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OVERVIEW

Net sales

Honda's consolidated net sales and other operating revenue for fiscal 1999, ended March 31, 1999, was at an all-time high, totaling ¥6,231.0 billion, a 3.9% increase from the previous fiscal year. This increase in revenue was due primarily to higher unit sales of automobiles in North America. In addition, the depreciation of the yen positively affected revenue.

Operating income

Consolidated operating income for the year increased 18.7%, amounting to ¥548.6 billion. Higher automobile sales and the improvement of the product mix in North America as well as Honda's ongoing cost reduction efforts, combined with the positive impact of currency exchange rates, more than offset increased selling, general and administrative (SG&A) expenses and research and development (R&D) expenses.

SG&A expenses

SG&A expenses for the year amounted to ¥1,151.0 billion, a 3.8% increase compared with the previous fiscal year. Despite decreases in expenses, such as product warranty related expenses, growth of other general and administrative expenses were major contributing factors in this increase.

R&D expenses

The aim of Honda's technical research and development (R&D) activities is to create, through the application of the latest technologies, products that possess both individuality and international competitiveness. For this purpose, Honda has maintained its R&D functions as separate entities to enable its engineers to perform their activities independently. These entities are wholly owned subsidiaries of the Company and engage in R&D activities near their respective regions. Honda's general policy is to allocate approximately 5% of its consolidated revenue toward R&D spending each year. R&D expenses for fiscal 1999 totaled ¥311.6 billion, up 9.0% from fiscal 1998. This result was due primarily to higher spending on the enhancement of Honda's automobile lineup worldwide.

Income before income taxes

Consolidated income before income taxes and equity in income of affiliates amounted to ¥520.5 billion, a 17.4% increase from the previous fiscal year. Higher operating income, offset in part by the deterioration of the financial balance (net financial interest income/expenses), resulted in the increase.

Equity in income of affiliates

Equity in income of affiliates amounted to ¥14.1 billion, down 23.7% from the previous fiscal year. Lower production, which reflected weaker sales in Japan, and the continued economic slump in Asia were the primary causes of this decrease.

Net income

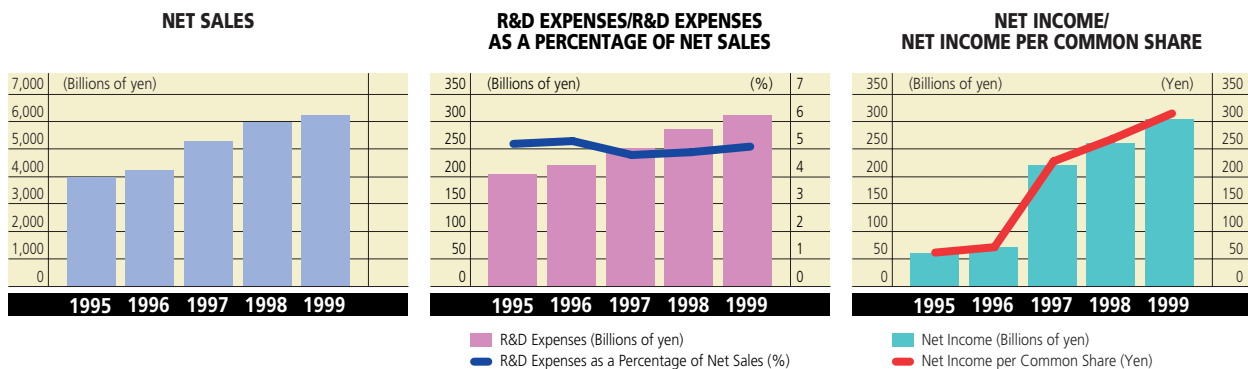
Net income for the year totaled ¥305.0 billion, a 17.0% increase from the previous fiscal year. The effective tax rate for the year was 44.1%, 1.3 percentage points less than the previous fiscal year. This decline was attributable to newly applied lowered tax rates in Japan effective for fiscal 1999 and thereafter and improvements in Honda's subsidiaries overseas, where relatively low tax rates are applied. The Company's consolidated net income for the fiscal year ended March 31, 1999, included a gain of ¥21.9 billion due to the enactment of an income tax rate change in Japan. Basic net income per common share for the year amounted to ¥313.05, and diluted net income per share totaled ¥313.05, compared with ¥267.49 and ¥267.45, respectively, for the preceding year. Each American share represents two common shares.

FINANCIAL POSITION

Cash flows

Net cash provided by operating activities for fiscal 1999 amounted to ¥345.0 billion, due mainly to the rise in net income that was generated by higher unit sales of automobiles in North America and Europe, accompanied by increases in such assets as other current assets and a decrease in other current liabilities.

Net cash used in investing activities amounted to ¥496.2 billion, principally resulting from decreases in capital expenditures and an increase in acquisitions of finance subsidiaries-receivables.



Net cash provided by financing activities amounted to ¥203.7 billion, mainly reflecting the increase in both short-term debt and proceeds from long-term debt.

As a result of the aforementioned activities, the net increase in cash and cash equivalents amounted to ¥40.3 billion and total cash and cash equivalents at fiscal year-end were ¥377.6 billion.

Capital expenditures

Capital expenditures for fiscal 1999 decreased 23.4% compared with the previous fiscal year to ¥237.0 billion. This is due primarily to the completion of investments in facilities relating to our motor-ing world, Twin Ring Motegi, and lower spending for production facilities in North America.

In fiscal 2000, greater expenditures relating to new model pro-duction in North America are projected, although spending on other overseas production facilities is projected to be less. Total spending for fiscal 2000 is estimated at ¥240 billion.

Working capital

Working capital for fiscal 1999 was ¥104.6 billion, up ¥20.0 bil-lion, or 23.7%, from the previous fiscal year-end. This increase is attributable primarily to an increase in cash and cash equivalents and growth in finance subsidiaries–receivables, net. The current ratio at year-end was 104.6%, up 0.8 percentage point from the previous fiscal year-end.

Stockholders' equity

Total stockholders' equity at fiscal year-end amounted to ¥1,763.8 billion, an increase of ¥155.9 billion, or 9.7%, from the previous fiscal year-end.

Stockholders' equity ratio

The stockholders' equity ratio for fiscal 1999 rose 1.6 percentage points to 35.0% and is expected to continue to show improve-ment in the coming years.

YEAR 2000 READINESS

1. Status of Compliance:

◆ Policy for Dealing with the Matter:

Honda recognizes that the matter of the Year 2000 computer problem ("Y2K problem") is one of the most important manage-ment issues with respect to maintaining the Company's business continuity and customer satisfaction, and to that end is promoting comprehensive and systematic measures to address this problem.

