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Outline of the New Medium-Term Management Plan “Yamaha Management Plan 2016”

Yamaha Corporation has formulated its new management plan “**Yamaha Management Plan 2016 (YMP2016)**” that will cover the three-year period beginning in April 2013 to follow its Yamaha Management Plan 125 (YMP125), which was completed at the end of March 2013. YMP2016 sets forth Yamaha’s basic management policies, key strategies, and its numerical targets.

Yamaha has positioned the three years under YMP2016 as the first stage of the “quantum leap phase” of its development. During this stage, Yamaha will secure growth in its existing businesses and make active investments to attain the numerical targets of the next stage, which will be consolidated net sales of ¥500 billion and operating income of ¥50 billion.

Under the new management plan, by the fiscal year ending March 2016, Yamaha will aim to reach consolidated net sales of ¥430 billion (which will represent real growth over the three-year period of 14%), operating income of ¥30 billion (which will imply an operating income ratio of 7%), and a return on equity (ROE) of 10%. Over the period of YMP2016, Yamaha plans to make investments for growth of ¥33 billion.

1. Review of YMP125

Under the previous medium-term management plan, YMP125, Yamaha targeted consolidated net sales of ¥427 billion, operating income of ¥25 billion, and an ROE of 7%. As announced on February 6, however, the outlook for the final year of YMP125 is for consolidated net sales of ¥365 billion (85% of the target level), operating income of ¥7 billion (¥18 billion below target), and net income of zero. The period under YMP125 was positioned as “a phase for building a foundation for growth.” Recovery from the

repercussions following the collapse of Lehman Brothers Holdings has been expected, but performance was substantially below the targets under the plan because of the unexpectedly sharp appreciation of the yen.

Amid this operating environment, however, Yamaha was able to achieve growth according to plan in China and the emerging countries, which was one of the key strategies of YMP125. Yamaha also introduced a series of industry-leading new products, including grand pianos, hybrid pianos, acoustic electric guitars, small guitar amplifiers, large digital mixers, and AV receivers. Progress was made toward reorganization of production facilities in Japan. For pianos, all production processes were consolidated into the Kakegawa Factory as of August 2010, and all wind instrument manufacturing process were integrated into the Toyooka Factory as of March 2012.

On the other hand, a number of issues remained to be addressed since Yamaha was not able to overcome the deterioration in profitability resulting from changes in the market environment and increased competition. In the fields of further developing its “services” businesses and entering new businesses in the “sound” domain, Yamaha created a number of new products and services, but their contribution proved to be marginal.

2. Management Directions

Yamaha will not make changes in its Corporate Philosophy or Management Vision, which is “What Yamaha is Aiming For” stated in the previous plan.

However, Yamaha has redefined its business domains, which were formerly divided into “core fields” and “applied fields,” along the axes of technology and know-how. Yamaha’s technology and know-how can be classified mainly into three fields: “wood and metal processing technology,” “digital signal processing and network technology,” and “expertise in content creation and facility management.” Combining these three with the essence of “sound and music,” which Yamaha has accumulated over the years, this takes form as Yamaha’s core competencies. Based on this concept, Yamaha has redefined four new business domains. Going forward, Yamaha will formulate prioritized strategies for each of these business domains to achieve steady growth in existing businesses and develop new businesses. In each of these domains, Yamaha will draw on its core competencies to the maximum extent and strive to realize synergies wherever

possible.

(1) Management Vision: “What Yamaha is Aiming For”

- Becoming a brand that is trusted and admired
- Conducting operations centered on sound and music
- Achieving growth driven by both products and services

(2) Business Domains

Acoustic musical instruments

Business activities that bring richer sounds to more customers by concentrating outstanding craftsmanship and production technology capabilities in the areas of precision processing of wood and metals

Electronics

Business activities that add new value for customers by applying cutting-edge technologies in fields such as digital signal processing and networking

Education/ Leisure

Business activities that offer customers high-quality lifestyles by bringing together Yamaha’s unique, creative services and content with its expertise in facility operations

Industrial Parts/ Machinery

Business activities that support the growth of corporate clients’ businesses by making maximum use of Yamaha core competencies

