# Management Discussion and Analysis of Operations



## Overview

During the fiscal year ended December 31, 2011 (fiscal 2011), although economic recovery in the U.S. was sluggish due to slow improvement in the employment situation, personal consumption, and other areas of concern, in the second half of the year signs of improvement in the unemployment rate and other indicators emerged. In Europe, economic recovery slowed markedly as the sovereign debt crisis negatively affected the real economy. Although stable growth continued in emerging nations in Asia, Central and South America, and other regions, negative impact from worsening economic conditions in Europe was also in evidence. In Japan, the economy showed a recovery trend after temporarily slumping in the aftermath of the Great East Japan Earthquake (the earthquake). However, the improvement trend slowed due to factors including the global economic slowdown and yen appreciation.

In developments in Yamaha Motor's main markets, although demand for motorcycles and outboard motors bottomed out in the U.S., demand for all-terrain vehicles (ATVs) continued to fall. In Europe, demand for motorcycles continued to contract, mainly in Italy and Spain. On the other hand, demand for motorcycles and outboard motors continued to expand in emerging nations in Asia, Central and South America, and other regions. In Japan, demand for generators, fishing boats and utility boats, and electrically power assisted bicycles increased year on year, underpinned in part by the earthquake reconstruction demand.

## Scope of Consolidation

The number of consolidated subsidiaries at the end of fiscal 2011 increased by three from fiscal 2010, to 107, and the number of companies accounted for by the equity method decreased by two, to 31.

## Impact of Exchange Rate Fluctuations

Fluctuating exchange rates had a negative effect on net sales and gross profit, causing year-on-year reductions of ¥72.2 billion ($928.8 million) to net sales and ¥32.2 billion ($414.2 million) to gross profit.

The impact of exchange rate fluctuations on net sales is defined as the difference between yen-translated amounts of foreign currency-denominated sales generated at overseas subsidiaries in fiscal 2011 calculated at exchange rates that prevailed at the end of fiscal 2011 and respective exchange rates applied in fiscal 2010. Similarly, the impact of exchange rate fluctuations on gross profit is defined as the difference between yen-translated amounts of foreign currency-denominated gross profit generated at overseas subsidiaries in fiscal 2011 calculated at exchange rates that prevailed at the end of fiscal 2011 and respective exchange rates applied in fiscal 2010. The impact of exchange rate fluctuations does not take into account changes in the selling prices of group products.

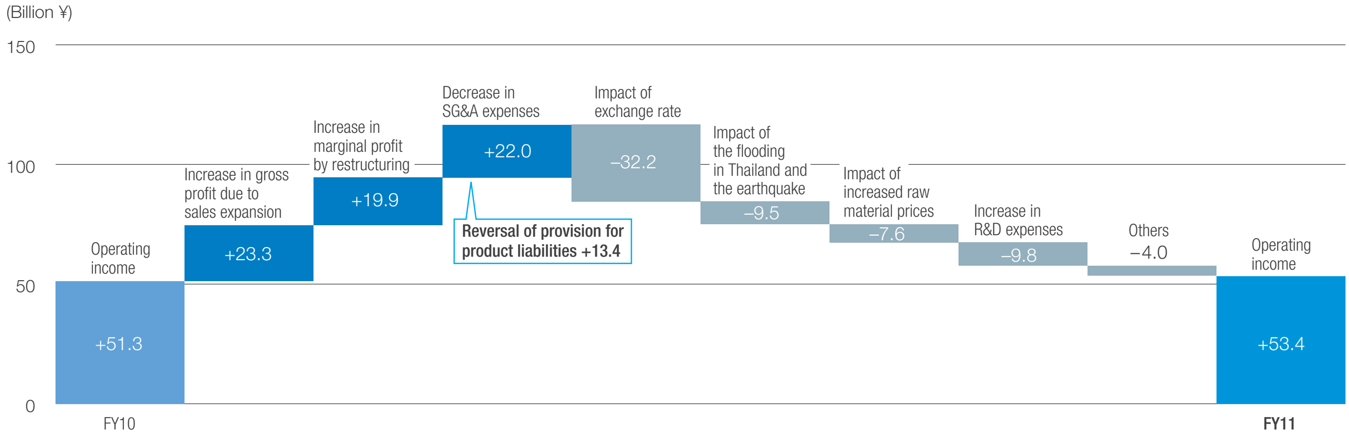
The exchange rates used in converting foreign currency-denominated amounts into yen on the consolidated financial statements for fiscal 2011 were ¥80 to the U.S. dollar, appreciating ¥8 from fiscal 2010, and ¥111 to the euro, appreciating ¥5 from fiscal 2010.

## Sales and Operating Income

In operating performance, consolidated net sales for fiscal 2011 decreased 1.4% year on year to ¥1,276.2 billion ($16,415.7 million). In the first three quarters (January to September), sales fell slightly year on year as higher sales of motorcycles and outboard motors in emerging nations were unable to offset the negative impact of yen appreciation and the earthquake. In the fourth quarter (October to December), net sales fell 5.3% from the previous fourth quarter to ¥290.4 billion ($3,735.6 million) due to further yen appreciation and the flooding in Thailand, despite higher sales of outboard motors and some other products.

Operating income increased 4.1% year on year to ¥53.4 billion ($687.0 million). In cumulative results for the first three quarters (January to September), each profit measure showed a large year-on-year increase as higher unit sales, cost reductions due to structural reforms, and the impact of a reversal of the provision for product liabilities enabled the absorption of profit-impacting factors such as yen appreciation, increases in raw material prices, and the impact of the earthquake. In the fourth quarter (October to December), the Company recorded operating loss of ¥7.3 billion ($94.1 million) as a result of factors including further yen appreciation, the impact of flooding in Thailand, and lower demand in Europe and North America.