◆ System for Addressing the Y2K problem:

Through a Companywide project for which one of Honda's senior managing directors is responsible, Honda is promoting compre-hensive and systematic measures to resolve the Y2K problem with regard to all internal information systems, control systems for equipment, devices and products. Further, Honda has established a system to confirm periodically the status of compliance by major subsidiaries and associated companies inside and outside Japan and also to evaluate the status of compliance by entities with which Honda conducts business transactions. The status of such compliance is reported to Honda's representative directors and other responsible directors as necessary.

◆ Status of Progress of Compliance:

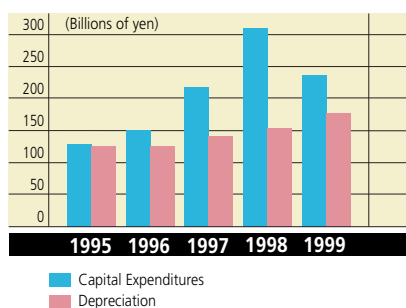
A survey of Honda's products, such as motorcycles, automobiles and power products, has been completed. At present, Honda has determined that all critical Y2K problem preparations will be com-pleted before December 31, 1999.

It is anticipated that measures addressing Honda's internal information systems and control systems will be completed not later than the end of September 1999. The status of compliance by Honda's major subsidiaries and associated companies inside and outside Japan has been confirmed periodically and is proceed-ing on schedule.

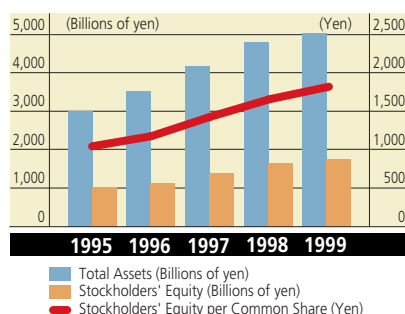
2. Expenditures for Compliance:

The amount of expenditures to be paid by Honda to outsiders directly in connection with the Y2K problem is estimated at approximately ¥1,400 million, with the major portion allocated

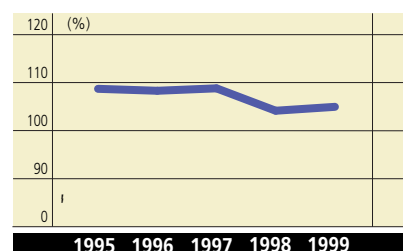
CAPITAL EXPENDITURES/DEPRECIATION



TOTAL ASSETS/STOCKHOLDERS' EQUITY/
STOCKHOLDERS' EQUITY PER COMMON SHARE



CURRENT RATIO



for the modification of software. Out of this estimated amount, approximately ¥1,100 million was paid by the end of the preceding fiscal year. In this regard, labor costs for internal personnel who were engaged in the compliance work, expenses incurred in the scheduled replacement of certain assets, such as hardware, and other related expenses are not included in the aforementioned amount for the reason that it is difficult to distinguish those costs and expenses from ordinary expenditures.

Further, the total amount of expenditures, including those of consolidated major subsidiaries, is estimated at approximately ¥5,900 million, of which the amount of expenditures paid by the end of the preceding fiscal year was approximately ¥5,000 million.

Honda considers that these expenditures will have no material effect on its business operations, management results and financial status.

3. Emergency Management Project*:

In anticipation of contingencies where Y2K problems may occur inside and outside the Company, Honda is preparing an emergency management project to address the assumed risks and effects caused by such problems. Honda expects this project to be completed not later than the end of June 1999 in order to minimize the effects which may be exerted on Honda's business operations.

*Honda is exerting its best endeavors to avoid the adverse effects of any Y2K problems. However, there can be no guarantee that no such problems will occur. As a result it is difficult at the present time to assure complete avoidance of any adverse effects that may arise due to such problems.

Environmental Matters

Automobiles and motorcycles manufactured by Honda for sale in Japan comply with Japan's exhaust emission regulations and automobiles and motorcycles manufactured by Honda for sale in Japan comply with Japan's noise level regulations. Honda products sold outside Japan comply with all such regulations currently in force in the relevant markets. Honda does not foresee any significant difficulty in complying with regulations expected to be enacted in such markets.

SEGMENT INFORMATION

The following business segment information has been prepared according to a Ministerial Ordinance under the Securities and Exchange Law of Japan, which requires certain additional information to be disclosed, including business and geographical segment information.

Business segment

Reviewing the year by business segment, operating income increased in the automobile and other businesses while motorcycle and financial services segments showed decreases in operating income.

Honda's overall automobile sales on a unit basis totaled 2,333,000 units, 0.4% lower than the previous fiscal year. Honda's automobile sales have exceeded the two-million-unit mark for the third consecutive year. Despite intensified global competition and the sluggish economy in Japan, the full-year contributions of the Accord and the newly introduced Odyssey and Acura TL in the United States brought strong sales results. Net sales for the year expanded 5.0% to ¥4,989.0 billion.

Operating income in the automobile business amounted to ¥427.0 billion, a 33.3% climb from the last fiscal year. Due primarily to sales increases and Honda's cost-reduction efforts over the past few years, the ratio of operating income to net sales was 8.6%.

In the motorcycle business, motorcycle unit sales declined 19.3% from fiscal 1998, totaling 4,118,000 units. In Japan, motorcycle sales were down 83,000 units to 512,000 units. Overseas, overall unit sales were down 900,000 units to 3,606,000 units. There were stable gains in North America and Europe in fiscal 1999; however, these strong sales were not enough to compensate for lower sales in Asia. Net sales of motorcycles declined 8.6% from fiscal 1998 to ¥700.9 billion. Operating income totaled ¥66.4 billion, a decrease of 24.0% from the previous fiscal year. The ratio of operating income to net sales was down to 9.5%.

Revenue in the financial services segment increased, while operating income decreased. Decreased gains from sales of finance subsidiaries—receivables were responsible for this decrease.

The ratio of operating income to total operating income by business segment was as follows:

	1998	1999
Motorcycle business.....	18.9%	12.1%
Automobile business	69.3%	77.8%
Financial services	6.7%	4.4%
Other businesses	5.1%	5.7%

Geographical segment

Reviewing fiscal 1999 by geographical segment, revenue generated in Japan amounted to ¥1,755.9 billion, down ¥259.7 billion, or 12.9%, compared with the previous fiscal year. Revenue generated in North America, Europe, and elsewhere amounted to ¥3,227.0 billion, ¥786.2 billion, and ¥461.7 billion, respectively. Due to the favorable growth of automobile business in North America, Honda's operations in this region generated ¥286.9 billion in operating income. Notwithstanding the current sluggish economic environment in Japan, income from operations in Japan increased to ¥206.2 billion.

