

April 2004 to March 2007
Medium-Term Business
Plan Briefing

February 10, 2004
YAMAHA CORPORATION

■ **Business risks increasing**

Shifts in market composition/technology, escalating competition and growing compliance risks

■ **Moving toward knowledge value-based society**

Key to competition is brand creation and converting technical expertise, know-how, and other knowledge into earnings

■ **Influence of China increasing**

Growing presence as production base and consuming region
Expanding competitiveness in global markets

Basic stance of medium-term plan



**Stable generation of high earnings
Aiming to realize business structure capable of
sustainable development**

YSD50
SUSTAINABLE DEVELOPMENT

*** YSD is acronym for YAMAHA Sustainable Development
50 represents target of ¥50bn in earnings and zero net debt**

**The factors crucial to sustainable development are:
(1) strong earnings base, (2) creation of added value with continual
growth, and (3) working in harmony with the environment and
society**

Three main policies of the plan



Sustainable/stable
high-profit earnings structure

Innovative and high-quality
**product development/
business creation**

**Corporate social responsibility/
CSR-focused management**

Targets for fiscal year ending March 2007 **YAMAHA**

Exchange rates (¥110/\$ and ¥127/€)

Consolidated Operating Income

¥50bn

Net Income

¥34bn

ROE

10%

FCF (3-year)

¥60bn

Net debt

Zero

Inventories

2.9 months

Consolidated sales

¥590bn

**Sustainable/stable
high-profit earnings
structure**

- 1) Musical instruments: Operating income of ¥30bn**
- 2) Other core businesses: Stabilize earnings bases**
- 3) Make all existing business units profitable**
- 4) Reduce total costs by cutting procurement expenses, revamping manufacturing processes, retooling business processes, and rationalizing clerical tasks**

- 1) Strengthen planning/development and marketing capabilities to increase added value of products**
- 2) Seek growth in professional audio equipment business and Chinese market while revitalizing Japanese market**
- 3) Revamp manufacturing processes**

1) Strengthen planning/development and marketing capabilities to increase added value of products



■ Development of high value-added products

- Leverage technology seeds to provide customers with fun, easy-to-use instruments
- Strengthen development of mid- and high-end models



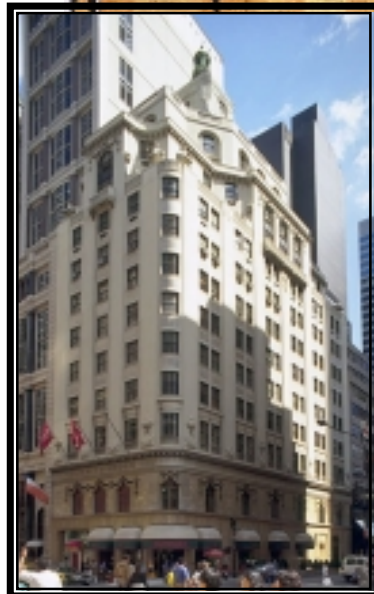
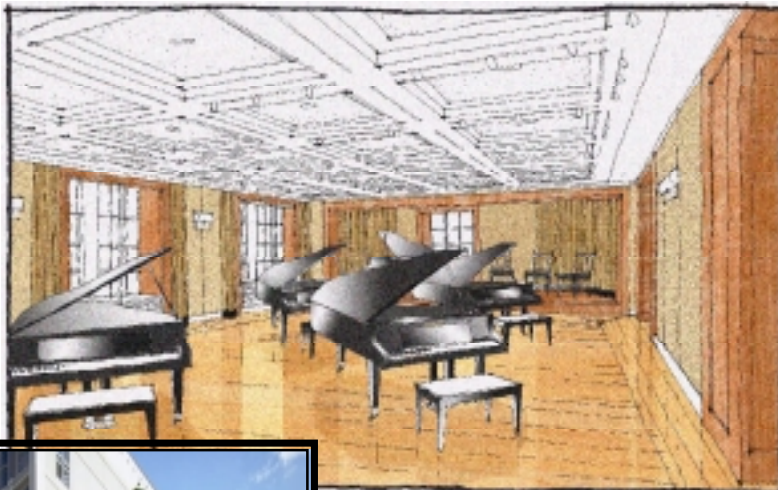
**Electone
STAGEA**