## Factors Impacting Operating Income




## Sales Performance by Business Segment

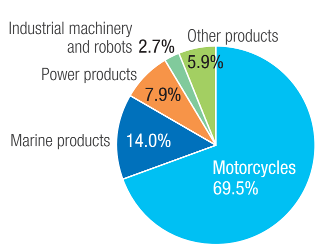
### Motorcycles

Although unit sales in emerging markets including Vietnam, India, and Central and South America increased, unit sales in Indonesia and Thailand decreased due to the impact of manufacturing after the flooding in Thailand. As a result, unit sales in emerging markets edged up 0.8% from the previous year to 6.61 million units. Unit sales in developed markets fell 7.3% to 0.37 million units, reflecting lower unit sales in Europe owing to the impact of the economic crisis despite increases in unit sales in Japan due to reconstruction demand following the earthquake and in the U.S., where unit sales recovered due to market stock adjustment in the previous year.

As a result of these developments, overall unit sales rose slightly, increasing 0.3%, to 6.98 million units. Net sales for the fiscal year ended December 31, 2011 (fiscal 2011) fell 2.9% from the previous year to ¥887.6 billion ($11,417.0 million), due to yen appreciation. Also, operating income fell 43.2% to ¥27.6 billion ($354.7 million) owing to the impact of yen appreciation, the flooding in Thailand, and an increase in research and development expenses.

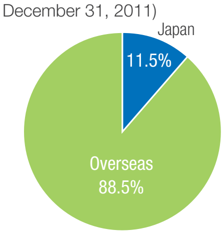
### Percentage of sales by product segment

(Year ended December 31, 2011)

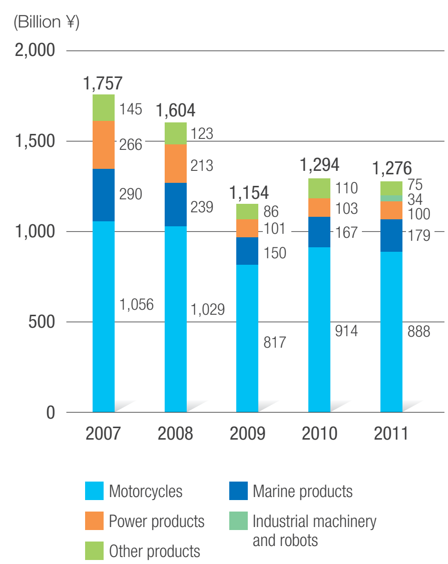



### Percentage of sales by market

(Year ended December 31, 2011)

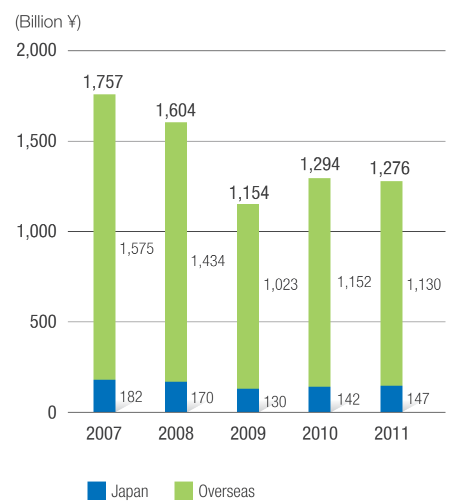



### Sales by product segment




**Note**
"Industrial machinery and robots," which was previously included in the "Other products" segment, is being reported in a separate segment effective from fiscal 2011.

### Sales by market



### Marine Products

Unit sales of outboard motors increased 11.4% from the previous year to 0.3 million units, attributable to expanding demand in Central and South America, and Russia. This was also due to higher unit sales in the U.S., where demand had bottomed out. In addition, unit sales of personal watercraft increased, reflecting factors including a recovery in demand in the U.S.

As a result, net sales for fiscal 2011 rose 7.1% from the previous year to ¥178.9 billion ($2,301.6 million), while operating income rose 846.1% to ¥7.1 billion ($91.0 million), despite the negative impact of yen appreciation.

### Power Products

Unit sales of ATVs declined 6.9% from the previous year to 0.08 million units, due to a continuous drop in demand in North America. Unit sales of generators increased, owing to factors such as reconstruction demand in Japan following the earthquake. Net sales of power products for fiscal 2011 fell 2.6% from the previous year to ¥100.3 billion ($1,289.6 million), due to factors including the negative impact of yen appreciation. Operating income was ¥7.5 billion ($96.1 million), as a result of factors including a reversal of the provision for product liabilities and cost reductions, while operating loss in the previous year was ¥11.3 billion.

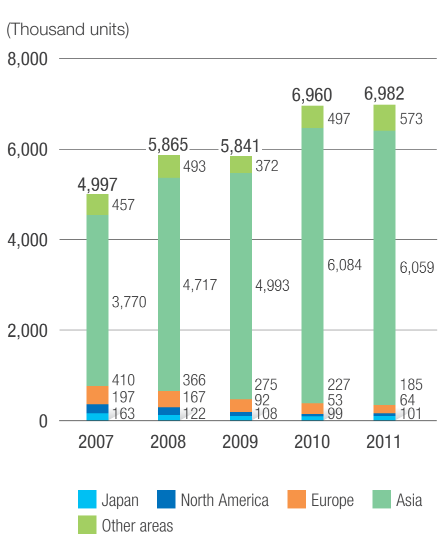
### Industrial Machinery and Robots

Net sales in this segment for fiscal 2011 fell 1.2% from the previous year to ¥34.3 billion ($441.5 million), as a result of lower unit sales of surface mounters in China, where capital investment declined due to the worldwide economic slowdown. Also, operating income fell 9.9% from the previous year to ¥6.3 billion ($80.6 million).

