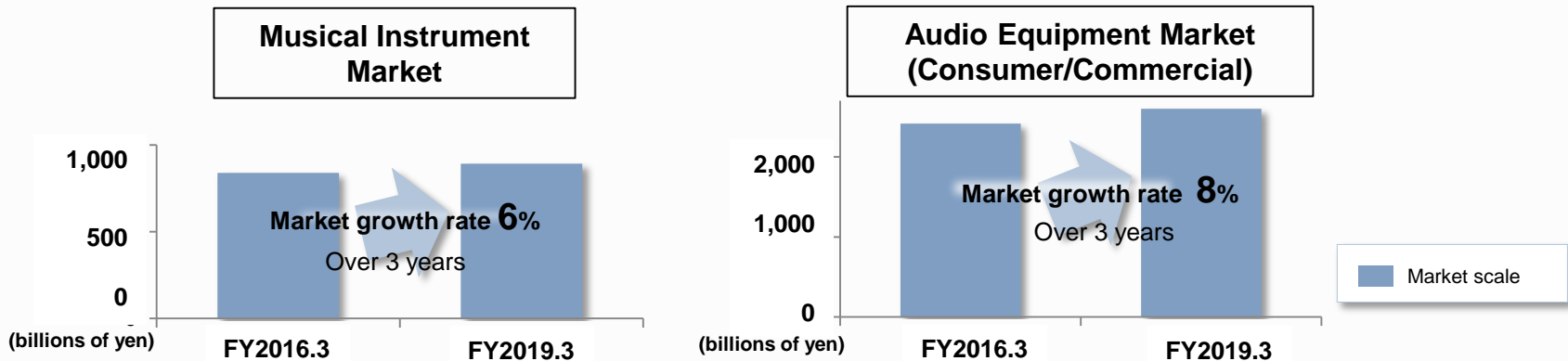
Environmental Factors

(1) Although uncertainty remains over global macroeconomic prospects, in the medium term gradual growth is anticipated

Mature economies	Return to gradual growth path in Europe and North American region once short term financial market adjustments settle.
China	Growth rate will continue to trend downward, but a certain level of economic growth will continue. Rise in average income.
Emerging economies	Market condition varies by country as steady growth is anticipated in the ASEAN region while Latin America and Russian economy will remain challenging.

(2) IT networks will accelerate links among people, products, and experiences, creating new value and enjoyment.

Market Projections



- The musical instrument market will expand gradually as middle-class disposable income rises in emerging countries.
- Innovative network technologies will create new demand and expand the audio equipment market.

**Become an indispensable,
brilliantly individual company**

**Boost brand power to become a highly profitable enterprise
(operating income ratio of 20%)**

New Medium-Term Management Plan

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Yamaha Medium-Term Management Plan

**Increase Brand Power and
Show Stronger Profitability as a Result**

Operating Income Ratio **12%** (Target for FY2019.3)

Overcome yen appreciation trend and enhance profitability

2016
~2019

2013
~2016

YMP2016

**Sharply increase profits through business restructuring, cost reduction,
improved gross margins in musical instrument business, etc.**

Operating Income Ratio **9.4%** (Projection for FY2016.3)

2010
~2013

YMP125

Rebuild business platform through restructuring

Operating Income Ratio **2.5%** (FY2013.3)

Basic Strategy

**Consolidate competitive superiority through
adding new value and differentiation**

Further deepening our connection with customers,
Raise attractive quality, and
Always offer solutions with new value added

Management Objective (over 3 years)

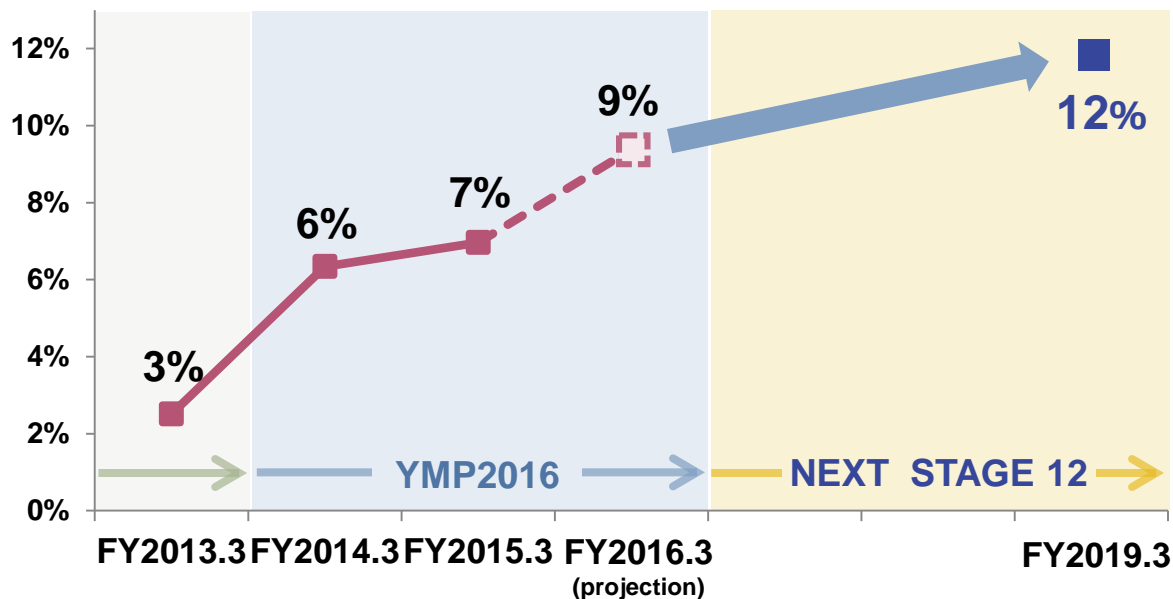
Operating Income Ratio **12%** (FY2019.3)