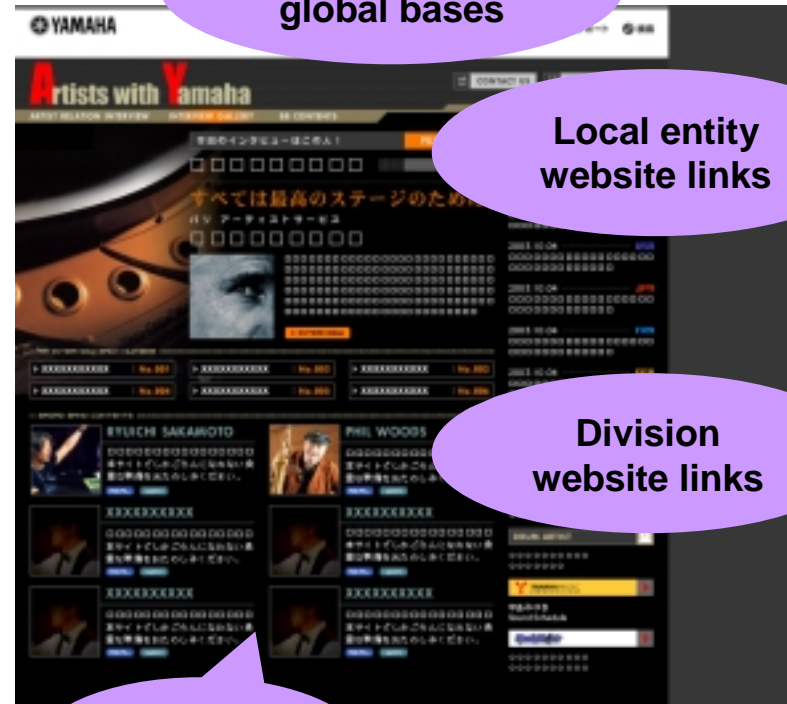
Custom Z series

**Disklavier
Mark IV**

■ Meeting the needs of artists and specialists



**Yamaha artist service
NY office (image)**



Information from
global bases

Local entity
website links

Division
website links

Artist
videos

Introduction of new artist relations website (image)

2) Seek growth in professional audio equipment business and Chinese market while revitalizing Japanese market



■ Growth in professional audio equipment business (150%)

- Realize system solutions based on mixers
- Focus on small- and medium-sized SR (live sound) equipment market
- Strengthen marketing systems



■ Expand sales in Chinese market

- Strengthen sales network and marketing systems
- Enhance YAMAHA brand by emphasizing YAMAHA quality and proactively accommodating the needs of music conservatories and artists
- Make preparations for establishing YAMAHA music schools
- Enhance production base by establishing a manufacturing plant in Hangzhou, China



■ Revitalization of Japanese market

- Revise sales method in Japanese business
- Bolster investment in dissemination/sales points
(¥10bn over three years)
- Launch “STAGEA” and expand Electone fans



unistyle



Core 100

3) Revamp manufacturing processes



- **Reform YAMAHA production concepts and construct optimal mechanisms for manufacturing musical instruments**
 - **Deploy Toyota Production System (TPS) and Total Production Management (TPM) on all fronts**
 - **Reduce inventories and employ SCM**

- **Reassess production bases**
 - **Reposition and bolster bases**
 - **Get Hangzhou Yamaha Musical Instruments on track**

- **Reduce procurement costs**
 - **Enhance ability to procure/supply materials globally**

- **Expand overseas ringing melodies distribution service**
 - FY2007 Sales target of ¥720mn
 - **Develop new businesses by leveraging portal sites**
 - “Melocha” comprehensive site for mobile phone users (4mn subscribers)
 - Music portal site “Music e-Club” (2.2mn visitors/month, YOM* membership 0.3mn)
- *YOM: YAMAHA online member
- **Meet the challenge of enhancing the group label (Yamaha Music Communications, Music Front) by constantly searching for new hit artists**

■ Strengthen the home theater business

- Promote product differentiation
 - Differentiate YAMAHA products by employing its strength in “sound”
 - Match designs to needs in thin-screen TV era
 - Better position YAMAHA brand of speakers

- Further improve QCD and produce various products in variable lots
 - Implement cell production integrated management
 - Increase the level of SCM

■ **Expand router business for enterprise/SOHO solutions**

- **Specialize in SOHO/enterprise solutions revolving around VPN/VoIP**
 - **Enhance/expand high-speed, multi-function routers**
 - **Propose solutions to integrate voice & data**

- **Establish solutions business process**
 - **Establish integrated customer response system encompassing agents, development, and sales**

 - **Implement marketing process that capitalizes on timely feedback on customer queries**

■ Sustain worldwide share of mobile phone sound source chip business

- Further pursue SMAF in global market
 - Expand content support for all countries/regions
- Pursue sustainable development/market entry for new products
 - Propose differentiated solutions using sophisticated products
 - Respond to price competition with low-cost products
- Employ production to accommodate demand shifts

- **Expand in areas outside of mobile phone sound source business**
 - **Amusement field (sound source, video)**
 - **Audio field (automotive, digital amps)**
 - **Telecommunications field (IPv6-related products)**
 - **Sensor field (terrestrial magnetic, other)**

■ Lower breakeven point

- Ensure that production systems are optimized for each given industry
- Expand copper-related production capacity by converting former Invar facility
- Promote TPM to sustain improvement in QCD

■ Cultivate and expand copper-related connector business

- Tap new markets by leveraging alliance with Olin

- **Establish business model for remodeling operations business**
 - Pursue market strategy of developing close ties with home builders and at the regional level by setting up showrooms and targeting end users
 - Complement sales and resources of alliance partner AWL