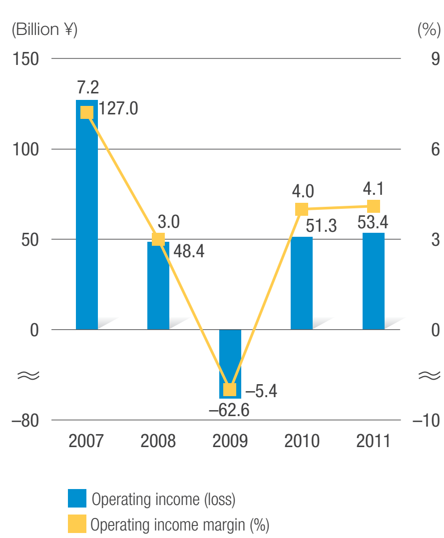
### Others

Although unit sales of electrically power assisted bicycles rose due to favorable demand, unit sales of automobile engines declined owing to the impact of the earthquake. Net sales for fiscal 2011 rose slightly 0.1% from the previous year to ¥75.1 billion ($965.9 million). Operating income fell 20.6% from the previous year to ¥5.0 billion ($64.5 million).

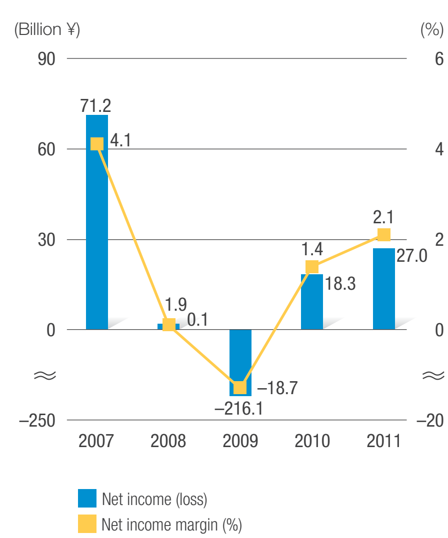
#### Motorcycle unit sales




#### Operating income (loss) and operating income margin




#### Net income (loss) and net income margin



## Sales Performance and Operating Income by Geographical Segment Note 1

### Japan

Net sales in Japan for fiscal 2011 decreased 1.3% from the previous year to ¥520.4 billion ($6,693.7 million), reflecting factors including a decline in unit sales of automobile engines and the negative impact of yen appreciation, despite an increase in unit sales of electrically power assisted bicycles and generators. Operating loss was ¥14.1 billion ($181.4 million), while operating loss in the previous year was ¥2.5 billion. The loss mainly resulted from the negative impact of yen appreciation, despite cost reductions due to structural reforms.

### North America

Net sales in North America for fiscal 2011 increased 3.5% to ¥177.5 billion ($2,282.7 million), reflecting factors including an increase in unit sales of personal watercraft and outboard motors, despite the negative impact of yen appreciation. Operating income was ¥7.7 billion ($98.6 million), owing mainly to a reversal of the provision for product liabilities and the impact of cost reductions due to structural reforms, while operating loss in the previous year was ¥14.7 billion.

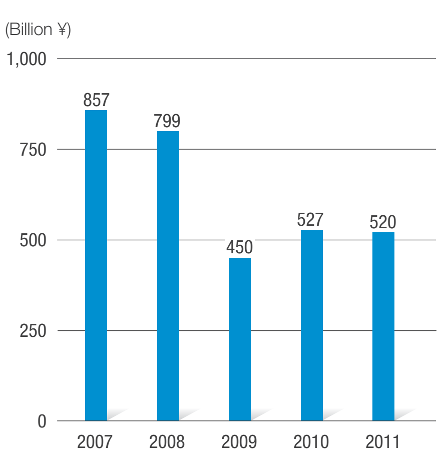
### Europe

Net sales in Europe for fiscal 2011 decreased 10.3% from the previous year to ¥151.3 billion ($1,946.0 million), owing to such factors as a decrease in unit sales of motorcycles and the negative impact of yen appreciation, despite an increase in unit sales of outboard motors in Russia. Operating loss was ¥3.6 billion ($46.4 million), while operating income in the previous year was ¥2.0 billion.

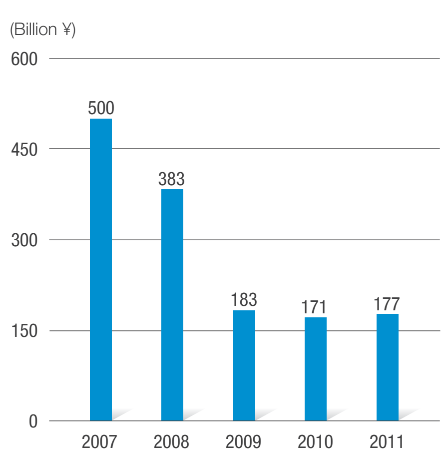
### Asia

Net sales in Asia for fiscal 2011 declined 1.0% from the previous year to ¥651.7 billion ($8,383.5 million), despite an increase in unit sales of motorcycles in Vietnam, India, and other markets. This was due to factors including a decrease in unit sales of motorcycles in Indonesia, Thailand, and other markets owing to the flooding in Thailand, and the negative impact of yen appreciation. Operating income fell 12.1% to ¥48.6 billion ($624.9 million), reflecting factors including the negative impact of yen appreciation and increases in raw material prices.

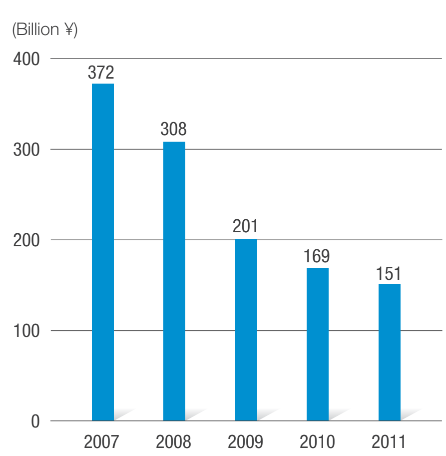
**Sales by geographical segment Note 1 —Japan**




**Sales by geographical segment Note 1 —North America**




**Sales by geographical segment Note 1 —Europe**



### Other Areas

Net sales in other areas for fiscal 2011 increased 9.9% from the previous year to ¥158.9 billion ($2,044.3 million), due to factors including higher unit sales of motorcycles and outboard motors in Central and South America including Brazil, and other markets, despite the negative impact of yen appreciation. Operating income rose 40.1% to ¥14.4 billion ($184.8 million).

