

# Risk Factors

The Yamaha Motor Group faces a variety of risks which have the potential to significantly affect investor judgments about the Group. These are discussed below. Forward-looking statements in this section are based on the information available to the Group as of March 26, 2010.

## Risks Related to Business Operations

For risks discussed below, to which our business is normally exposed, the Yamaha Motor Group ("the Group") incorporates hedging policies in its business plans, and takes hedging measures in its medium-term management plan and budgets. The Group also closely monitors conditions and developments, and promptly responds to changes. Meanwhile, the Group is currently addressing important issues as it works to accelerate business structural reforms. These are intended to swiftly build a profitable structure and lay the groundwork for future growth.

However, uncertainties in the business environment surrounding the Group may negatively impact these efforts. For example, the planned reorganization of the global manufacturing layout may be delayed beyond the period specified in the new (fiscal 2010-2012) medium-term management plan. Likewise, it may take longer than originally planned to return Group businesses to a profitability track after structural reforms are implemented. The Group may not realize the degree of savings from cost reductions it had expected. Serious risks may occur, beyond the capability of these measures to accurately respond. Such risks, in turn, may prevent the Group from achieving the medium-term management plan targets, and may adversely impact the Group's business performance, by, for example, necessitating an additional impairment loss on fixed assets.

## Economic Conditions

The Group conducts businesses in nations and regions around the globe, including Japan, North America, Europe, and Asia. In these markets, purchasing our products may not be essential or imperative for consumers. Moving forward, the Group's business performance may be negatively impacted if recovery is delayed in the wake of the financial crisis and economic slowdown triggered by the subprime debacle in the United States. In this case, leisure spending may continue to decline in developed nations, further diminishing demand in markets where the Group does business.

## Market Competition

The Group is exposed to intense competition in many of the markets in which it does business, and such competition may prevent the Group from advantageous product pricing. Intense market competition increases pressure on Group profits, and this profit squeeze can become especially pronounced when market demand slackens. Although the Group must continue introducing attractive new products in order to maintain or gain an advantage amid tough competition, there is no assurance that the Group can in fact allocate sufficient resources to develop such new products. Furthermore, there is no way to assure that the Group can successfully market the products it does develop with the resources invested.

## Currency Fluctuations

Most of the motorcycles and outboard motors sold in volume by the Group in North America and Europe are manufactured in Japan and exported as completed products. Therefore, fluctuations in the exchange rates of the Japanese yen against major currencies, such as the U.S. dollar and the euro, significantly impact not only the Group's sales, but also profits and other results. Generally, the appreciation of the yen against other currencies has a negative impact, while the yen's depreciation positively affects the Group's business performance. Although the Group uses hedging instruments in an effort to minimize the negative effects of the Japanese yen's fluctuations against the U.S. dollar, the euro and other major currencies, dramatic exchange rate fluctuations may impact planned procurement, production and marketing activities. Furthermore, by utilizing hedging instruments, the Group potentially loses profits that would result from the exchange rates moving in the direction opposite the hedge forecast. The Group's business results and financial standing are stated based on the consolidated financial statements, prepared by translating local-currency-denominated business results of the Company's overseas subsidiaries into yen. Thus, fluctuations in the exchange rates of the yen against these currencies may have a significant impact on their results, and, in turn, the Company's consolidated financial statements.

## Business Operations in Overseas Markets

The Group does business in many nations and regions around the globe. On a consolidated basis, the ratio of overseas sales to net sales for the fiscal year ended December 31, 2009 stood at 88.7%. Particularly in the motorcycle business,

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sluggish sales in developed nations make the Group increasingly dependent on sales and profits in Asian and other emerging markets. In the more strategically important of these markets, the Group may forecast growth in demand or anticipate developments that will strongly impact neighboring nations and regions. In these situations, the Group may need to make large strategic investments long before any profit can be expected. If factors that could not be anticipated when the investment decisions were made should subsequently materialize in those nations and regions, such as changes in governments' currency exchange policies, foreign investment policies, and tax systems, demand may decrease substantially, possibly delaying or entirely preventing recovery of the investment.

## Joint Ventures

In some nations and regions, the Group operates businesses through joint ventures with local enterprises, due to legal and other requirements in those nations and regions. These joint-venture businesses may be affected by factors involving the Group's business partners, such as the policies or conditions of their management.

## Dependence on Suppliers for Procurement of Certain Raw Materials and Parts

The Group procures raw materials, parts, and other goods used to manufacture products from many suppliers outside the Group, and relies heavily on several key suppliers for certain items. Whether the Group can continue procuring these raw materials and parts efficiently at low cost depends on many factors, some of which, such as market conditions and natural disasters, are not within the Group's control.

## Dependence on Corporate Customers

The Group not only supplies consumer products such as motorcycles and outboard motors to consumer markets, but also automobile engines to automakers and surface mounters as OEM products to corporate customers. Sales of automobile engines and surface mounters through the OEM business may be affected by factors outside the Group's control, such as the management and procurement policies of the client companies.