- **Further lower breakeven point and continually deploy resources**
 - Increase sophistication of production supply methods that are focused on construction
 - Revamp products, clerical tasks, and personnel structure

■ Become undisputed leader in specific regions and/or fields

- Advance unique experience proposals based on coexistence with nature and amusement, hospitality, and food specific to particular regions
- Provide facilities that offer unparalleled enjoyment of sound and music



Kiroro



Katsuragi Kitanomaru



Haimurubushi

■ Golf products

- Heighten brand presence with New “inpres” series

■ Automobile interior components

- Increase competitiveness by reducing costs through the retooling of manufacturing processes
- Cultivate new customers. . .overseas makers, new manufacturing methods/new designs

■ Metallic molds and factory automation products

- Realize No. 1 factory status in terms of manufacturing costs for magnesium parts
- Establish business model as provider of decorative chassis solutions
- In FA, increase business scale of precision parts, leak testers, and robots to point where they can stand alone

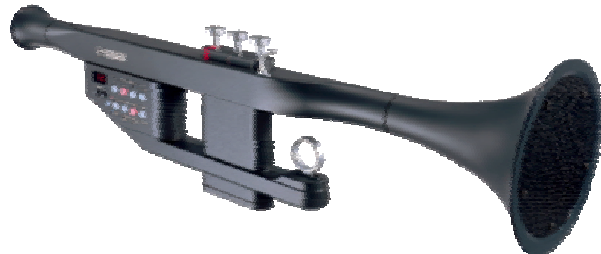
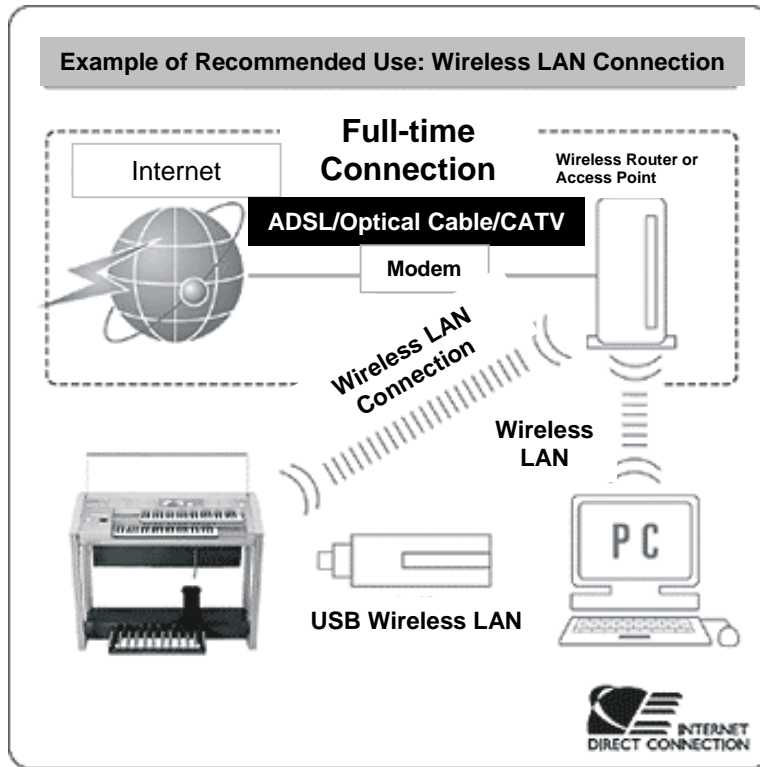
**Innovative and high-quality
product development/
business creation**

- 1) Propose new forms of amusement**
- 2) Continually deploy a comprehensive media strategy**
- 3) Create new businesses underpinned by our core competence in sound**
- 4) Strengthen technology as a development base/energize corporate culture**