**Note 1**
Sales amounts by geographical segment include intersegment sales.

## Income and Expenses

### Cost of Sales, Gross Profit and SG&A Expenses

Cost of sales for fiscal 2011 increased 0.2% from fiscal 2010 to ¥1,000.1 billion ($12,864.8 million), representing 78.4% of net sales.

Gross profit decreased ¥19.5 billion ($251.1 million) to ¥276.0 billion ($3,550.9 million). This change was largely due to negative factors such as yen appreciation in exchange rates, the negative impact of the flooding in Thailand and the earthquake, increases in raw material prices and a rise in development expenses, which could not be fully offset by positive factors such as a rise in profit from increased sales of outboard motors and motorcycles in emerging nations and cost reductions realized from structural reform. The gross profit margin dropped to 21.6%, a 1.2-percentage-point deterioration from fiscal 2010.

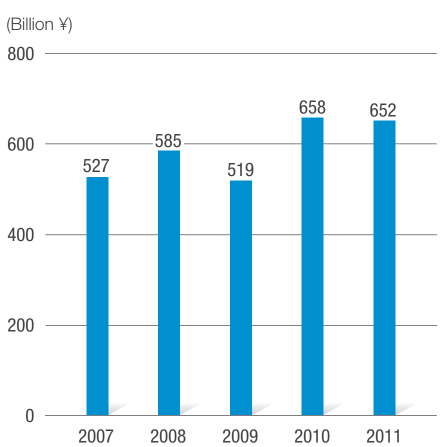
Selling, general and administrative expenses decreased ¥21.6 billion ($278.1 million) to ¥222.6 billion ($2,863.9 million), mainly due to a reversal of the provision for product liabilities. Selling, general and administrative expenses as a percentage of net sales was 17.4%, which was 1.4 percentage points less than in fiscal 2010. R&D expenses for fiscal 2011 increased ¥9.8 billion ($126.5 million) from fiscal 2010 to ¥65.0 billion ($836.3 million).

### R&D Expenses

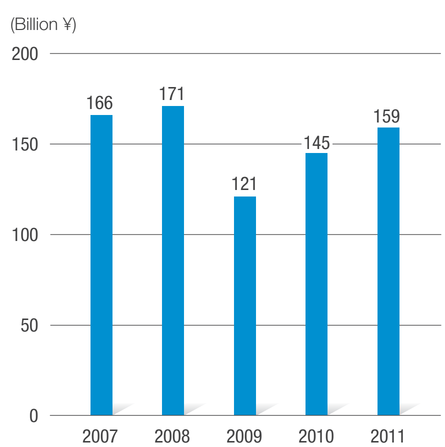
Under the corporate philosophy of being a *Kando* Creating Company, the group is aggressively engaged in R&D activities in various technological fields, including small engine, FRP processing, control, component, environmental and safety technologies, in order to provide customers worldwide with "high-quality, high-performance, lightweight and compact" products.

To create products that precisely meet the needs of customers around the world, we have built an R&D structure that is organized around the headquarters, carrying out research and development in close cooperation with group companies in Japan and overseas.

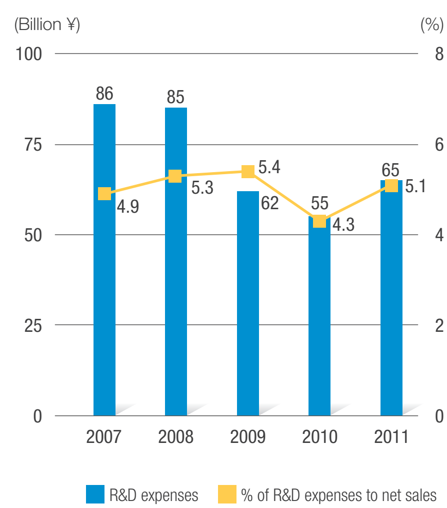
**Sales by geographical segment** Note 1
**—Asia**




**Sales by geographical segment** Note 1
**—Other areas**




**R&D expenses and % of R&D expenses to net sales**



R&D expenses for fiscal 2011 increased 17.8% from fiscal 2010 to ¥65.0 billion ($836.3 million), which was equivalent to 5.1% of net sales. Broken down by business segment, R&D expenses stood at ¥42.1 billion ($541.5 million) in the motorcycle business; ¥7.4 billion ($95.2 million) in the marine products business; ¥6.6 billion ($84.9 million) in the power products business; ¥3.9 billion ($50.2 million) in the industrial machinery and robots business; and ¥5.0 billion ($64.3 million) in the other products business.

Under the new medium-term management plan in place from fiscal 2010 through 2012, the Company will focus on developing affordably priced motorcycles to be marketed in China, India and other emerging nations. The Company will also work to simultaneously increase the appeal and profitability of motorcycles in Indonesia, Vietnam, and other ASEAN nations by incorporating Yamaha's exclusive fuel injection system, while reducing the costs of these products. Furthermore, it will develop next-generation, environmentally friendly engines for motorcycles and outboard motors, as well as Smart Power Note 2 technology for electric motorcycles and electrically power assisted bicycles.

**Note 2**
**Smart Power:** New power sources, primarily for electric vehicles, designed to create a new paradigm of mobility

## Operating Income

The Company posted operating income in fiscal 2011, increasing 4.1% from fiscal 2010 to ¥53.4 billion ($687.0 million). As a result, the operating income ratio jumped 0.2 percentage point, to 4.2%.