- Further raise profitability of musical instrument business (aim for operating income ratio at the 15% level)
- Expand audio equipment business to rival musical instrument business in the future (actual sales growth of 20%)
- Establish platform for industrial machinery and components business as third key domain following musical instruments and audio equipment

Quantitative Financial Target



Operating Income Ratio (Management Objective)



	(billions of yen)				
Net Sales	366.9	410.3	432.2	437.0	465.0
Operating Income	9.2	26.0	30.1	41.0	55.0
ROE	1.9%	9.2%	8.1%	10.0%	10% level
Earnings Per Share (EPS) (yen)	¥21	¥118	¥129	¥179	¥200 level

	(yen)					
Exchange Rates	USD	82	100	109	121	115
	EUR	103	129	141	134	125

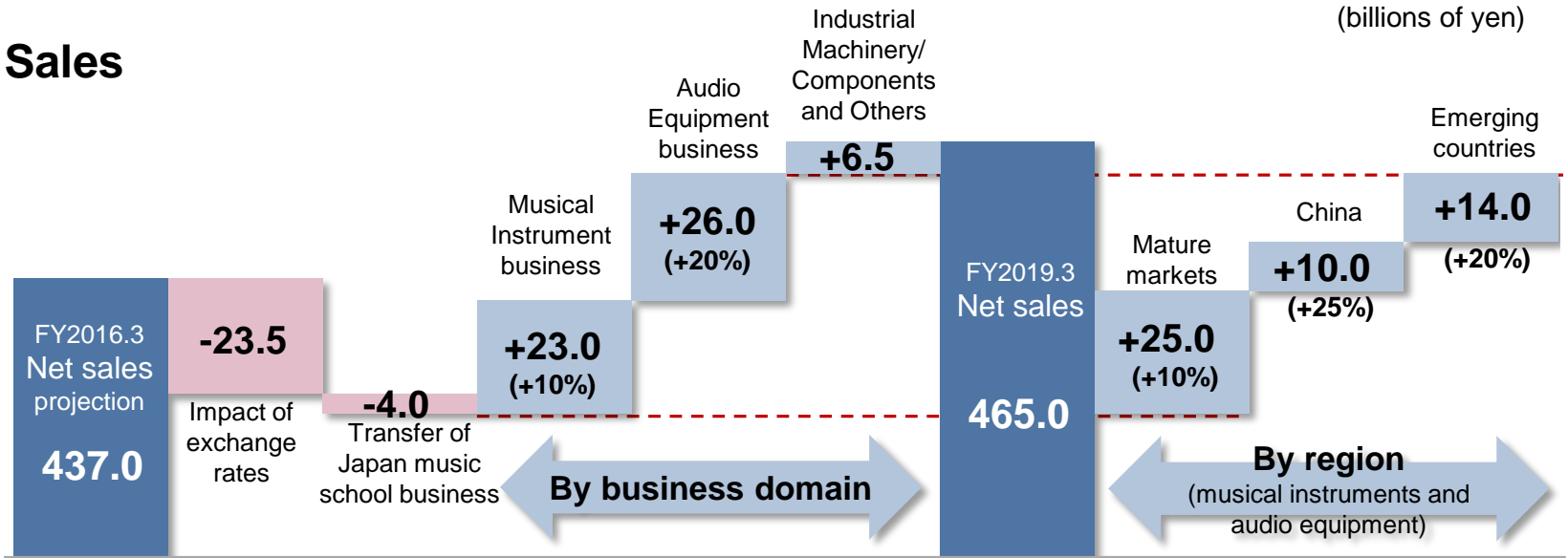
Net Sales/Operating Income Growth Analysis

(3 years)