Propose new forms of amusement



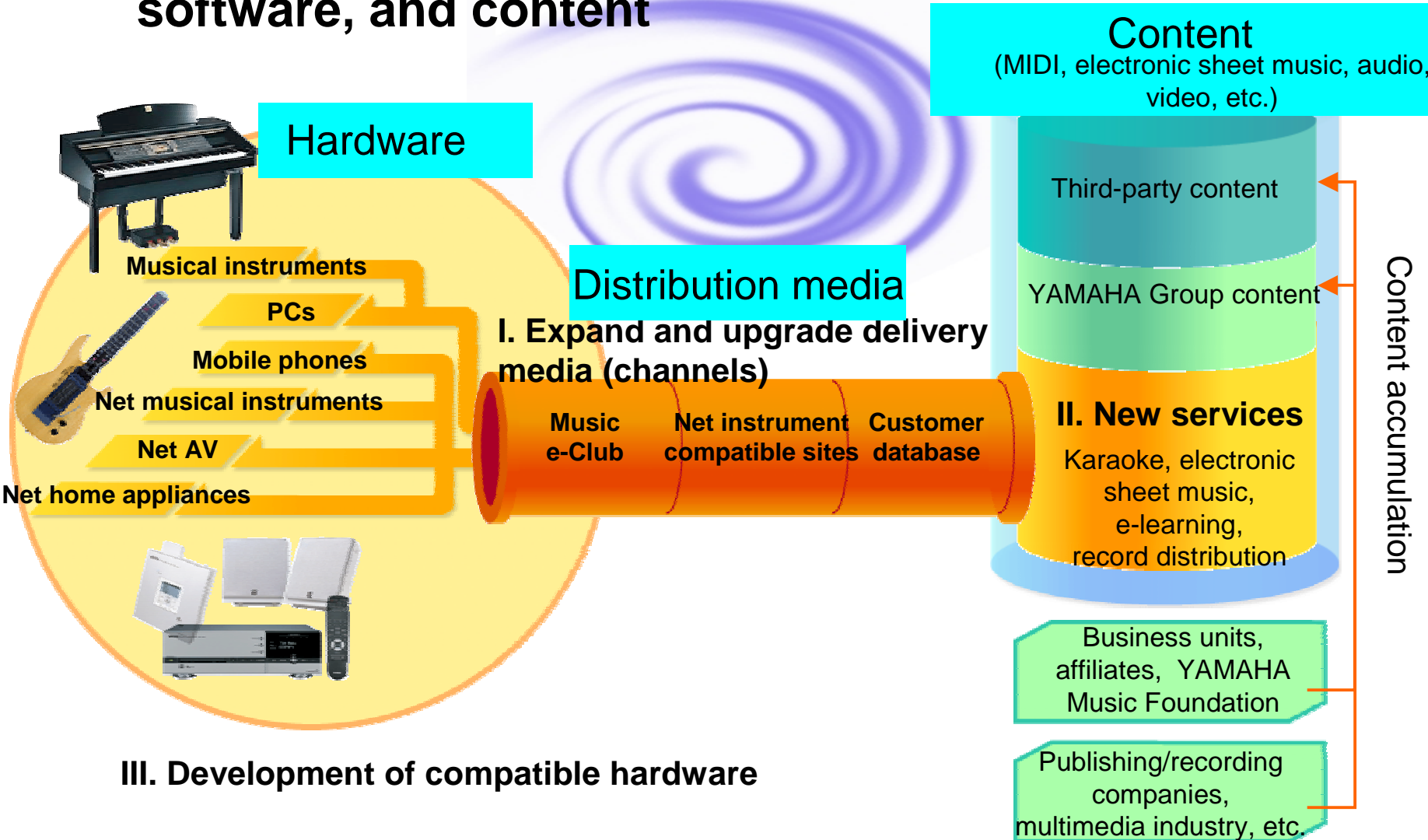
- Expanding demand for use in network connections and simple music performances



Comprehensive media strategy—a new phase



- Create new businesses that interlock our hardware, software, and content



Create new businesses based on our core competence in sound



Aiming to grow and establish new businesses and position our brand as a “sound specialist” that mines and combines the sounds that comprise music and that manipulates human voices and environmental sounds

- **Amid shift to networked systems, develop technology to facilitate lifestyles that center on sound**
Establish Sound Life Strategy Promotion Office as development/marketing organization
- **Starting with HIC (Human Interface Component), promote component businesses that focus on people and that deal with senses and emotions**
- **Strengthen basis for the concept of YAMAHA as a sound expert**

**Corporate social
responsibility/
CSR-focused management**

- 1) Compliance with laws and regulations**
- 2) Environmental preservation**
- 3) Safety and health**
- 4) Disclosure**
- 5) Harmony with society/culture**

Environmental preservation



- **RoHS response (green procurement and environment-friendly design)**
 - Complete response by FY2005
- **Zero emissions**
 - Achieve targets at YAMAHA parent plants by 2005 year-end
- **Reduce emissions of compounds subject to PRTR**
 - Reduce FY2006 volume by 20% compared with FY2002 level
- **Reduce CO2 emissions**
 - Reduce FY2010 emissions by 6% compared with FY1990 level (compliance with Kyoto Protocol)



Solar electric generation facility(image)