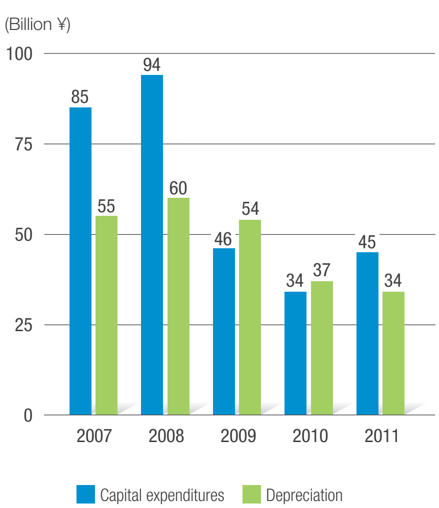
By key operating segments, the motorcycle business recorded operating income of ¥27.6 billion ($354.7 million), a 43.2% decline from the previous year, largely affected by such negative impacts as yen appreciation, the flooding in Thailand and an increase in R&D expenses.

The marine products business had operating income of ¥7.1 billion ($91.0 million), an 846.1% boost from the previous year, thanks to an increase in unit sales of outboard motors and personal watercraft despite the impact of yen appreciation.

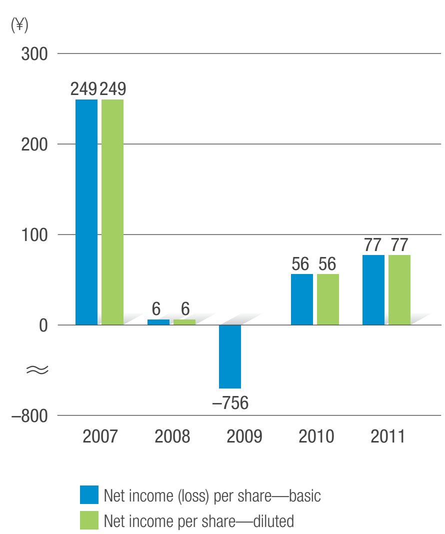
The power products business moved into the black, with ¥7.5 billion ($96.1 million) in operating income, an ¥18.7 billion ($240.9 million) improvement from an ¥11.3 billion operating loss a year earlier through the reversal of the provision for product liabilities and cost reductions.

The industrial machinery and robots business posted operating income of ¥6.3 billion ($80.6 million), a 9.9% decline from the previous year, mainly affected by a decline in units sold in China.

### Capital expenditures and depreciation

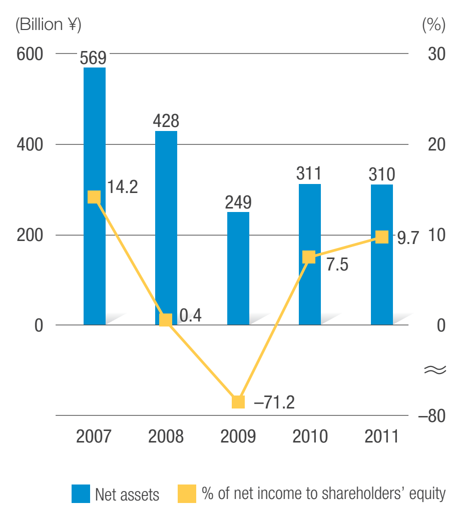



### Net income (loss) per share




**Note**
Net income per share—diluted for fiscal 2009 is not listed, since the Company registered a net loss per share for the period.

### Net assets and % of net income to shareholders' equity



The other products business had operating income of ¥5.0 billion ($64.5 million), a 20.6% decline from the previous year, largely affected by a reduction in unit sales of automobile engines due to the impact of the earthquake despite an increase in unit sales of electrically power assisted bicycles.

### Non-Operating Income and Expenses

The Company posted non-operating income of ¥10.1 billion ($129.8 million), or ¥4.7 billion ($61.0 million) less than in fiscal 2010, mainly due to the impact of exchange rates of ¥7.2 billion ($92.7 million).

### Extraordinary Income and Loss

Extraordinary income for fiscal 2011 amounted to ¥0.3 billion ($4.2 million) due to a gain on the sale of noncurrent assets.

The Company posted an extraordinary loss of ¥2.6 billion ($33.6 million), down ¥5.3 billion ($67.8 million) from the previous year. The primary components of the extraordinary loss in fiscal 2011 were a ¥0.7 billion ($9.5 million) loss on disposal of noncurrent assets, a ¥0.8 billion ($10.0 million) impairment loss and a ¥0.6 billion ($7.1 million) loss on adjustment for changes of accounting standard for asset retirement obligations.

### Income before Income Taxes

Income before income taxes for fiscal 2011 increased 3.8% from the previous year to ¥61.2 billion ($787.3 million).

### Income Taxes

In fiscal 2011, income taxes decreased ¥4.9 billion ($63.4 million) from fiscal 2010 to ¥26.9 billion ($345.7 million).

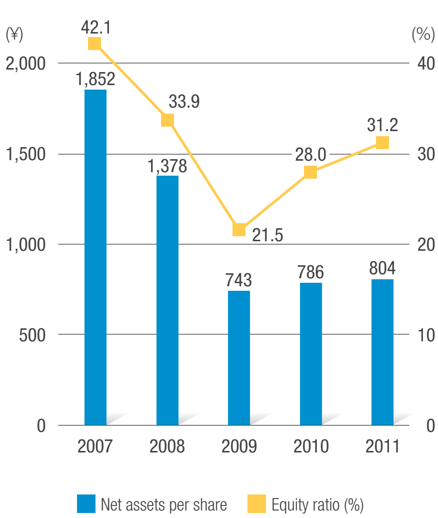
### Minority Interests in Income

Minority interests in income—including interests owned by minority shareholders in PT. Yamaha Indonesia Motor Manufacturing, Yamaha Motor Taiwan Co., Ltd., Yamaha Motor Vietnam Co., Ltd., Industria Colombiana de Motocicletas Yamaha S.A. and others—decreased ¥1.5 billion ($19.0 million) from fiscal 2010 to ¥7.4 billion ($94.8 million).