Business Segment Information

Years ended March 31	Yen (millions)	
	1998	1999
Net sales and other operating revenue:		
Motorcycle Business		
Sales to unaffiliated customers.....	¥ 767,160	¥ 700,960
Automobile Business		
Sales to unaffiliated customers.....	4,752,473	4,989,071
Financial Services		
Sales to unaffiliated customers.....	139,582	162,007
Intersegment sales.....	7,857	7,958
Total.....	147,439	169,965
Other Businesses		
Sales to unaffiliated customers.....	340,523	379,003
Intersegment sales.....	6,251	6,679
Total.....	346,774	385,682
Eliminations.....	(14,108)	(14,637)
Consolidated.....	¥5,999,738	¥6,231,041
Operating income:		
Motorcycle Business.....	¥ 87,374	¥ 66,400
Automobile Business.....	320,469	427,039
Financial Services.....	30,917	24,308
Other Businesses.....	23,553	30,951
Consolidated.....	¥ 462,313	¥ 548,698
Assets:		
Motorcycle Business.....	¥ 546,473	¥ 493,043
Automobile Business.....	2,329,513	2,454,184
Financial Services.....	1,666,900	1,811,915
Other Businesses.....	192,660	207,042
Corporate assets and eliminations....	79,719	68,063
Consolidated.....	¥4,815,265	¥5,034,247
Depreciation and amortization:		
Motorcycle Business.....	¥ 17,335	¥ 19,142
Automobile Business.....	128,919	148,887
Financial Services.....	282	409
Other Businesses.....	6,801	9,228
Consolidated.....	¥ 153,337	¥ 177,666
Capital expenditures:		
Motorcycle Business.....	¥ 36,403	¥ 37,864
Automobile Business.....	233,940	185,037
Financial Services.....	708	1,432
Other Businesses.....	38,466	12,747
Consolidated.....	¥ 309,517	¥ 237,080

Geographical Segment Information

Years ended March 31	Yen (millions)	
	1998	1999
Net sales and other operating revenue:		
Japan		
Sales to unaffiliated customers.....	¥2,015,674	¥1,755,958
Transfers between geographical segments.....	1,558,499	1,695,011
Total.....	3,574,173	3,450,969
North America		
Sales to unaffiliated customers.....	2,799,302	3,227,025
Transfers between geographical segments.....	154,611	171,842
Total.....	2,953,913	3,398,867
Europe		
Sales to unaffiliated customers.....	705,442	786,277
Transfers between geographical segments.....	13,341	12,633
Total.....	718,783	798,910
Others		
Sales to unaffiliated customers.....	479,320	461,781
Transfers between geographical segments.....	5,887	6,162
Total.....	485,207	467,943
Eliminations.....	(1,732,338)	(1,885,648)
Consolidated.....	¥5,999,738	¥6,231,041
Operating income:		
Japan.....	¥ 205,874	¥ 206,252
North America.....	214,790	286,950
Europe.....	14,479	12,971
Others.....	40,524	35,824
Eliminations.....	(13,354)	6,701
Consolidated.....	¥ 462,313	¥ 548,698
Assets:		
Japan.....	¥1,759,954	¥1,863,756
North America.....	2,138,450	2,217,777
Europe.....	438,224	470,209
Others.....	265,448	258,471
Corporate assets and eliminations....	213,189	224,034
Consolidated.....	¥4,815,265	¥5,034,247

CONSOLIDATED BALANCE SHEETS

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1998 and 1999

Assets	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Current assets:			
Cash and cash equivalents	¥ 337,294	¥ 377,624	\$ 3,132,509
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥6,978 million in 1998 and ¥7,975 million (\$66,155 thousand) in 1999	422,642	397,142	3,294,417
Finance subsidiaries—receivables, net (note 3)	632,348	661,697	5,488,984
Inventories (note 4)	600,908	599,150	4,970,137
Deferred income taxes (note 9)	132,697	133,959	1,111,232
Other current assets (note 7)	171,513	200,281	1,661,394
Total current assets	2,297,402	2,369,853	19,658,673
Finance subsidiaries—receivables, net (note 3)	923,353	1,026,360	8,513,978
Investments and advances:			
Investments in and advances to affiliates (note 5)	156,578	177,228	1,470,162
Other, including marketable equity securities (note 6)	207,610	199,888	1,658,133
Total investments and advances	364,188	377,116	3,128,295
Property, plant and equipment, at cost (note 7):			
Land	284,370	292,631	2,427,466
Buildings	748,112	783,200	6,496,889
Machinery and equipment	1,744,799	1,773,767	14,713,953
Construction in progress	102,499	40,357	334,774
	2,879,780	2,889,955	23,973,082
Less accumulated depreciation	1,715,800	1,742,594	14,455,363
Net property, plant and equipment	1,163,980	1,147,361	9,517,719
Other assets (notes 7 and 9)	66,342	113,557	941,991
	¥4,815,265	¥5,034,247	\$41,760,656

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Current liabilities:			
Bank loans and commercial paper (note 7).....	¥ 479,207	¥ 622,344	\$ 5,162,538
Current portion of long-term debt (note 7).....	250,969	258,518	2,144,488
Trade payables:			
Notes.....	18,594	15,695	130,195
Accounts.....	700,074	684,287	5,676,375
Accrued expenses.....	473,912	455,461	3,778,192
Income taxes payable (note 9).....	93,293	71,618	594,094
Other current liabilities (notes 7 and 9).....	196,740	157,273	1,304,629
Total current liabilities.....	<u>2,212,789</u>	<u>2,265,196</u>	<u>18,790,511</u>
 Long-term debt (note 7).....	 677,750	 673,084	 5,583,443
 Other liabilities (notes 7, 8 and 12).....	 316,812	 332,112	 2,754,973
Total liabilities.....	<u>3,207,351</u>	<u>3,270,392</u>	<u>27,128,927</u>
 Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares, par value ¥50 (\$0.41) or without par value; issued 974,414,215 shares at March 31, 1998 and 1999 (note 10).....	86,067	86,067	713,953
Capital surplus (note 10).....	171,914	172,529	1,431,182
Legal reserves (note 11).....	26,404	26,828	222,547
Retained earnings (note 11).....	1,694,070	1,977,613	16,404,919
Accumulated other comprehensive income (loss) (notes 6, 9, 12 and 14).....	(370,541)	(499,182)	(4,140,872)
Total stockholders' equity.....	<u>1,607,914</u>	<u>1,763,855</u>	<u>14,631,729</u>
 Commitments and contingent liabilities (note 18)			
	<u>¥4,815,265</u>	<u>¥5,034,247</u>	<u>\$41,760,656</u>