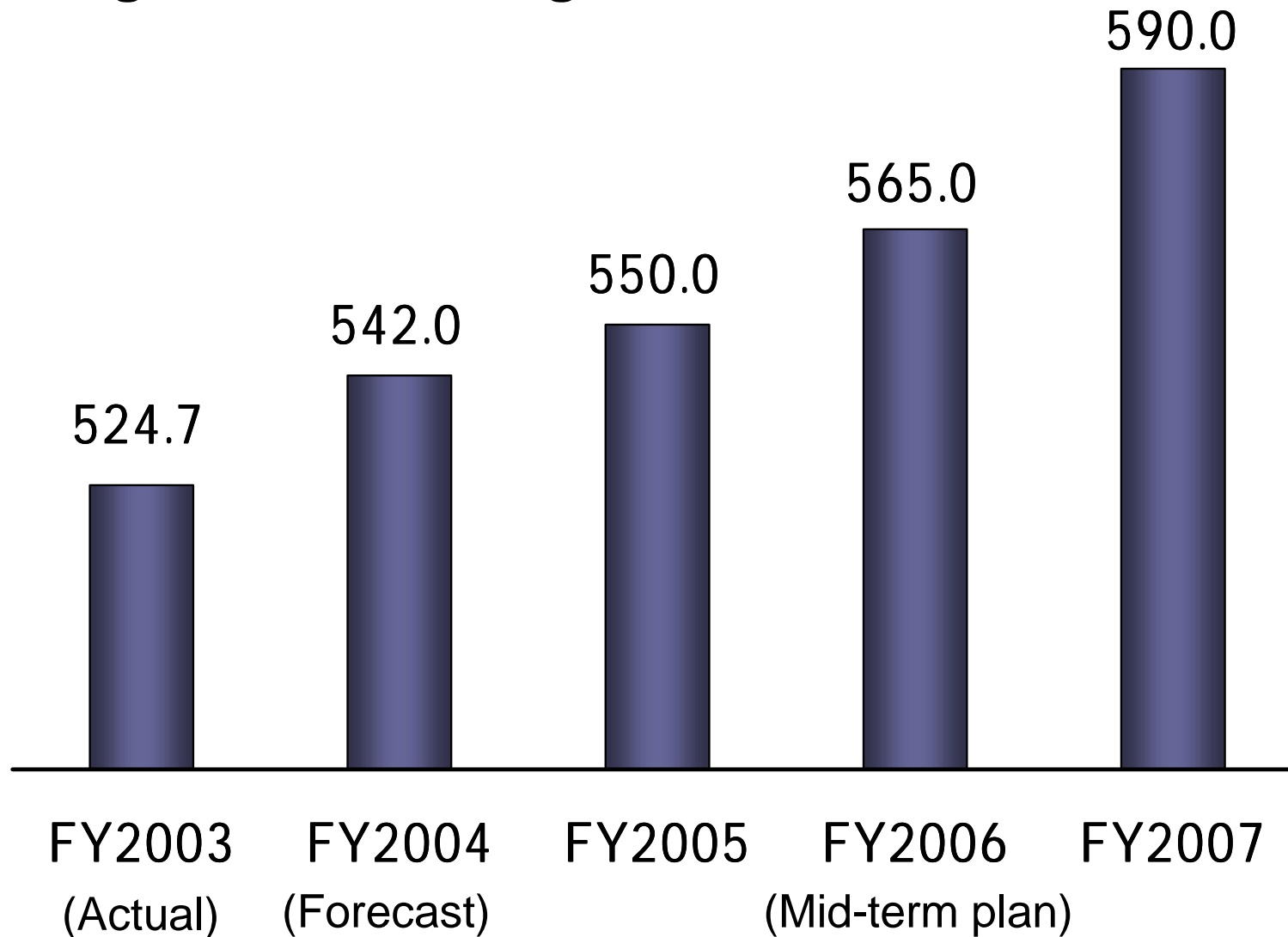
Medium-term business plan targets

Sales targets



(Billions of Yen)