3. The New Medium-Term Management Plan

(1) Basic Management Policies

- Attain sustainable growth
- Strengthen profitability to support growth
- Enhance specialization and professionalism to create new value added

(2) Positioning

As the first stage in Yamaha’s “quantum leap phase,” with emphasis on “steady growth in existing businesses” and “active investments for growth aiming for the next leaps forward”

(3) Numerical Targets (Year ending March 2016)

- Net sales: ¥430 billion (real growth of 14% over the plan period)
- Operating income: ¥30 billion (operating income ratio of 7%)
- ROE: 10%

(4) Summary of Key Strategies

Yamaha will aim for growth driven by its profitable businesses in China and the emerging countries as well as its electronics business, while working to improve profitability in the piano, wind instruments, and semiconductor businesses. Yamaha will allocate earnings generated to make investments for future breakthroughs in growth.

Accelerate growth in China and the emerging countries

Yamaha will focus its management resources in China and the emerging countries with the aims of further developing its sales network and accelerating growth in those countries. In addition, on April 1, Yamaha began operations at its sales subsidiary in Vietnam and opened a sales branch in Turkey. Also, Yamaha opened a representative office in South Africa to proceed with market development in the southern part of the African continent.

Also, with the objective of increasing the music-playing population in the emerging countries, Yamaha is moving forward with activities to further expand its music schools and raise the awareness of the introduction of music education in schools.

Expand sales in the electronics business domain

In the realm of digital pianos and portable keyboards, Yamaha is working to differentiate its products by developing sound sources with superior realism and designing new keyboards. In addition, Yamaha is enhancing local content to better match market needs with the objective of developing dominant market positions. Also, Yamaha is developing entry-level models for the emerging markets and is entering the low-priced market segments as well.

For the professional audio equipment business, Yamaha is strengthening its capabilities for developing system equipment with digital networks as the core and is expanding its product lineup in this field. Yamaha is also broadening the scope of its activities by entering the commercial installation market and professional production market.

Moreover, centering on the products with high shares in the Japanese market, such as routers for SOHO (small-office, home-office) market and USB microphones and speakers for web conferencing, Yamaha will broaden its business activities in the information and communication technology (ICT) equipment field.

The router business for the SOHO market is undergoing a transformation to become “a network device solution business.” In addition, the USB microphone and speaker for web conferencing business is broadening into the “audio communication device business.”

Strengthen cost-competitiveness

At existing production locations, Yamaha will strive to clarify their respective roles and functions and increase their production capacity and utilization rates with the aim of lowering costs. In Japan, Yamaha will work to make its manufacturing operations more compact and flexible in responding to changes through setting up subsidiaries. At overseas factories, such as those in China and Indonesia, in response to rising labor costs, Yamaha will boost local procurement of materials and bring outsourced parts production in-house. Yamaha will also work to raise the level of manufacturing technology by introducing new production methods and improving existing processes.

Create new businesses

To expand the scope of existing businesses and achieve a quantum leap in the next stage, Yamaha will engage actively in M&A and capital partnerships. Among these activities, investment will be focused on professional audio equipment, where further growth is expected.

Along with its yamaha+ activities, which commenced the year before last and are aimed at creating new businesses, Yamaha will place increased emphasis on investing in venture firms to discover next-generation technologies and services from outside the Group that will contribute to growth.

To move these new business initiatives along, Yamaha has set aside the following special allocations for growth investment to be used over the coming three years.

- Investments in M&A and capital partnerships: ¥30 billion
- Investments in venture firms: ¥3 billion

(5) Human Resource Development Initiatives

(Enhancing Specialization and Professionalism)

To develop the management talent needed in the coming generations, Yamaha will expand its education and training programs. Emphasis will be placed especially on training management-level personnel to manage Yamaha subsidiaries, including establishing new companies, at the global level. This will also be with an eye to appointing local national staff overseas to such positions.

More so than in the past, as a result of business structural reforms and organizational realignments, high levels of specialization and professionalism will be needed to perform roles and functions in Yamaha's divisions and subsidiaries. Yamaha will expand opportunities for individuals to enhance their professionalism and acquire specialties.

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