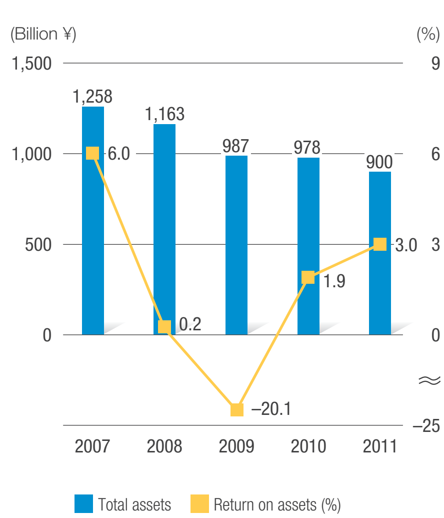
### Net Income

Net income for fiscal 2011 increased 47.3% from the previous year to ¥27.0 billion ($346.8 million). Basic net income per share rose ¥21.73 ($0.28) from ¥55.50 for fiscal 2010 to ¥77.23 ($0.99) in fiscal 2011.

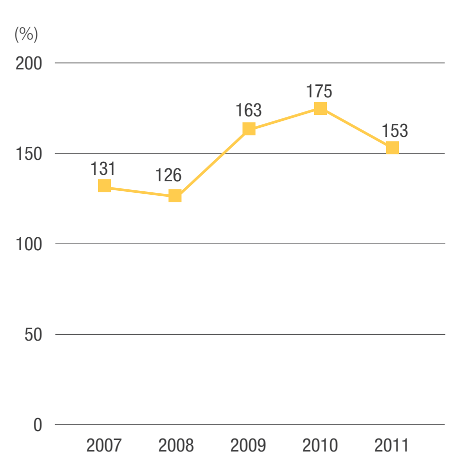
**Net assets per share and equity ratio** Note 3




**Total assets and return on assets**




**Current ratio**



## Capital Resources and Liquidity

### Assets, Liabilities and Total Net Assets

Total assets as of December 31, 2011 fell ¥77.9 billion ($1,002.4 million) from the end of the previous fiscal year to ¥900.4 billion ($11,582.5 million), reflecting factors including a decrease in cash and deposits and the negative impact of yen appreciation.

Total liabilities fell ¥77.0 billion ($990.8 million) to ¥590.5 billion ($7,595.9 million), reflecting such factors as repayments of long-term loans payable and a reversal of the provision for product liabilities.

Although shareholders' equity increased ¥26.7 billion ($343.7 million) from the end of the previous fiscal year as a result of net income and other factors, total net assets decreased ¥0.9 billion ($11.5 million) to ¥309.9 billion ($3,986.5 million), reflecting such factors as the change in foreign currency translation adjustment due to yen appreciation. The shareholders' equity ratio as of December 31, 2011 was 31.2% (an improvement of 3.2 percentage points from the end of the previous fiscal year). The gross debt/equity ratio was 1.0 times, compared with a gross debt/equity ratio of 1.2 times at the end of the previous fiscal year.

**Note 3**
**Equity ratio:** (Shareholders' equity + Accumulated other comprehensive income)/Total assets x 100 (%)

### Capital Expenditures

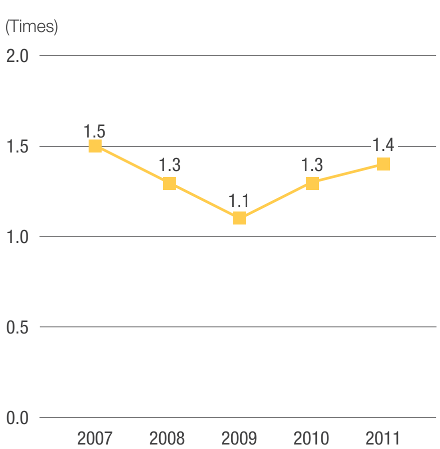
Capital expenditures for fiscal 2011 totaled ¥45.0 billion ($579.5 million), centering on investments in manufacturing equipment and facilities for the production of new models and production capacity enhancements—primarily for the motorcycle and marine products businesses—as well as investments in research and development operations.

Broken down by business segment, capital expenditures for the motorcycle business totaled ¥32.9 billion ($423.7 million). In Asia (excluding Japan) and Central and South America, the investments focused on the equipment, facilities and molds for manufacturing new models and production capacity enhancements. In Japan, the investments focused on restructuring domestic production systems.

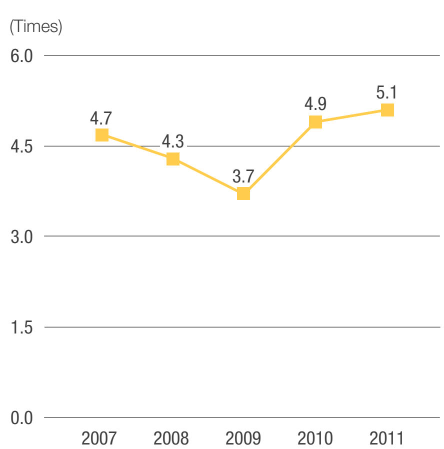
Capital expenditures for the marine products business amounted to ¥5.4 billion ($69.1 million), invested mainly in research and development operations, the restructuring of domestic production systems and production capacity enhancement for pleasure-use boats.

Capital expenditures for the power products business totaled ¥2.6 billion ($33.6 million), invested mainly in production of all-terrain vehicles in the United States.

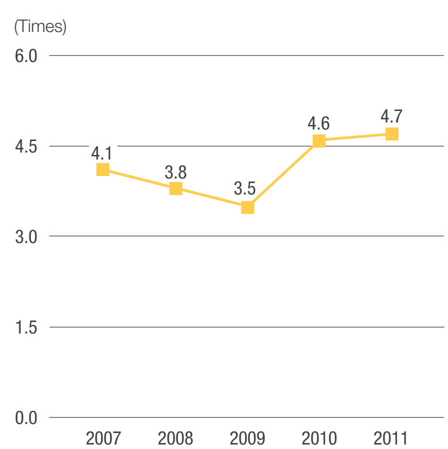
#### Total asset turnover




#### Property, plant and equipment turnover




#### Inventory turnover



Capital expenditures for the industrial machinery and robots business totaled ¥1.3 billion ($16.6 million), invested mainly to acquire land and buildings toward the expansion of business.