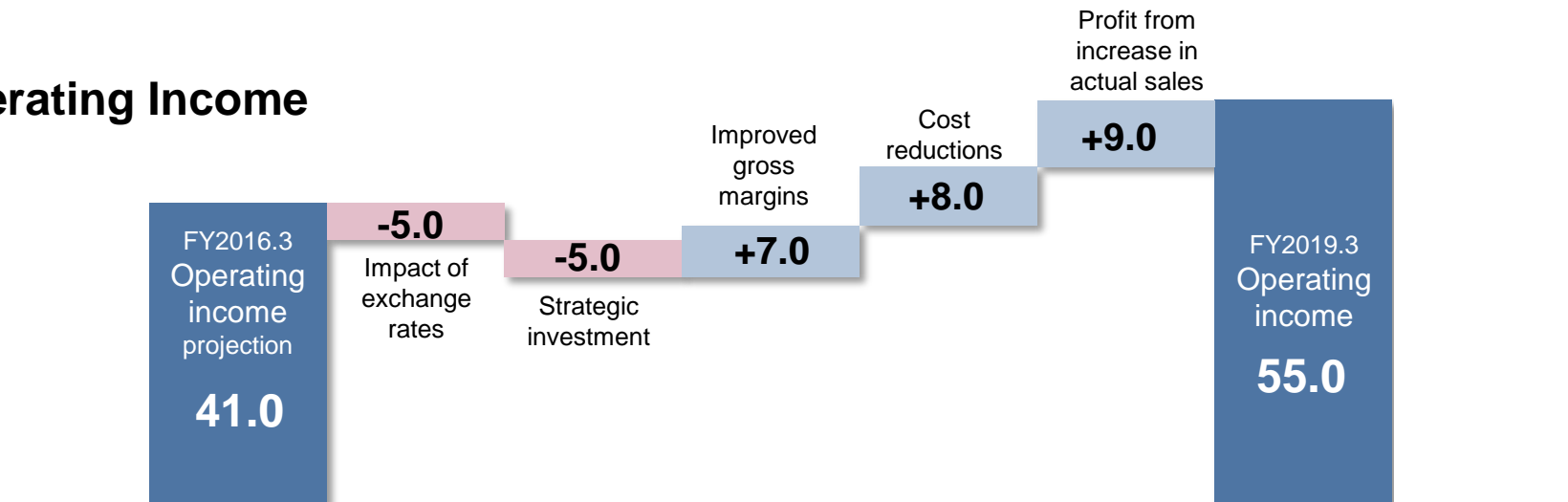


Net Sales

(billions of yen)



Operating Income



Enriched Lives



Musical Instruments



Comfortable Society



Audio Equipment



Industrial Machinery/ Components and Others



**Technology that Crosses
Over Sound and People**

Yamaha's core competencies

Four Key Strategies



Enriched lives

Comfortable society

(1) Develop products with distinctive individuality

(2) Enhance customer interaction

Musical
Instruments

Audio
Equipment

Industrial Machinery/
Components and
Others

(3) Continually reduce costs

(4) Strengthen global business platforms

Technology that Crosses
Over Sound and People

(1) Develop Products with Distinctive Individuality YAMAHA

Add original value to excellent basic functions and develop products others cannot imitate



Joy Beauty Confidence Discovery

Fusion of Technology

Evaluation technology to scientifically assess human sensitivities and sound recognition

Mechatronics technologies
to express minute movements

Sensing technologies
to accurately track motion

Materials/analysis technologies
to bring out the best qualities in raw materials

Technology that Crosses Over Sound and People

High-quality, easy-to-operate
network technologies

Signal processing technologies
for rich sound processing

Sound source technologies
enabling diverse expression

others

(2) Enhance Customer Interaction



Forge stronger, broader ties with customers



Consumer

Respond to market expansion and diverse needs

- **Expand Sales Channel**
Increase the worldwide number of contract dealers by 10%
Mature markets: Secure channels through other industries
Emerging countries: Expand from urban to regional areas
- **Promote music popularization activity to suit local needs**
Join activities with public and corporate sectors
ASEAN region: Promote music education in public elementary schools
Latin America: Support local youth orchestra

Corporate and B2B Customers

Develop value we provide to customers as a solutions vendor

- **Strengthen personnel and service bases to improve support to customer**
Increase number of accounts to audio contractors by 50%
Increase worldwide number of technical and other staff supporting audio contractors by about 80
- **Expand products and services to meet customer needs**
Offer new solutions in tune with social changes
Better reflect customer needs in product development through support activities
Develop and provide new product offerings in the industrial machinery and components business