CONSOLIDATED STATEMENTS OF INCOME

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1997, 1998 and 1999

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
Net sales and other operating revenue (note 3).....	¥5,293,302	¥5,999,738	¥6,231,041	\$51,688,436
Operating costs and expenses:				
Cost of sales (note 3).....	3,698,179	4,142,967	4,219,689	35,003,641
Selling, general and administrative.....	942,548	1,108,595	1,151,022	9,548,088
Research and development.....	251,128	285,863	311,632	2,585,085
	<u>4,891,855</u>	<u>5,537,425</u>	<u>5,682,343</u>	<u>47,136,814</u>
Operating income.....	401,447	462,313	548,698	4,551,622
Other income:				
Interest.....	12,937	13,005	11,136	92,377
Other (note 6).....	14,276	3,896	1,617	13,413
	<u>27,213</u>	<u>16,901</u>	<u>12,753</u>	<u>105,790</u>
Other expenses:				
Interest.....	27,514	27,655	27,890	231,356
Other.....	10,424	8,208	13,050	108,254
	<u>37,938</u>	<u>35,863</u>	<u>40,940</u>	<u>339,610</u>
Income before income taxes and equity in income of affiliates.....	390,722	443,351	520,511	4,317,802
Income taxes (note 9):				
Current.....	196,993	215,287	233,298	1,935,280
Deferred.....	(7,949)	(14,009)	(3,674)	(30,477)
	<u>189,044</u>	<u>201,278</u>	<u>229,624</u>	<u>1,904,803</u>
Income before equity in income of affiliates.....	201,678	242,073	290,887	2,412,999
Equity in income of affiliates (note 5).....	19,490	18,552	14,158	117,445
Net income.....	<u>¥ 221,168</u>	<u>¥ 260,625</u>	<u>¥ 305,045</u>	<u>\$ 2,530,444</u>

	Yen			U.S. dollars (note 2)
	1997	1998	1999	1999
Net income per common share (notes 1 (m) and 15):				
Basic.....	¥ 227.00	¥ 267.49	¥ 313.05	\$ 2.60
Diluted.....	<u>226.97</u>	<u>267.45</u>	<u>313.05</u>	<u>2.60</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1997, 1998 and 1999

	Yen (millions)		U.S. dollars (thousands) (note 2)	
	1997	1998	1999	1999
Common stock:				
Balance at beginning of year	¥ 86,020	¥ 86,028	¥ 86,067	\$ 713,953
Conversion of convertible debt (note 10)	8	39	—	—
Balance at end of year	<u>86,028</u>	<u>86,067</u>	<u>86,067</u>	<u>713,953</u>
Capital surplus:				
Balance at beginning of year	171,910	171,910	171,914	1,426,080
Conversion of convertible debt (note 10)	—	4	—	—
Transfer from retained earnings	—	—	615	5,102
Balance at end of year	<u>171,910</u>	<u>171,914</u>	<u>172,529</u>	<u>1,431,182</u>
Legal reserves:				
Balance at beginning of year	25,125	25,668	26,404	219,030
Transfer from retained earnings (note 11)	543	736	424	3,517
Balance at end of year	<u>25,668</u>	<u>26,404</u>	<u>26,828</u>	<u>222,547</u>
Retained earnings:				
Balance at beginning of year	1,243,759	1,450,744	1,694,070	14,052,841
Net income for the year	221,168	260,625	305,045	2,530,444
Cash dividends (note 11)	(13,640)	(16,563)	(20,463)	(169,747)
Transfer to capital surplus	—	—	(615)	(5,102)
Transfer to legal reserves (note 11)	(543)	(736)	(424)	(3,517)
Balance at end of year	<u>1,450,744</u>	<u>1,694,070</u>	<u>1,977,613</u>	<u>16,404,919</u>
Accumulated other comprehensive income (loss):				
(notes 6, 9, 12 and 14)				
Balance at beginning of year	(382,274)	(345,920)	(370,541)	(3,073,754)
Other comprehensive income (loss) for the year, net of tax	36,354	(24,621)	(128,641)	(1,067,118)
Balance at end of year	<u>(345,920)</u>	<u>(370,541)</u>	<u>(499,182)</u>	<u>(4,140,872)</u>
Total stockholders' equity	<u>¥1,388,430</u>	<u>¥1,607,914</u>	<u>¥1,763,855</u>	<u>\$14,631,729</u>
Disclosure of comprehensive income:				
Net income for the year	¥ 221,168	¥ 260,625	¥ 305,045	\$ 2,530,444
Other comprehensive income (loss) for the year, net of tax (notes 6, 9, 12 and 14)	36,354	(24,621)	(128,641)	(1,067,118)
Total comprehensive income for the year	<u>¥ 257,522</u>	<u>¥ 236,004</u>	<u>¥ 176,404</u>	<u>\$ 1,463,326</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1997, 1998 and 1999