Capital expenditures for the other products business totaled ¥2.8 billion ($36.4 million), invested mainly in research and development operations in the automobile engine field.

The entire amount of the expenditures discussed above was funded by internal resources. During fiscal 2011, there was no disposal or sale of important facilities or similar assets.

## Cash Flows

Net cash provided by operating activities during the fiscal year under review declined ¥71.2 billion ($915.9 million) from fiscal 2010, to ¥33.3 billion ($428.7 million), compared with ¥53.4 billion ($687.1 million) during the nine months ended September 30, 2011, reflecting factors including income before income taxes and an increase in notes and accounts payable–trade. This was due to such factors as a loss before income taxes of ¥5.4 billion ($69.4 million), owing to the flooding in Thailand and the negative impact of yen appreciation, and net cash used in operating activities of ¥20.1 billion ($258.4 million) as a result of factors including an increase in notes and accounts receivable–trade, and a decrease in notes and accounts payable–trade, all occurring during the fourth quarter (October 1—December 31, 2011).

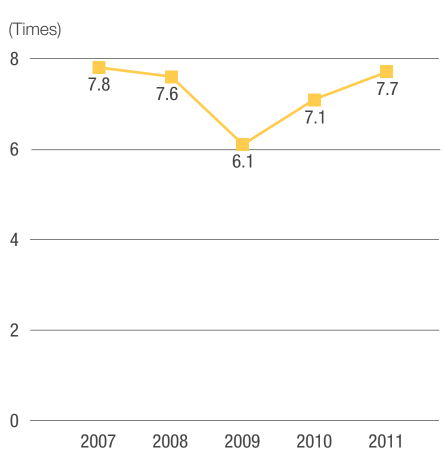
Net cash used in investing activities was ¥46.5 billion ($598.4 million), mainly as a result of the purchase of facilities in Indonesia and Vietnam to increase production. Consequently, free cash flows declined ¥80.1 billion from fiscal 2010, to a negative ¥13.2 billion ($169.7 million).

Net cash used in financing activities was ¥51.9 billion ($668.0 million) compared with ¥5.3 billion provided by financing activities in fiscal 2010, a difference of ¥57.2 billion ($736.1 million), due to factors including repayment of long-term loans payable.

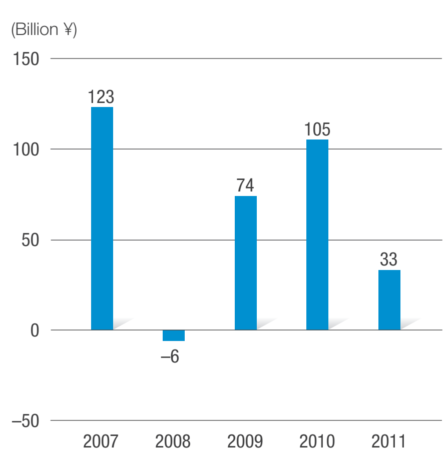
## Demand for Funds

Within the group, funds are primarily required to cover the cost of procuring materials and parts used in product manufacturing and costs incurred in the manufacturing process, as well as purchasing costs of products and merchandise, selling, general and administrative expenses, working capital and capital expenditures.

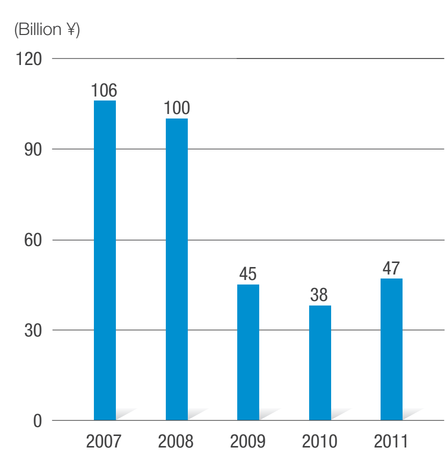
### Account receivable turnover




### Cash provided by (used in) operating activities




### Cash used in investing activities



In Japan, funds of ¥13.2 billion ($169.8 million) were allocated mainly to research and development activities in the motorcycles and marine products segments, investments in association with the restructuring of domestic production systems and the acquisition of land and buildings toward an expansion of the business scale of the industrial machinery and robots business.

Overseas, funds of ¥31.8 billion ($409.1 million) were applied mainly to the implementation of new equipment and expanded production capacity in the motorcycle business, especially in Asia (excluding Japan) and Central and South America.

As a result, total capital expenditures in fiscal 2011 amounted to ¥45.0 billion ($579.5 million).

## Cash Dividends

The Company aims to actively invest for sustained growth and provide shareholder returns that reflect comprehensive consideration of the business environment, including trends in business performance and retained earnings, while maintaining a minimum dividend payout ratio of 20% of consolidated net income.

The Company judged that improvement in its business performance and financial position had been achieved through the steady implementation of structural reforms. As such, it submitted a proposal for the declaration of a year-end dividend of ¥15.5 ($0.2) per share in accordance with a payout ratio of 20% at the 77th Ordinary General Meeting of Shareholders, held on March 23, 2012.

## Fund Procurement Conditions

Group companies acquire short-term loans payable denominated in local currencies to use as working capital. Meanwhile, funds for plant and equipment investment come primarily from internal reserves, including paid-in capital and retained earnings.