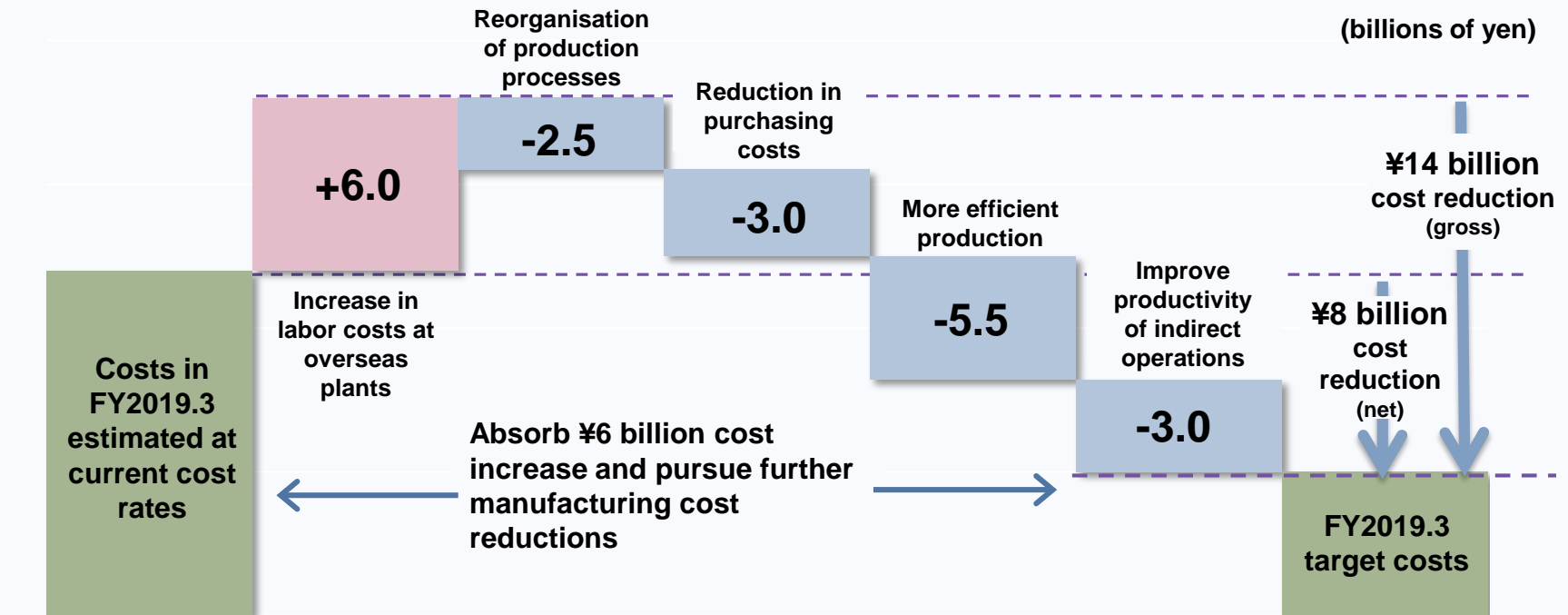
Get Closer to Customers

(3) Continually Reduce Costs



Achieve ¥8 billion (net) in cost savings over three years

Achieve continuous cost reductions similar to the previous medium-term plan period by reducing manufacturing costs (reorganising production processes, reducing purchasing costs, introducing new processing methods, etc.) and improving productivity of indirect operations.



(4) Strengthen Global Business Platforms



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 the core positions of next generation and promote development program

Optimise IT, logistics, finance and administration functions at the global level

- 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 logistic cost reduction through optimising 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)
 - 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

*Consider introduction of IFRS in FY2020.3



Proportion of total sales made overseas: **67%**

Overseas business bases: **51 in 32 countries***

(*As of April 2016)

Major Business Strategies

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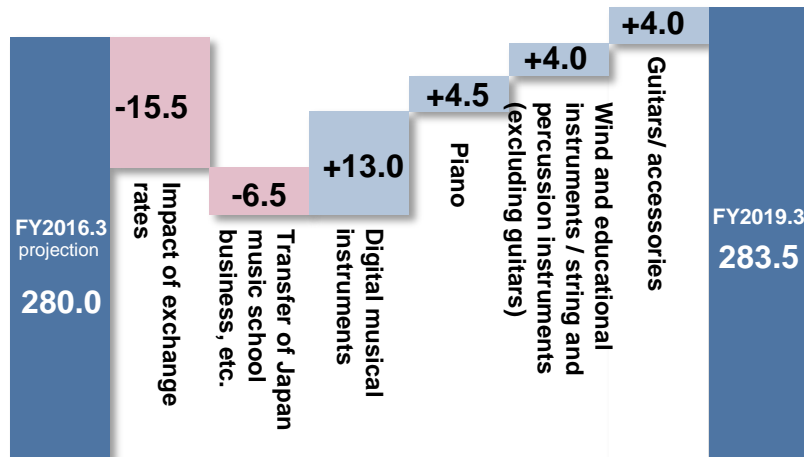
Yamaha Medium-Term Management Plan

Musical Instruments

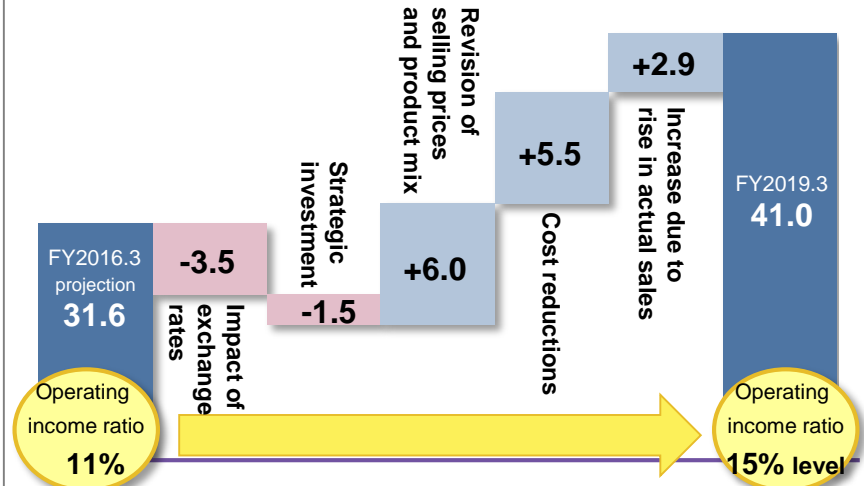


Increase profitability through technology development capabilities and marketing that takes advantage of Yamaha's business scale

Net Sales (billions of yen)



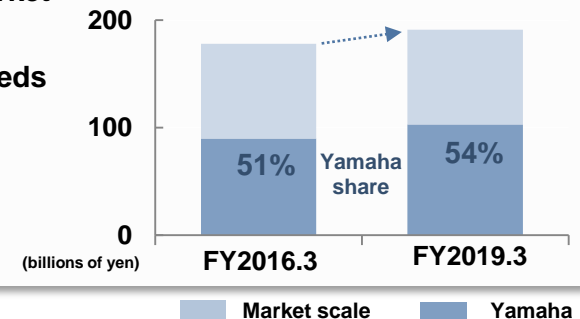
Operating Income (billions of yen)



(1) Improve profitability through growth in digital musical instruments, improvement in gross margin, and cost reduction

- Expand high-margin digital musical instruments business
 - As demand of digital pianos increases worldwide, expand Yamaha's market share
 - In portable keyboards, strengthen the product lineups suited to local needs
- Improve gross margins through product mix and review of selling prices
- Continue steady cost reduction

Digital Musical Instruments Market Growth Rate: 7% (over 3 years)



(2) Accelerate enhancing product competitiveness through pursuing the essence of musical instruments using **Yamaha original technology of scientific evaluation of assessing human sensitivities*** and offering new value