■ Aiming for solid sales growth

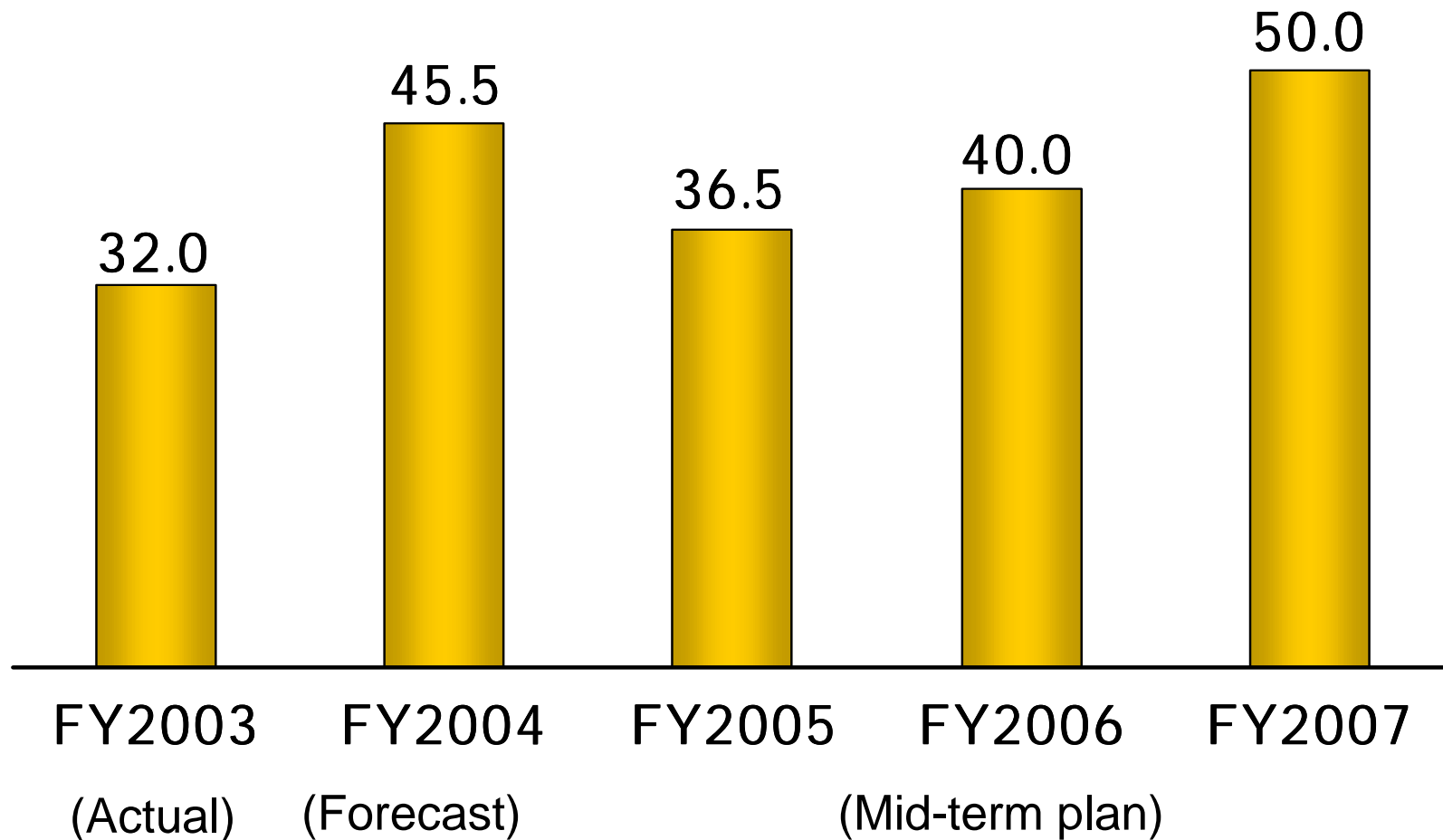


Operating income targets



- Achieve record-high earnings in FY2007

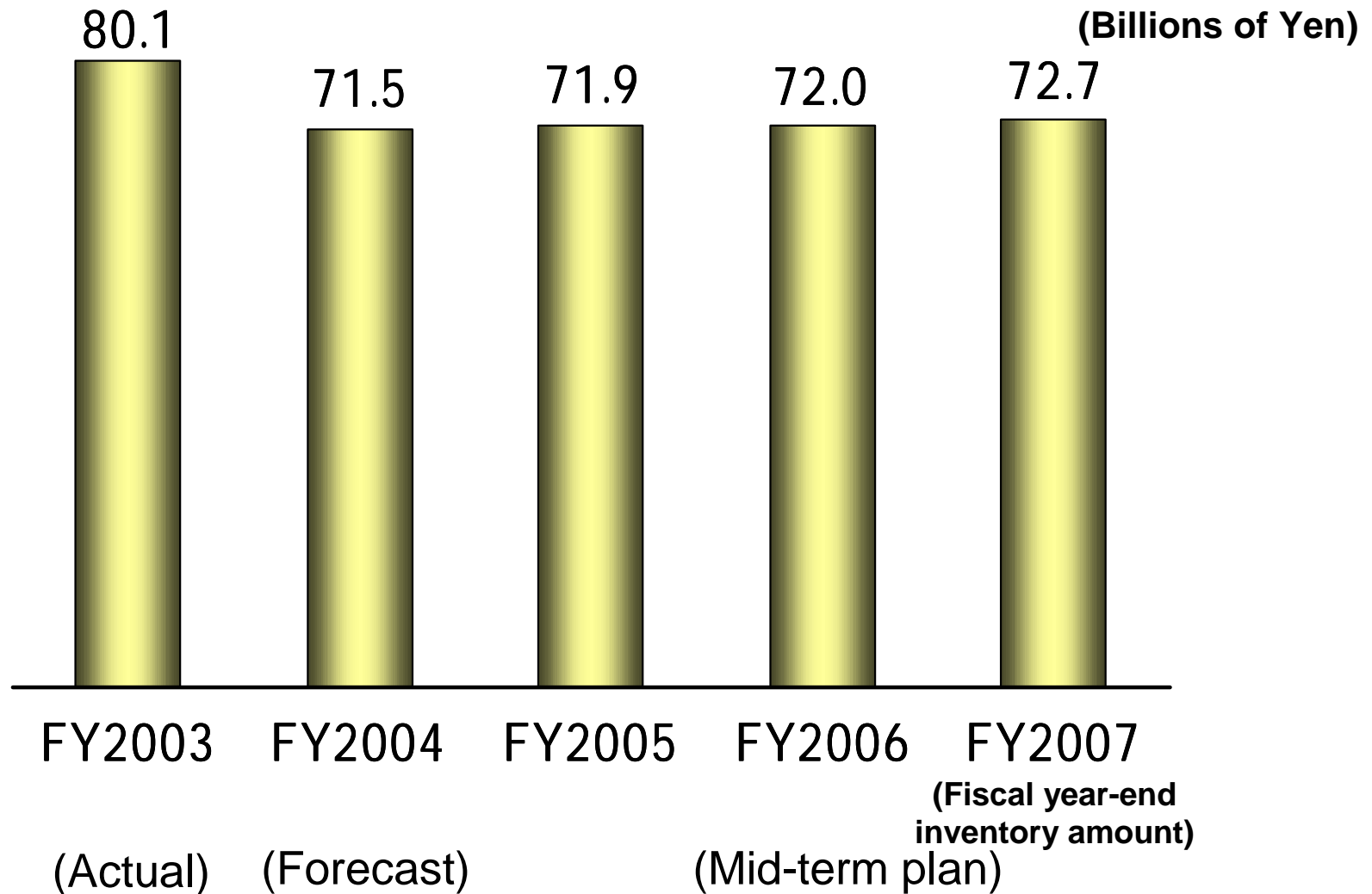
(Billions of Yen)