	Yen (millions)		U.S. dollars (thousands) (note 2)	
	1997	1998	1999	1999
Cash flows from operating activities (note 13):				
Net income.....	¥ 221,168	¥ 260,625	¥ 305,045	\$ 2,530,444
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for credit losses.....	7,699	11,995	10,521	87,275
Depreciation.....	141,351	153,337	177,666	1,473,795
Gain on nonmonetary exchange of investments (note 6).....	(10,471)	—	—	—
Deferred income taxes.....	(7,949)	(14,009)	(3,674)	(30,477)
Equity in income of affiliates.....	(19,490)	(18,552)	(14,158)	(117,445)
Decrease (increase) in assets:				
Trade accounts and notes receivable.....	(3,067)	(34,105)	(9,069)	(75,230)
Inventories.....	(12,863)	(41,994)	(43,327)	(359,411)
Other current assets.....	(17,228)	(11,025)	(50,610)	(419,826)
Other assets.....	(10,440)	3,481	(10,018)	(83,102)
Increase (decrease) in liabilities:				
Trade payables.....	63,266	104,615	29,807	247,258
Accrued expenses.....	76,300	76,802	1,240	10,286
Income taxes payable.....	82,703	(60,364)	(20,130)	(166,985)
Other current liabilities.....	29,876	13,754	(42,692)	(354,144)
Other liabilities.....	14,589	19,994	(2,952)	(24,487)
Other, net.....	7,757	9,924	17,372	144,107
Net cash provided by operating activities.....	<u>563,201</u>	<u>474,478</u>	<u>345,021</u>	<u>2,862,058</u>
Cash flows from investing activities:				
Decrease (increase) in investments and advances.....	(23,244)	(16,483)	1,400	11,613
Capital expenditures.....	(217,782)	(309,517)	(237,080)	(1,966,653)
Proceeds from sales of property, plant and equipment.....	18,020	16,159	21,148	175,429
Acquisitions of finance subsidiaries—receivables.....	(1,385,804)	(1,505,069)	(1,751,694)	(14,530,850)
Collections of finance subsidiaries—receivables.....	737,953	706,424	1,074,553	8,913,754
Proceeds from sales of finance subsidiaries—receivables.....	447,254	445,796	395,374	3,279,751
Net cash used in investing activities.....	<u>(423,603)</u>	<u>(662,690)</u>	<u>(496,299)</u>	<u>(4,116,956)</u>
Cash flows from financing activities (note 13):				
Increase (decrease) in short-term debt.....	(58,265)	79,061	198,946	1,650,320
Proceeds from long-term debt.....	185,010	340,616	266,375	2,209,664
Repayment of long-term debt.....	(186,799)	(239,715)	(293,264)	(2,432,717)
Cash dividends paid (note 11).....	(13,640)	(16,563)	(20,463)	(169,747)
Increase (decrease) in commercial paper classified as long-term debt.....	(21,972)	(826)	52,163	432,708
Net cash provided by (used in) financing activities.....	<u>(95,666)</u>	<u>162,573</u>	<u>203,757</u>	<u>1,690,228</u>
Effect of exchange rate changes on cash and cash equivalents.....	<u>16,053</u>	<u>3,785</u>	<u>(12,149)</u>	<u>(100,780)</u>
Net change in cash and cash equivalents.....	<u>59,985</u>	<u>(21,854)</u>	<u>40,330</u>	<u>334,550</u>
Cash and cash equivalents at beginning of year.....	<u>299,163</u>	<u>359,148</u>	<u>337,294</u>	<u>2,797,959</u>
Cash and cash equivalents at end of year.....	<u>¥ 359,148</u>	<u>¥ 337,294</u>	<u>¥ 377,624</u>	<u>\$ 3,132,509</u>

See accompanying notes to consolidated financial statements.

(1) General and Summary of Significant Accounting Policies**(a) Description of Business**

Honda Motor Co., Ltd. (the "Company") and its subsidiaries (collectively "Honda") develop, manufacture, distribute and provide financing for the sale of its motorcycles, automobiles and power products. Honda's manufacturing operations are principally conducted in 25 separate factories, 6 of which are located in Japan. Principal overseas manufacturing facilities are located in the United States, Canada, the United Kingdom, France, Italy, Spain, India, Pakistan, the Philippines, Thailand, Vietnam, Brazil and Mexico.

Net sales and other operating revenue by category of activity for the year ended March 31, 1999 were derived from: motorcycle business—11.2%, automobile business—80.1%, financial services—2.6%, and other businesses—6.1%. Operating income by category of activity for the year ended March 31, 1999 was derived from: motorcycle business—12.1%, automobile business—77.8%, financial services—4.4%, and other businesses—5.7%. The total assets at March 31, 1999 were attributed to: motorcycle business—9.8%, automobile business—48.7%, financial services—36.0%, other businesses—4.1%, and corporate assets (net of company-wide accounts eliminated in consolidation)—1.4%.

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 1999, 71.8% of net sales and other operating revenue (¥4,475,083 million (\$37,122,215 thousand)) were derived from subsidiaries operating outside Japan (1998: ¥3,984,064 million, 1997: ¥3,162,905 million). Net sales and other operating revenue for the year ended March 31, 1999 were geographically broken down based on the location of customers as follows: Japan—25.0%, North America—51.5%, Europe—12.7%, and others—10.8%. For the year ended March 31, 1999, 61.2% of operating income (¥335,745 million (\$2,785,110 thousand)) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (1998: ¥269,793 million, 1997: ¥202,472 million). Also, 58.5% of Honda's assets at March 31, 1999 (¥2,946,457 million (\$24,441,783 thousand)) were identified with foreign operations (1998: ¥2,842,122 million).

(b) Basis of Presenting Consolidated Financial Statements

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries generally maintain their books of account in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary to conform them with United States generally accepted accounting principles.

(c) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The investments in 20% to 50% owned affiliates are stated at their underlying equity value.

Minority interests in net assets and income are not significant and, accordingly, are not presented separately in the accompanying consolidated balance sheets and statements of income.

(d) Use of Estimates

Management of Honda has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with United States generally accepted accounting principles. Actual results could differ from those estimates.

(e) Revenue Recognition

Sales of manufactured products are recognized when products are shipped to dealers. Provisions for dealer sales allowances are normally recognized as sales reductions at the time of sale.

Interest income from finance receivables is recognized using the interest method. Finance receivable origination fees and certain direct origination costs are deferred, and the net fee or cost is recognized using the interest method over the contractual life of the finance receivables.

Finance subsidiaries of the Company periodically sell finance receivables. Gain or loss is recognized equal to the difference between the cash proceeds received and the carrying value of the receivables sold and is recorded in the period in which the sale occurs. Honda allocates the recorded investment in finance receivables between the portion(s) of the receivables sold and portion(s) retained based on the relative fair values of those portions on the date the receivables are sold. Honda adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," on a prospective basis for applicable transactions occurring after December 31, 1996. SFAS No. 125 specifies when financial assets and liabilities are to be removed from an entity's financial statements, the accounting for servicing assets and liabilities and the accounting for assets that can be contractually prepaid in such a way that the holder would not recover substantially all of its recorded investment. From January 1, 1997, Honda recognizes gains or losses attributable to the change in the fair value of the retained interests, which are recorded at estimated fair value and accounted for as "trading"

securities. A servicing asset or liability is amortized in proportion to and over the period of estimated net servicing income. Servicing assets and servicing liabilities at March 31, 1998 and 1999 were not significant.

(f) Cash Equivalents

Honda considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(g) Inventories

Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or market.