*Technology which quantitatively and qualitatively evaluates and analyzes the tacit relationships between human sensitivities and physical properties of products



- Pursue the ultimate in sound, expression, and play experience
 - Draw on analytical technology and simulation technology and continue to incorporate further innovations in materials, structure, and design

Deepen understanding of the essence of acoustic instruments



- Lift to new heights the sound, expressiveness, and play experience of instruments
 - Pursue further the fusion of digital, mechatronics, and audio technology
 - Create new enjoyment through joining smart devices and networks

Further evolve digital musical instruments



Propose new value based on hybrids

- Offer value that transcends that of acoustic instruments
 - Provide the experience of playing acoustic instruments, but overcoming restraints, such as time and place, while adding added-value of digital musical instruments
 - Realize completely new sound through the use of trans-acoustic technology



Musical Instruments



(3) Optimise marketing and points of contact with customers by region to promote increase in brand power and enhance customer interaction

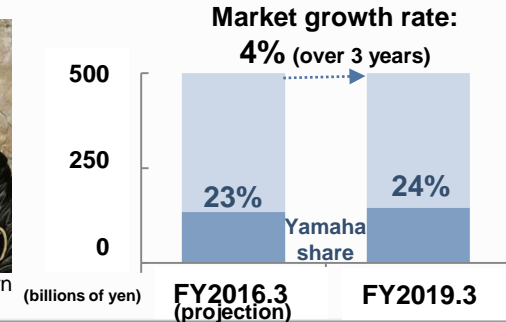
Mature Markets

- Raise brand power in countries of western musical culture
 - Strengthen artist relations activity
 - Launch guitar marketing and sales promotion activity starting from the U.S.
- Connect with customers who aspire to play musical instruments/lapsed players
 - Propose new instrument to promote enjoyment at home
 - Effectively expand sales channels for proposing new lifestyles



David Bilger

Mike Stern

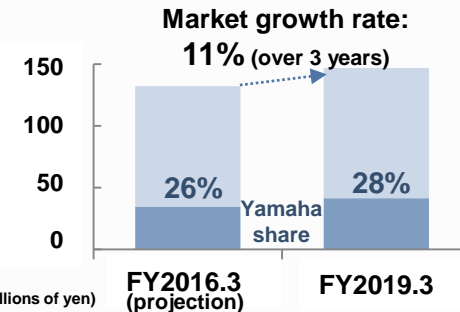


China

- Increase piano market share
 - Firmly capture growing demand of high-added-value models
 - Continue expanding sales networks in regional cities
- Achieve growth in the expanding digital piano market
 - Strengthen sales initiatives in response to growing demand driven by educational needs
- Achieve growth in guitar sales by establishing strong position for brand ahead of competitors



(billions of yen)

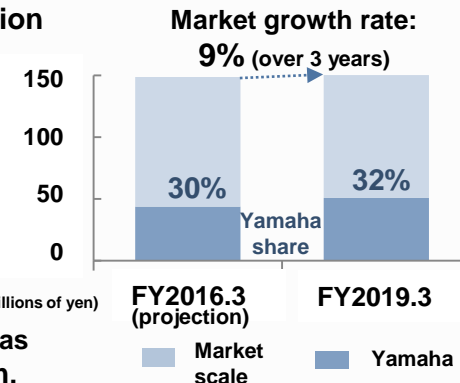


Other Emerging Markets

- Expand access to new middle classes centered on Yamaha music school and education
 - Roll out music education programs in public elementary schools : 5 countries including the ASEAN region
 - Collaboration in developing musical instrument instruction program
 - Development of music classes and extracurricular lessons (total of 100,000 pupils over three years)
 - Enhance support for youth orchestras: 7 countries of Latin America
 - Help nurture Yamaha-certified instrument maintenance technicians
 - Provide support, etc. for smaller dealerships and expand sales networks into regional areas
- Collaborate with Yamaha Motor Co., Ltd. to boost brand image: India, Taiwan, Vietnam, Malaysia, etc.