Inventory targets



- Reduce FY2007 inventories by 20% compared with level in FY2003

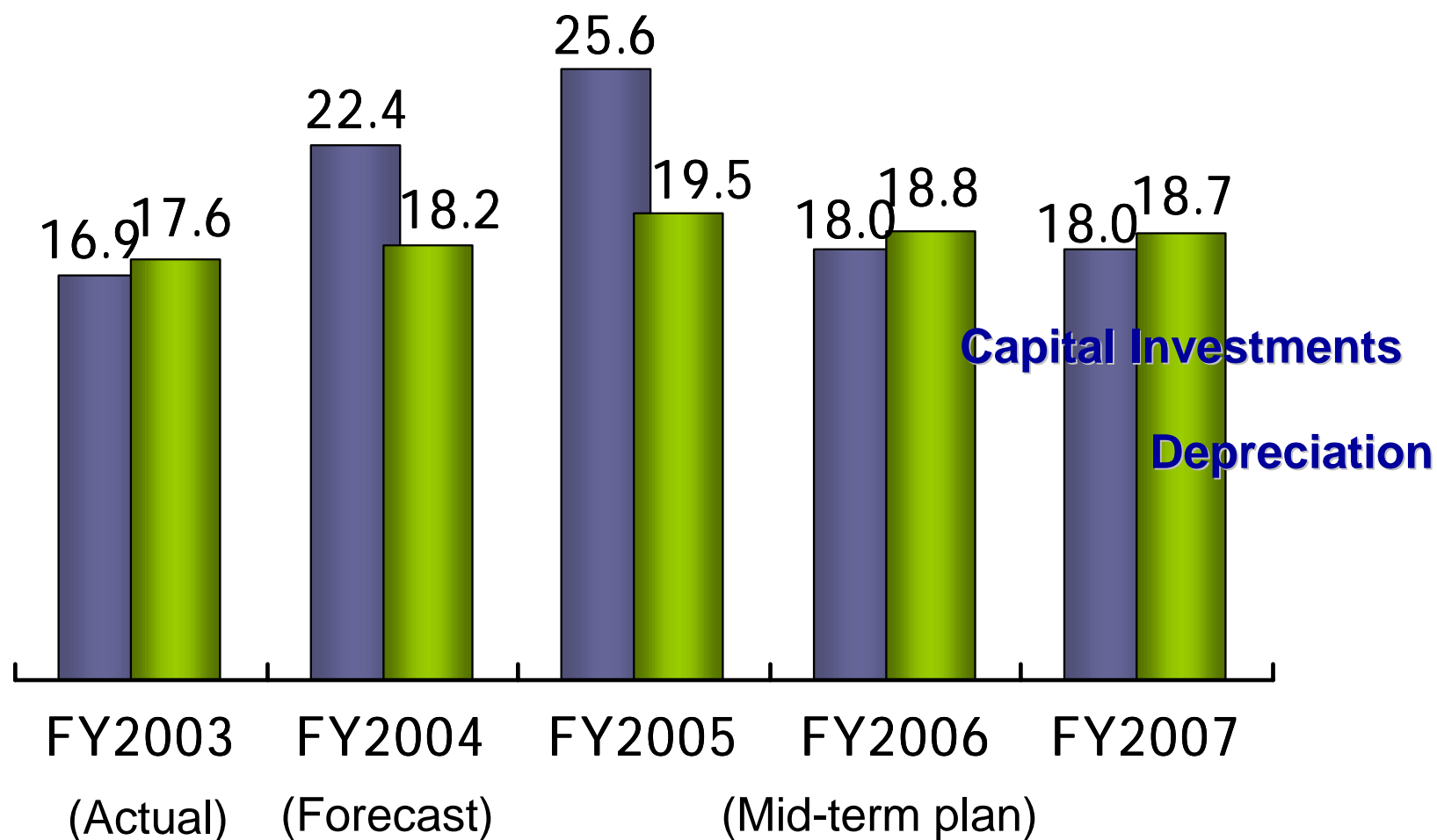


Capital investment targets



- In FY2005, invest aggressively in sales bases and plant/equipment

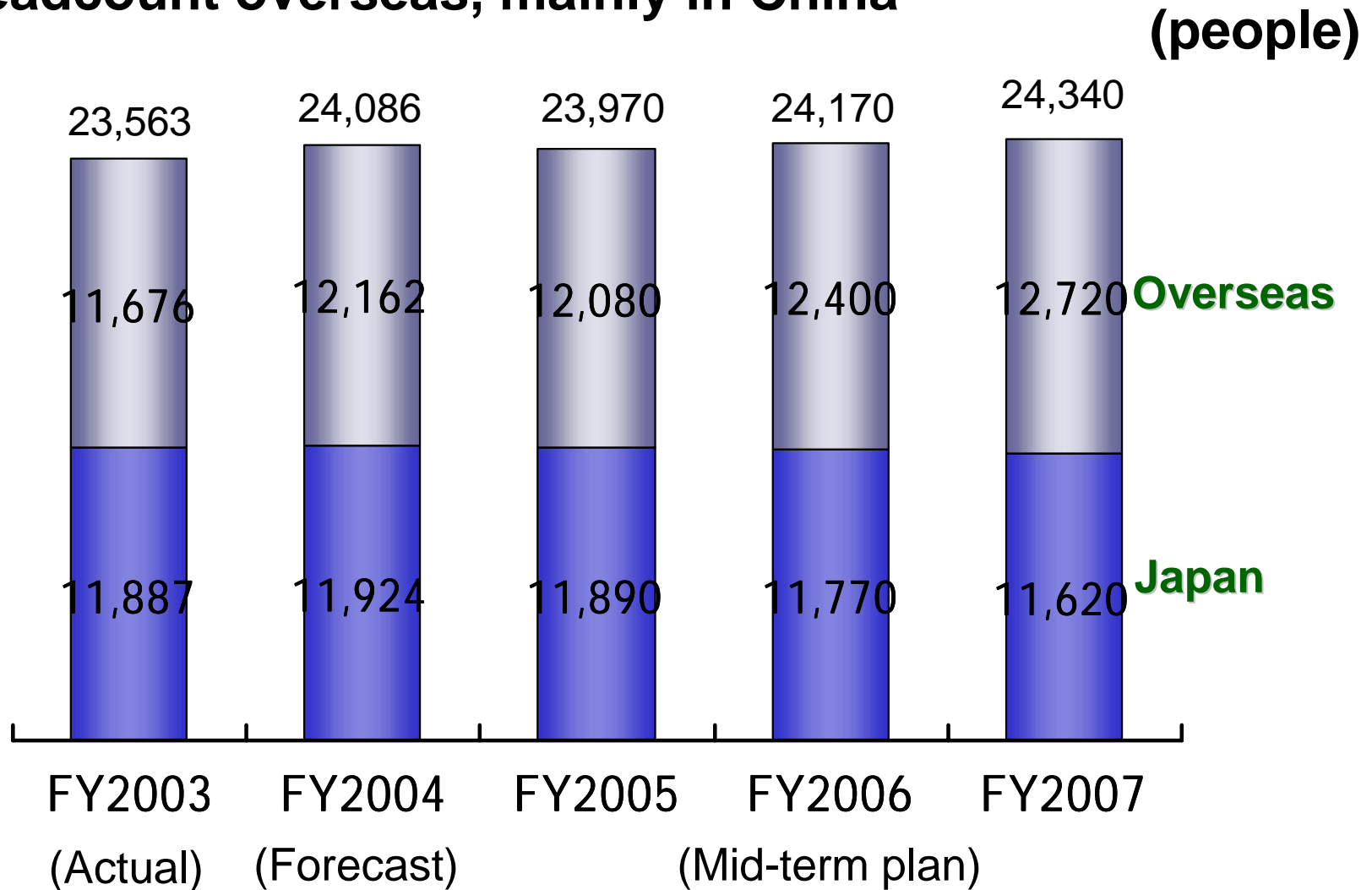
(Billions of Yen)



Headcount targets



- Reduce Japanese headcount; Increase headcount overseas, mainly in China



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, our actual performance may differ greatly from our predictions depending on changes in our operating and economic environments, demand trends, and the value of key currencies, such as the U.S. dollar and the EURO.