(h) Investments in Securities

Honda classifies its debt and equity securities in one of three categories: available-for-sale, trading, or held-to-maturity. Debt securities that are classified as "held-to-maturity" securities are reported at amortized cost. Debt and equity securities classified as "trading" securities are reported at fair value, with unrealized gains and losses included in earnings. Other debt and equity securities are classified as "available-for-sale" securities and are reported at fair value, with unrealized gains or losses net of deferred taxes, included in other comprehensive income (loss) and accumulated in the stockholders' equity section of the consolidated balance sheet. Honda did not hold any "trading" securities at March 31, 1998 and 1999, except for retained interests in the sold pools of finance receivables, which are accounted for as "trading" securities and included in finance receivables. Honda did not hold any "held-to-maturity" securities at March 31, 1998 and 1999.

(i) Depreciation

Depreciation of property, plant and equipment is calculated principally by the declining-balance method based on the estimated useful lives of the respective assets.

(j) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Honda's long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Deferred income taxes are also provided on the undistributed earnings of subsidiaries and affiliates to the extent that the Company anticipates receiving them in the form of dividends.

(l) Product-Related Expenses

Advertising and sales promotion costs are expensed as incurred. Advertising expenses for each of the years in the three-year period ended March 31, 1999 were ¥166,994 million, ¥193,915 million and ¥210,032 million (\$1,742,281 thousand), respectively. Provisions for estimated costs related to product warranty are made at the time of sale.

(m) Net Income per Common Share

Basic net income per common share has been computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each year. Diluted net income per common share reflects the potential dilution and has been computed on the basis that all convertible debentures were converted at beginning of the year.

(n) Foreign Currency Translation

Foreign currency financial statement amounts are translated into Japanese yen on the basis of the year-end rate for all assets and liabilities and the weighted average rate for the year for all income and expense amounts. Translation adjustments resulting therefrom are included in other comprehensive income (loss) and are accumulated in the stockholders' equity section of the consolidated balance sheet.

Foreign currency transaction gains (losses) included in the determination of net income for each of the years in the three-year period ended March 31, 1999 were as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1997	1998	1999
	¥(1,365)	¥154	¥(886)
			\$(7,350)

(o) Derivative Financial Instruments

The Company and certain of its subsidiaries have entered into foreign exchange agreements and interest rate agreements to manage currency and interest rate exposures. These instruments include foreign currency forward contracts, currency swap agreements, currency option contracts and interest rate swap agreements. Gains and losses on foreign exchange instruments that qualify for hedge accounting treatment are recognized in the same period in which gains or losses from the transaction being hedged are recognized. The differential to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense. In the event of an early termination of the hedge, any deferred gain or loss on the hedging instrument continues to be deferred until the hedged item is realized. Derivative financial instruments that do not meet the criteria for hedge accounting are marked to market.

(p) Pension and Other Postretirement Benefits

The Company and certain of its subsidiaries have various pension plans covering substantially all of their employees in Japan and in certain foreign countries who meet eligibility requirements. Certain of the Company's subsidiaries in North America provide certain health care and life insurance benefits to retired employees.

Honda adopted Statement of Financial Accounting Standards (SFAS) No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," in the year ended March 31, 1999. SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans. SFAS No. 132 does not change the recognition or measurement of those plans and will not affect Honda's consolidated financial position and results of operations. All prior years' disclosures have been restated to conform to the requirements of SFAS No. 132.

(q) Comprehensive Income

Honda adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," from the year beginning on April 1, 1998. Comprehensive income consists of net income, change in adjustments from foreign currency translation, change in net unrealized gains on marketable equity securities, and change in minimum pension liabilities adjustment, and is included in the consolidated statements of stockholders' equity. SFAS No. 130 requires only additional disclosures in the consolidated financial statements and does not affect Honda's consolidated financial position and results of operations. Prior years' consolidated financial statements have been reclassified to conform to the requirements of SFAS No. 130.

(r) New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. Honda will adopt SFAS No. 133 in the year beginning on April 1, 2000. Honda is presently analyzing this statement and has not yet determined its impact on Honda's consolidated financial position or results of operations.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 provides guidance on when costs for internal use computer software should be capitalized or expensed as incurred and is effective for fiscal years beginning after December 15, 1998. Honda does not expect adoption of SOP 98-1 to have a material impact on its consolidated financial position and results of operations.

In April 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs and is effective for fiscal years beginning after December 15, 1998. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. Honda does not expect adoption of SOP 98-5 to have a material impact on its consolidated financial position and results of operations.

(s) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 1999.

(2) Basis of Translating Financial Statements

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 1999 have been translated into United States dollars at the rate of ¥120.55=US\$1, the mean of the telegraphic transfer

selling exchange rate and the telegraphic transfer buying exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 1999. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

(3) Finance Subsidiaries

Finance subsidiaries—receivables represent finance receivables generated by finance subsidiaries. Finance receivables include wholesale financing to dealers and retail financing and direct financing leases to consumers. The allowance for credit losses is maintained at an amount management deems adequate to cover estimated losses on finance receivables. The allowance is based

on management's evaluation of many factors, including current economic trends, industry experience, inherent risks in the portfolio and the borrower's ability to pay.

Finance subsidiaries—receivables, net, consisted of the following at March 31, 1998 and 1999:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Direct financing leases.....	¥1,009,681	¥1,163,613	\$ 9,652,534
Retail	484,099	449,520	3,728,909
Wholesale.....	143,354	166,751	1,383,252
Term loans to dealers.....	33,022	29,176	242,024
Total finance receivables	1,670,156	1,809,060	15,006,719
Retained interests in the sold pools of finance receivables	37,177	35,102	291,182
	1,707,333	1,844,162	15,297,901
Less:			
Allowance for credit losses.....	14,397	12,974	107,623
Unearned interest income and fees	137,235	143,131	1,187,316
Finance subsidiaries—receivables, net	1,555,701	1,688,057	14,002,962
Less current portion	632,348	661,697	5,488,984
Noncurrent finance subsidiaries—receivables, net	¥ 923,353	¥1,026,360	\$ 8,513,978

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 1999 and thereafter:

Years ending March 31	Yen	U.S. dollars
	(millions)	(thousands) (note 2)
2000.....	¥ 679,934	\$ 5,640,265
2001.....	517,053	4,289,117
2002.....	414,638	3,439,552
2003.....	154,833	1,284,388
2004.....	30,127	249,913
After five years.....	12,475	103,484
	<u>1,129,126</u>	<u>9,366,454</u>
Total.....	<u>¥1,809,060</u>	<u>\$15,006,719</u>

Net sales and other operating revenue and cost of sales include finance income and related cost of finance subsidiaries for each of the years in the three-year period ended March 31, 1999 as follows:

	Yen			U.S. dollars
	(millions)			(thousands)
	1997	1998	1999	1999
Finance income.....	¥100,230	¥147,439	¥169,965	\$1,409,913
Finance cost.....	<u>41,506</u>	<u>60,169</u>	<u>78,853</u>	<u>654,110</u>

Finance subsidiaries of the Company periodically sell finance receivables. Pre-tax net gains on such sales for each of the years in the three-year period ended March 31, 1999, which are included

in finance income in the table above, are ¥2,520 million, ¥12,018 million and ¥7,741 million (\$64,214 thousand), respectively.