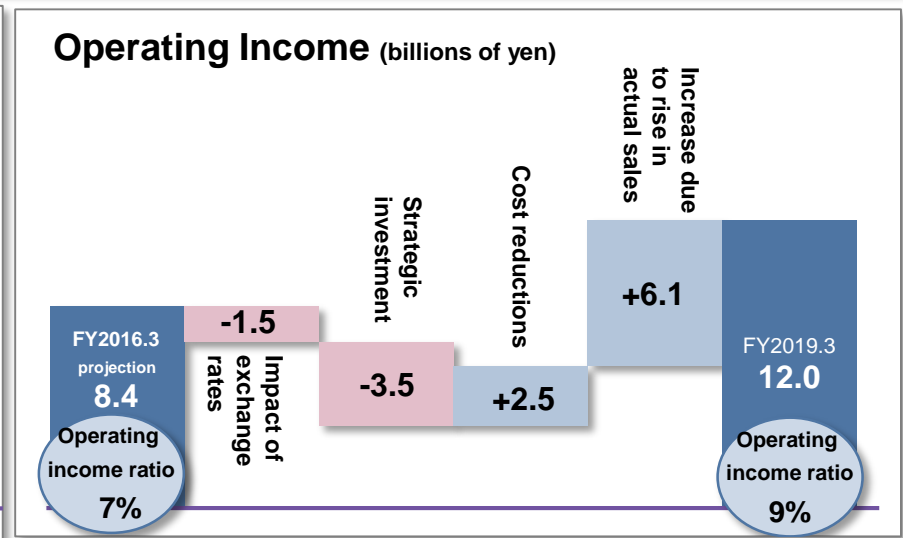
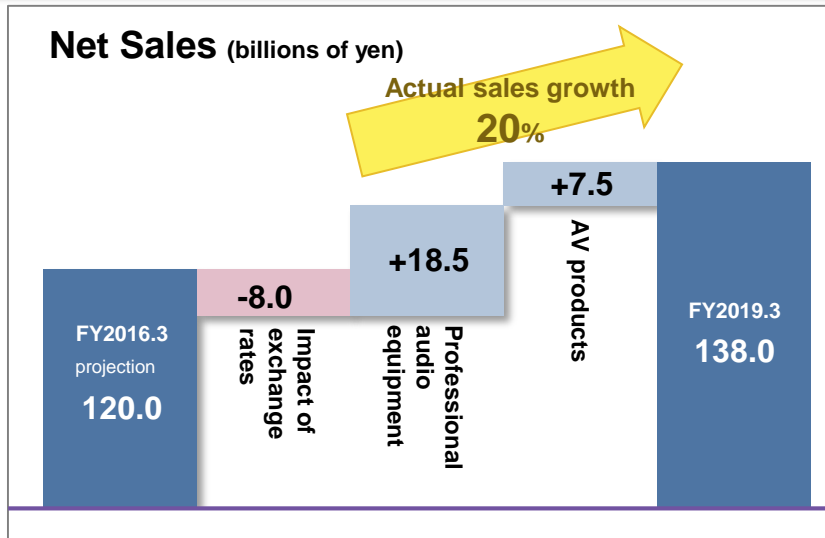
(billions of yen)



Audio Equipment



Accelerate growth through expanding the business domain with combination of technological innovation and enhanced customer support



(1) Accelerate growth by expanding applications of PA equipment for various venues

Professional Audio Equipment

Various venues

<p>Market scale ¥550 billion Market growth +8%</p>	<p>Market scale ¥50 billion Market growth +12%</p>	<p>Market scale ¥400 billion Market growth +12%</p>	<p>Market scale ¥100 billion Market growth +9%</p>
Live performances/concerts		Background music in retail stores	
Corporate conference rooms		Living spaces (custom installation)	

Established Yamaha strengths

Domains for further expansion

Audio Equipment



(2) Pursue evolution of audio systems through progressing and fusing of signal processing and network technologies

Professional Audio Equipment

Further Improve Sound Quality and Reliability

- Further strengthen Yamaha's own technology through active application to new venue
 - Promote more in-depth development in new acoustic environments of signal processing technology that supports the high sound quality that Yamaha has developed from live concerts (effecters and howling cancellation function, etc.)
 - Further improve the high stability of audio systems with network technology, which has won Yamaha a reputation for reliability in the router business

High Sound Quality:
real, natural, and clear

High Reliability:
will not be interrupted or stop



Enhance the Usability of Audio Systems

- Develop audio systems through a fusion of technologies that offer superior convenience
 - Easier equipment setting/Provide for automatic adjustments
 - Make condition of audio systems visible (monitoring)
 - Improve parameter presetting in accordance with system composition and place of installation

Ease of installation,
operation, and maintenance



Offer Total Solution

- Provide total audio systems with a high degree of flexibility
 - Secure flexibility of system equipment composition, including formation of alliances with other companies
 - Respond to need for a wider range of specifications by expanding the lineups of equipment

From audio input (microphones)
to output (speakers)

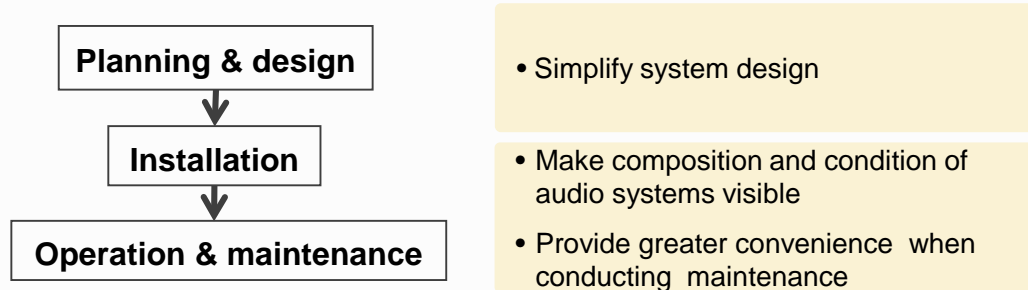


Audio Equipment

(3) Increase the number of audio contractors who partner with Yamaha by 50% through reinforcing support system

▪ Prioritise enhancement of support systems for audio contractors

- Propose solutions to reduce costs and increase operational added value

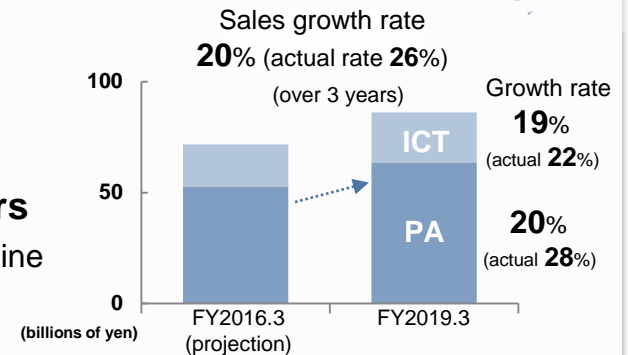


▪ Support tie-ups between IT contractors and audio contractors

- Offer integrated system of sound and ICT networks, a solution that combine professional audio equipment, AV products, and ICT devices
- Support installation through automated audio setting function