## Retirement Benefit Obligation

The Group's employees' retirement benefits and the obligation thereto are computed by applying actuarial assumptions to the discount rate and the expected rate of return on the pension asset fund. Should the actual results differ from the assumptions, or should the assumptions change, the effects generated by these events are calculated cumulatively, thus repeatedly impacting results — and, generally, expenses and obligations — in the future. Therefore, decreases in discount rates, and/or lower than expected returns from pension asset management, may have a negative impact on the Group.

## Unrealized Loss on Land

Pursuant to the "Law Concerning the Revaluation of Land," the fair value of land at December 31, 2009 was lower than the book value after the revaluation by ¥5.3 billion, resulting in unrealized loss. Consequently, the unrealized loss on land may materialize when the land is sold, thus negatively impacting the business performance of the Group.

## Natural Disasters and Others Factors

Natural disasters, diseases, wars, terrorism, and other unforeseen events may affect the operations of the Group, directly or indirectly. Specifically, the occurrence of any of these incidents or events could delay or disrupt Group operations. Furthermore, if Group manufacturing plants or other facilities are directly damaged, substantial expenditure may be required to repair or replace the damaged facilities.

## Significant Risks Related to the Business Foundation

The Group has identified significant risks which may negatively impact its business foundation, and which require priority countermeasures. The Risk Management and Compliance Committee conducts integrated management of such risks and implements the countermeasures. As for individual risks considered significant, the Company is to clarify the department in charge, whereupon that department works to decrease the risk. Should even more serious risks than these materialize, an Emergency Countermeasures Headquarters headed by the President and Chief Executive Officer will be organized, in order to establish a system for minimizing the damage and negative effects. Main risks of this nature are described below. If an incident more severe than assumed in contingency planning occurs, it may negatively affect business results of the Group.

## Product Liability

Recognizing that it is our social responsibility to provide products of high quality, the Group manufactures motorcycles and other products at its factories worldwide under a strict quality assurance system, based on the Group's Quality Assurance Standards. However, it is practically impossible to ensure zero defects for all products or eliminate the possibility of recalls in the future. Consequently, the Group is covered with product liability insurance, but there is no assurance that the maximum amount of compensation provided by the insurance policy can provide the total amount required. Furthermore, situations may arise in which the Group is unable to continue purchasing the insurance policy under acceptable conditions for the Group. Should a large-scale recall or a product defect trigger a product liability case, the Group could incur major expenses, and its credibility could be damaged. Such a development may decrease sales and negatively affect business results of the Group. In order to provide for the payment of liabilities that may not be covered by product liability insurance, the Group allocates an accrual for product liabilities at an estimated amount of payment, based on the actual results in past years. Such provision notwithstanding, however, the development of product liability lawsuits — particularly cases involving side-by-side vehicles in the United States — could adversely effect the Group's business performance.

## Environmental and Other Regulations

In many countries and regions where the Group operates, the Group and its products are subject to a wide range of environmental and other regulations, encompassing product safety, fuel economy, exhaust emission levels, and the levels of pollutants generated from manufacturing facilities. These regulations may be revised and made stricter in the future. The Group has been promoting environmental preservation activities, in accordance with the "Yamaha Motor Group Global Environmental Policy" and the "Year 2010 Yamaha Motor Group Environmental Action Plan," such as formulating green procurement guidelines to reduce environmentally hazardous emissions from products and factories, and establishing dedicated teams. Nevertheless, major changes in the regulations or laws in the countries and regions where the Group does business may necessitate significant further expenditure.

## Protection of Intellectual Properties

The Group protects its many patent rights, trademark rights, and other intellectual properties, which help differentiate the Group's products from others, through legal measures and procedures. However, in some nations and regions where the Group operates, complete protection of intellectual property rights may not be possible, or intellectual property rights may only be protected on a limited basis. In such nations and regions, the Group may not be able to exercise its intellectual property rights to effectively prohibit the production of similar products.

## Tokai Earthquake

The Group's main Japanese factories are concentrated in an area subject to "intensified measures against earthquake disasters" in anticipation of a potentially severe predicted earthquake, referred to as the Tokai Earthquake. The Group has been promoting seismic retrofitting for its main buildings and structures, establishing systems that will facilitate early post-earthquake restoration, and regularly reviewing these systems and measures with the aim of minimizing damage and achieving early restoration in the event of an earthquake. However, an earthquake exceeding the Group's predicted magnitude could occur. The buildings and inventories owned by the Group are covered by earthquake insurance policies, but earthquake damage may exceed the maximum collateral limits for such assets and properties.

## Information Management

Protection of personal and/or confidential information, including customer information, is essential for maintaining a company's credibility and ensuring smooth business operations. The Group takes extensive measures to protect information assets, such as establishing corporate regulations, conducting in-house education, and constructing information security systems. However, there is no guarantee that leaks or unauthorized transfers of information will not occur. Should such an incident occur in the Group, the reputation of the Group would be damaged considerably, and the Group could be held liable for damage caused to customers. Dependence on information systems, as well as their importance in the Group's business activities, continue to grow. Therefore, if an information system should fail to function properly, the Group's operations, business performance, and financial conditions may be negatively impacted.