(4) Inventories

Inventories at March 31, 1998 and 1999 are summarized as follows:

	Yen		U.S. dollars
	(millions)		(thousands)
	1998	1999	1999
Finished goods.....	¥439,023	¥428,681	\$3,556,043
Work in process.....	17,748	23,475	194,733
Raw materials.....	144,137	146,994	1,219,361
	<u>¥600,908</u>	<u>¥599,150</u>	<u>\$4,970,137</u>

(5) Investments and Advances—Affiliates

Certain financial information in respect of affiliates at March 31, 1998 and 1999, and for each of the years in the three-year period ended March 31, 1999 is shown below:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Current assets.....	¥ 498,581	¥ 510,582	\$4,235,438
Other assets, principally property, plant and equipment.....	560,583	585,148	4,853,986
	1,059,164	1,095,730	9,089,424
Current liabilities.....	482,390	454,112	3,767,001
Other liabilities.....	114,829	133,897	1,110,718
Net assets.....	¥ 461,945	¥ 507,721	\$4,211,705

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
Net sales.....	¥1,799,872	¥1,988,141	¥1,804,313	\$14,967,341
Net income.....	52,693	53,867	41,659	345,574
Cash dividends received by Honda during the year.....	2,910	3,766	2,684	22,265

Sales to affiliates by the Company and its subsidiaries and sales among such affiliates are made on the same basis as sales to unaffiliated parties.

Honda's equity in undistributed income of affiliates at March 31, 1998 and 1999 included in retained earnings was ¥90,634 million and ¥91,834 million (\$761,792 thousand), respectively.

Honda's intercompany balances and transactions with affiliates at March 31, 1998 and 1999, and for each of the years in the three-year period ended March 31, 1999 were as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Due from.....	¥ 9,475	¥ 9,033	\$ 74,932
Due to.....	93,042	90,701	752,393

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
Purchases from.....	¥444,152	¥540,795	¥498,556	\$4,135,678
Sales to.....	109,090	76,052	62,528	518,689

(6) Investments and Advances—Other

Investments and advances—other at March 31, 1998 and 1999 consist of the following:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Marketable equity securities	¥114,812	¥122,233	\$1,013,961
Nonmarketable preferred stock—The Bank of Tokyo-Mitsubishi, Ltd.	—	10,200	84,612
Guaranty deposits	37,209	36,185	300,166
Long-term deposits.....	32,024	—	—
Life insurance contracts	11,304	11,320	93,903
Advances.....	4,780	3,811	31,613
Other	7,481	16,139	133,878
	<u>¥207,610</u>	<u>¥199,888</u>	<u>\$1,658,133</u>

Certain information with respect to available-for-sale securities, all of which are marketable equity securities at March 31, 1998 and 1999, is summarized below:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Cost	¥ 70,781	¥ 69,478	\$ 576,342
Fair value.....	114,812	122,233	1,013,961
Gross unrealized gains.....	50,443	58,968	489,158
Gross unrealized losses	6,412	6,213	51,539

Honda's consolidated statement of income for the year ended March 31, 1997 included a pre-tax gain of ¥10,471 million and an after-tax gain of ¥5,026 million on the nonmonetary exchange of common shares of The Bank of Tokyo, Ltd. ("BOT") for common shares of The Bank of Tokyo-Mitsubishi, Ltd. due to a merger of

BOT and The Mitsubishi Bank, Limited on April 1, 1996. The unrealized holding gain on Honda's investment in BOT shares was previously included in accumulated other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheet at March 31, 1996.

(7) Short-term and Long-term Debt

Short-term bank loans and commercial paper at March 31, 1998 and 1999 were as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Short-term bank loans.....	¥389,056	¥549,630	\$4,559,353
Commercial paper.....	90,151	72,714	603,185
	<u>¥479,207</u>	<u>¥622,344</u>	<u>\$5,162,538</u>

The weighted average interest rates on short-term loans outstanding at March 31, 1998 and 1999 were 4.6% and 5.7%, respectively.

Long-term debt at March 31, 1998 and 1999 was as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Honda Motor Co., Ltd.:			
Loans, maturing 1998–2002:			
Unsecured, principally from banks	¥ 40,765	¥ 32,223	\$ 267,299
6.0% Japanese yen unsecured bonds due 1999	30,000	—	—
5.05% Japanese yen unsecured bonds due 1999	50,000	50,000	414,766
3.8% Japanese yen unsecured bonds due 2001	50,000	50,000	414,766
	170,765	132,223	1,096,831
Subsidiary companies:			
Commercial paper	159,313	194,284	1,611,648
Loans, maturing 1998–2007:			
Secured, principally from banks	11,958	9,246	76,698
Unsecured, principally from banks	252,924	270,210	2,241,477
Medium-term notes, maturing 1998–2008	335,917	327,342	2,715,404
Other	38	83	688
Less unamortized discount, net	2,196	1,786	14,815
	757,954	799,379	6,631,100
Total long-term debt	928,719	931,602	7,727,931
Less current portion	250,969	258,518	2,144,488
	¥677,750	¥673,084	\$5,583,443

The loans are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.44% to 20.00% per annum at March 31, 1999.

Property, plant and equipment with a net book value of approximately ¥10,052 million and ¥14,379 million (\$119,278 thousand) at March 31, 1998 and 1999, respectively, were subject to specific mortgages securing indebtedness.

With respect to the 5.05% Japanese yen unsecured bonds due 1999, a deposit of ¥30,556 million at March 31, 1999 was made under a debt assumption agreement and included in Other current

assets in the consolidated balance sheet. Principal and interest on deposits are restricted to use for future redemption of the bonds and related future interest payments.

At March 31, 1998 and 1999, U.S. dollar 1,206,000 thousand and U.S. dollar 1,611,648 thousand, respectively, of commercial paper borrowings were classified as long-term, as it is the respective finance subsidiary's intention to refinance them on a long-term basis and it has established the necessary credit facilities to do so. The interest rate on commercial paper was approximately 4.94% at March 31, 1999.