Professional Audio Equipment

Reinforce systems engineering and sales staff, especially in Europe, North America, Japan, and the ASEAN region (approx. 80 personnel)

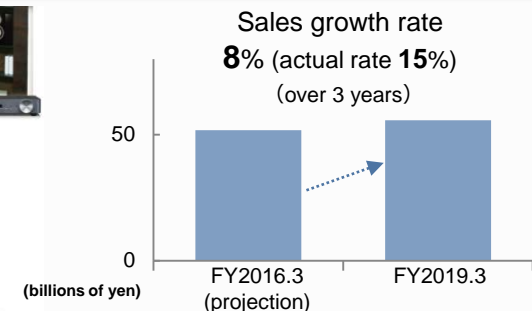


(4) Propose unrestricted listening styles tailored to consumer needs

AV Products

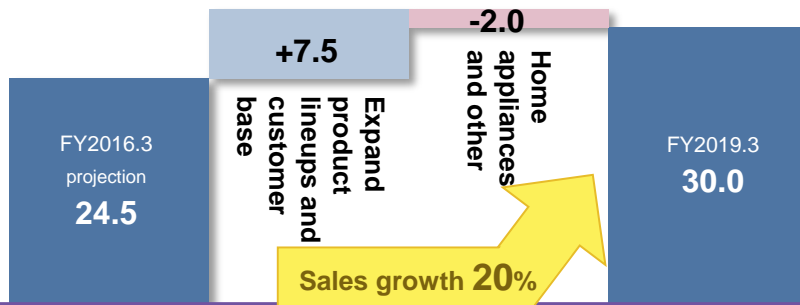
▪ Reinforce branding of MusicCast*, a strategic product creating an environment where everyone can easily enjoy music from any source throughout the home, through expanding product lineups

*New audio network enabling everyone to enjoy superior sound quality from any music source in keeping with their lifestyle

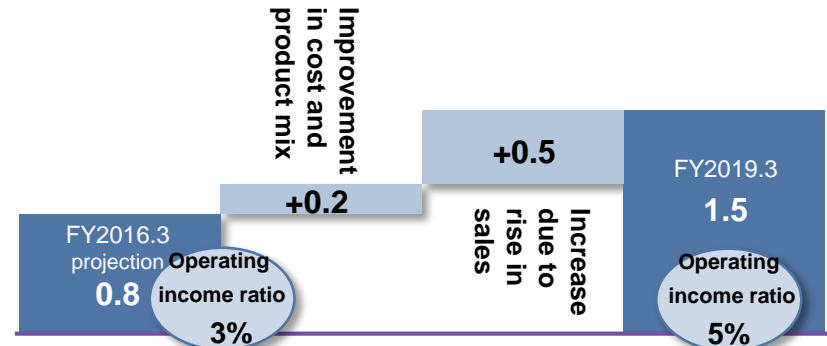


Establish third platform of Yamaha business as provider of solutions offering comfort, safe, and security

Net Sales (billions of yen)



Operating Income (billions of yen)



Transform the business from a semiconductor manufacturer to a solutions vendor, and, thereby build foundation for growth through expansion in product lineups and customer base

Expand product lineups and customer base, and enhance customer support system in onboard device market

- Offer total sound solutions achieving pleasant and comfortable sound targeted at the trend toward vehicles becoming living spaces as connected cars become commonplace
- Develop thermoelectric solutions with a view to creating eco-friendly motorized societies
- Assign design personnel to strengthen response to customers in the U.S.



Develop product for home healthcare market

- Develop new solution that contribute to healthy everyday living by applying Yamaha's sound and sensor technologies



Launch new products into industrial machinery market

- Lead the industry in FPC testing equipment with further enhanced testing capability
- Launch hydrogen-based leak testing equipment
- Expand customer support system in China and Taiwan

ESG

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Yamaha Medium-Term Management Plan

Promote activities to creating a sustainable society by reducing environmental impact

(1) Reduce environmental impact in business processes

- **Use timber sustainably**
 - Stricter verification processes on traceability and legal compliance of timber, greater use of certified timber, reforestation activities
- **Reduce greenhouse gas emissions**
 - Thorough implementation of emission controls by expanding scope to encompass entire supply chain
 - Formulation of emission reduction plan including shift to renewable energy based on provisions of COP21 agreement, etc.



Yamaha Forest reforestation activity in Indonesia

(2) Enhance development of environmentally friendly products and technologies

- **Develop environmentally friendly materials**
(develop alternative materials for rare wood, etc.)
 - Development of the world's first eco-friendly biomass-derived recorders
 - Introduction of lead-free soldering in wind instrument manufacturing
 - Development of a marimba made of glass-fiber reinforced plastic
 - Development of wood-based musical instruments using A.R.E. (Acoustic Resonance Enhancement) wood reforming technology (received a special prize from Japan's National Commendation for Invention)
- **Encourage Yamaha Eco-Products Program***
*Program to promote environmentally friendly products certified in accordance with original Yamaha standards
- **Develop technologies for reducing greenhouse gas emissions**
(thermoelectric devices, hydrogen sensors, etc.)



Certified Yamaha Eco-Products

S (Social)



Promote activities to creating a sustainable society through responding to social issues, enhancing employment policies, etc.