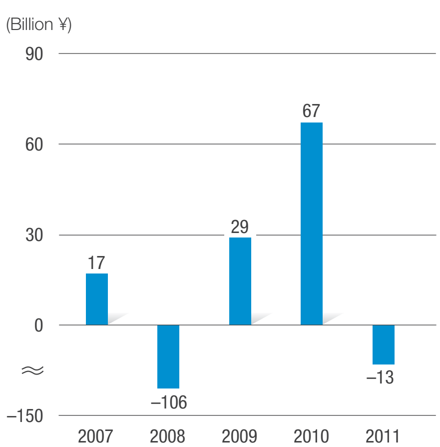
The annual amounts of interest-bearing debt to be repaid are as follows:

(Billion ¥)

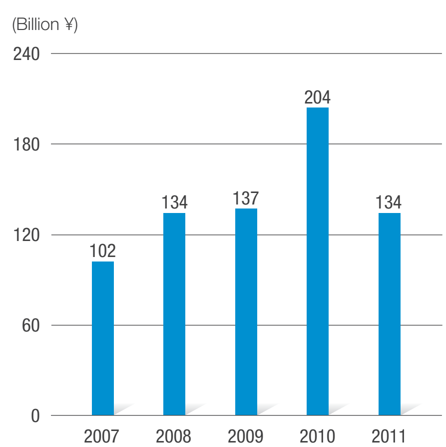
| | Total | 1 year or less | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Short-term loans payable | 42.9 | 42.9 | — | — | — | — | — |
| Long-term loans payable | 231.8 | 69.4 | 77.5 | 63.0 | 11.0 | 10.9 | — |

**Note** Long-term loans payable includes current portion of long-term loans payable.

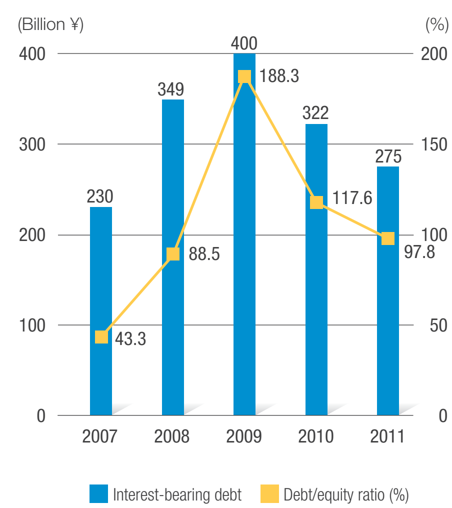
### Free cash flows




### Cash and cash equivalents at the end of the year




### Interest-bearing debt and debt/equity ratio




Operating Performance
Message from the Management
Special Features
Overview of Operations
Corporate Information
Financial Section

## Share Performance

Price per share decreased from ¥1,323 at December 31, 2010 to ¥974 ($12.5) at December 31, 2011. The number of shares outstanding, excluding treasury stock, decreased from 349,097,035 shares at December 31, 2010 to 349,095,241 shares at December 31, 2011. As a result, the market capitalization of the Company decreased from ¥461.9 billion at December 31, 2010 to ¥340.0 billion ($4,373.8 million) at December 31, 2011.

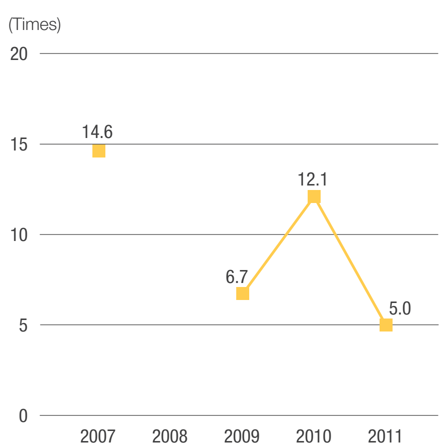
## Forecast for Fiscal 2012

In fiscal 2012, demand for motorcycles in emerging nations is expected to grow, primarily in Asia and Central and South America. Demand for motorcycles and outboard motors in the U.S. is expected to recover slowly after bottoming out. On the other hand, demand for motorcycles in Europe is expected to decline, due to a slowdown in the economy.

Based on these assumptions, the Company forecasts the following for its consolidated financial results for fiscal 2012: an increase in sales, owing to an aggressive launch of new motorcycle models in emerging nations and higher sales of marine products, including outboard motors; and a decline in profits, due to the large impact of further yen appreciation and increases in raw material prices, in addition to increases in research and development expenses and depreciation in preparation for future growth.

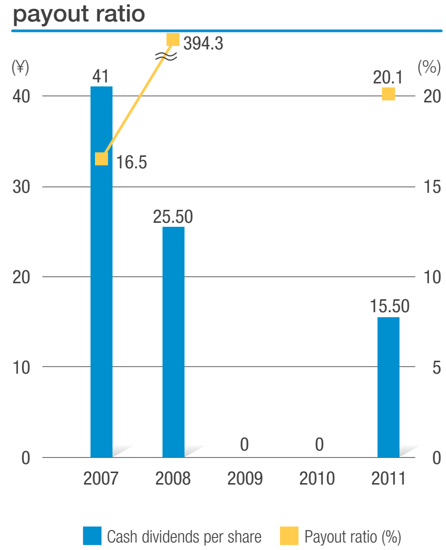
The forecast is based on the assumption that the exchange rates are ¥77 against the U.S. dollar (an appreciation of ¥3 from the previous year) and ¥100 against the euro (an appreciation of ¥11 from the previous year).

### Interest coverage



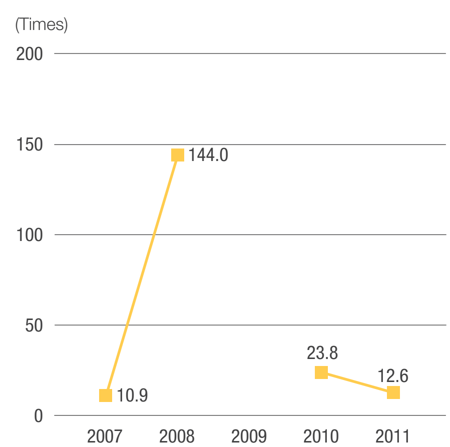

**Note**
Interest coverage for fiscal 2008 is not listed, due to the negative status of cash flows from operating activities during the period.

### Cash dividends per share and payout ratio




**Note**
The payout ratio for fiscal 2009 is not listed, since the Company registered a net loss for the period.
The payout ratio for fiscal 2010 is not listed, since the Company did not pay out any dividends.

### Price/earnings ratio




**Note**
The price/earnings ratio for fiscal 2009 is not listed, since the Company registered a net loss for the period.