(1) Enhance development of products and services that address issues facing society

Apply sound-related knowledge and technology, and introduce more universal design products

- Launch of Omotenashi Guide application (sound-based universal support service)
- Application of wearable sensors in the healthcare field
- Launch of instruments with silencing function, including Silent Brass
- One-handed recorder that manually disabled persons can play



Omotenashi Guide



Silent Brass



Wearable Sensor



One-Handed Recorder

(2) Develop regional community-based business

(music popularization activities, cultural events, and corporate citizenship activities)

Resolve social issues through music and contribute to community development

- Support for community revitalization through the Oto+machi project, which helps create connected sustainable communities through music in Japan
- Support for musical education through donation of musical instruments and AV products to migrant workers' elementary schools in China
- Cooperation and support for the El Sistema music education support project in Venezuela
- Development of musical education programs in public elementary schools, mainly in the ASEAN region



Oto+machi



El Sistema



Donation to Migrant Farmers' Schools in China



Musical Education Program in the ASEAN Countries

(3) Take systematic initiatives to promote diversity, socially responsible procurement, and respect for human rights

Carry out activities in line with the United Nations Global Compact*

- Introduced a re-employment system for persons who have retired for nursing care, received recognition as a next-generation employer** for expansion of systems for supporting employees who continue to work as they rear children
- Verify compliance with the Yamaha Supplier CSR Code of Conduct (human rights, labor practices, etc.) and request for the corrective action when necessary

*Signed by Yamaha in 2011

**Obtained certification and Kurumin logo mark from Japan's Ministry of Health in 2008 and 2014

Continue to improve organizational structures and mechanisms to maintain and advance transparent, high-quality management

(1) Corporate Governance Initiatives

Ensure highly effective operation of the Board of Directors and swift implementation of decisions by separating corporate oversight from execution and strengthening supervisory functions

Membership of Yamaha Board of Directors (as of April 2016)

- Six directors, including three outside directors, two of which are independent outside directors

Key Initiatives

- Identify issues through analysis and evaluation of Board of Director effectiveness and continually improve Board operation
- Further enhance the functional capabilities of supervision and advice from the independent outside directors through enhancing the shared awareness of management issues provided by the company executives, etc.

(2) Initiatives for Strengthening Internal Controls

Received a higher appraisal from external specialists for Yamaha's internal auditing systems and methods

Improve Yamaha Group corporate governance, including overseas Group companies, as a result of further improvements in quality of internal control systems

In addition to an existing corporate culture with a strong sense of ethics, improve capabilities for dealing with risks, by introducing more advanced risk management structure

Investment and Return to Shareholders

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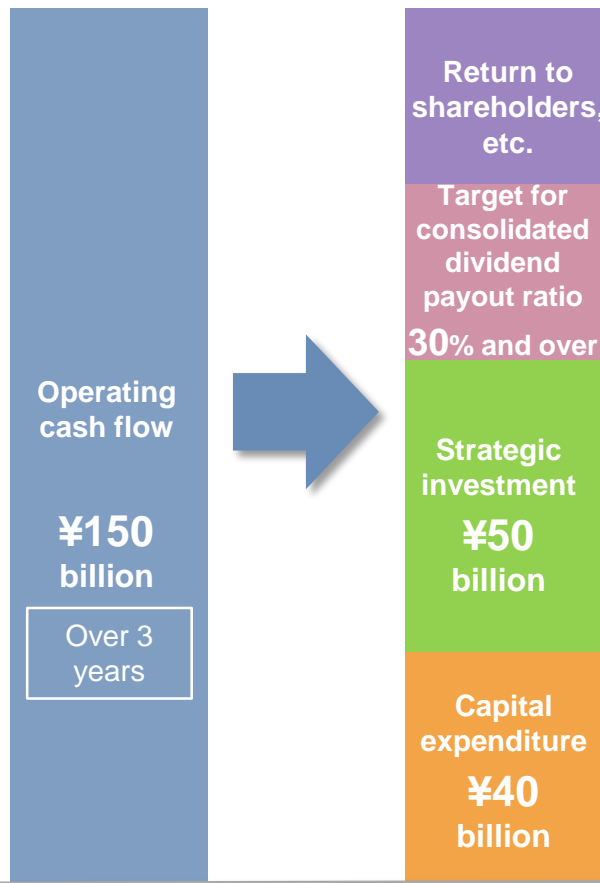
Cash generated will be allocated to strategic investment, the remainder is proactively returned to shareholders

Investment

- Capital expenditure: **¥40 billion**
Baseline investment to support existing business (same level as depreciation)
- Strategic investment: **¥50 billion**
Strategic investment to create new value
 - Investment in reorganization of production bases
 - Construction of new R&D building to spur innovation
 - M&A and capital tie-ups to expand business and acquire new technologies
- Investment in strategic marketing and strategic R&D: **¥10 billion** (included in operating cash flow)
Strategic investment to expand customer contact and technology innovation

Return to shareholders

- Continual, stable dividends will remain the basis of shareholder return policy, but the policy will be implemented flexibly to enhance capital efficiency while considering a proper balance with retained earnings needed for making investment for future growth
- The target consolidated dividend payout ratio is **30%** and over





SHARING PASSION & PERFORMANCE

In this report, the figures forecast for the Company's future performance have been calculated on the basis of information currently available to Yamaha and the Yamaha Group. Forecasts are, therefore, subject to risks and uncertainties.

Accordingly, actual performance may differ greatly from our predictions depending on changes in the economic conditions surrounding our business, demand trends, and the value of key currencies, such as the U.S. dollar and the euro.