Medium-term notes are unsecured, and their interest rates range from 0.48% to 6.55% at March 31, 1999.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 1999 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (thousands) (note 2)
2000.....	¥258,518	\$2,144,488
2001.....	413,730	3,432,020
2002.....	174,412	1,446,802
2003.....	18,560	153,961
2004.....	20,358	168,876
After five years.....	46,024	381,784
	<u>673,084</u>	<u>5,583,443</u>
Total.....	<u>¥931,602</u>	<u>\$7,727,931</u>

The Company and certain of its subsidiaries have entered into currency swap agreements for hedging currency exposures resulting from the issuance of long-term debt. The effects of foreign currency exchange rate fluctuations resulting from these swap agreements are included in Other assets/liabilities and/or Other current assets/liabilities in the consolidated balance sheet, as appropriate (see note 16). Unless a right of setoff exists, the offsetting of assets and liabilities is not made in the consolidated balance sheet.

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Certain debenture trust agreements provide that Honda must give additional security upon request of the trustee.

(8) Other Liabilities

Other liabilities at March 31, 1998 and 1999 are summarized as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Allowance for dealers and customers	¥ 51,815	¥ 42,018	\$ 348,552
Minority interest.....	26,440	25,186	208,926
Additional minimum pension liabilities (note 12).....	172,811	227,424	1,886,553
Other	65,746	37,484	310,942
	<u>¥316,812</u>	<u>¥332,112</u>	<u>\$2,754,973</u>

(9) Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 1999 were allocated as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
Income.....	¥189,044	¥201,278	¥229,624	\$1,904,803
Stockholders' equity—accumulated other comprehensive income (loss) (note 14).....	(60,621)	(25,230)	(27,405)	(227,333)
	<u>¥128,423</u>	<u>¥176,048</u>	<u>¥202,219</u>	<u>\$1,677,470</u>

The income before income taxes and equity in income of affiliates ("Income before income taxes") and income tax expense (benefit) for each of the years in the three-year period ended March 31, 1999 consist of the following:

	Yen (millions)			
	Income before income taxes	Income taxes		Total
		Current	Deferred	
1997:				
Japanese	¥185,052	¥120,694	¥(26,401)	¥ 94,293
Foreign (a)	205,670	76,299	18,452	94,751
	<u>¥390,722</u>	<u>¥196,993</u>	<u>¥ (7,949)</u>	<u>¥189,044</u>
1998:				
Japanese	¥179,697	¥119,819	¥ (8,072)	¥111,747
Foreign (a)	263,654	95,468	(5,937)	89,531
	<u>¥443,351</u>	<u>¥215,287</u>	<u>¥(14,009)</u>	<u>¥201,278</u>
1999:				
Japanese	¥199,848	¥125,423	¥ 15,144	¥140,567
Foreign (a)	320,663	107,875	(18,818)	89,057
	<u>¥520,511</u>	<u>¥233,298</u>	<u>¥ (3,674)</u>	<u>¥229,624</u>

	U.S. dollars (thousands) (note 2)			
	Income before income taxes	Income taxes		Total
		Current	Deferred	
1999:				
Japanese	\$1,657,802	\$1,040,423	\$125,624	\$1,166,047
Foreign (a)	2,660,000	894,857	(156,101)	738,756
	<u>\$4,317,802</u>	<u>\$1,935,280</u>	<u>\$ (30,477)</u>	<u>\$1,904,803</u>

(a) Foreign includes income taxes provided on undistributed earnings of foreign subsidiaries and affiliates.

The significant components of deferred income tax expense (benefit) for each of the years in the three-year period ended March 31, 1999 are as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
	Deferred tax expense (exclusive of the effects of other components listed below)	¥ 579	¥ (1,488)	¥ 18,478
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	(10,631)	(21,942)	(182,016)
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(8,528)	(1,890)	(210)	(1,742)
	<u>¥(7,949)</u>	<u>¥(14,009)</u>	<u>¥ (3,674)</u>	<u>\$ (30,477)</u>

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in normal tax rates of approximately 52% for the years ended March 31, 1997 and 1998, and approximately 48% for the year ended March 31, 1999. Such normal tax rates were also lowered to approximately 41% on March 24, 1999 effective for the year ending March 31, 2000 and thereafter. The foreign subsidiaries are subject to taxes based on income at rates ranging from 30% to 52%.

The effective tax rate of Honda for each of the years in the three-year period ended March 31, 1999 differs from the normal Japanese income tax rate for the following reasons:

	1997	1998	1999
Normal income tax rate	52.0%	52.0%	48.0%
Valuation allowance provided for current year operating losses of subsidiaries	0.1	0.2	1.2
Difference in normal tax rates of foreign subsidiaries	(2.6)	(3.9)	(3.0)
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	(2.4)	(4.2)
Reversal of valuation allowance due to utilization of operating loss carryforwards	(1.8)	(0.3)	(0.1)
Other	0.7	(0.2)	2.2
Effective tax rate	<u>48.4%</u>	<u>45.4%</u>	<u>44.1%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 1998 and 1999 are presented below:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Deferred tax assets:			
Inventory valuation	¥ 85,201	¥ 73,207	\$ 607,275
Allowance for dealers and customers	73,256	67,142	556,964
Foreign tax credit	—	20,804	172,576
Operating loss carryforwards	19,608	20,304	168,428
Minimum pension liabilities adjustment	76,790	88,401	733,314
Other	116,223	107,457	891,389
Total gross deferred tax assets	371,078	377,315	3,129,946
Less valuation allowance	16,466	18,436	152,933
Net deferred tax assets	<u>354,612</u>	<u>358,879</u>	<u>2,977,013</u>
Deferred tax liabilities:			
Inventory valuation	(16,385)	(16,580)	(137,536)
Depreciation and amortization, excluding lease transactions	(14,095)	(13,194)	(109,448)
Lease transactions	(114,433)	(111,263)	(922,961)
Undistributed earnings of subsidiaries and affiliates	(50,930)	(28,525)	(236,624)
Net unrealized gains on marketable equity securities	(21,135)	(21,630)	(179,428)
Other	(25,332)	(24,306)	(201,626)
Total gross deferred tax liabilities	<u>(242,310)</u>	<u>(215,498)</u>	<u>(1,787,623)</u>
Net deferred tax asset	<u>¥112,302</u>	<u>¥143,381</u>	<u>\$1,189,390</u>

The valuation allowance for deferred tax assets at March 31, 1997 was ¥17,086 million. The net change in the total valuation allowance for the years ended March 31, 1998 and 1999 was a decrease of ¥620 million and an increase of ¥1,970 million (\$16,342 thousand), respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary

differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that Honda will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 1998 and 1999.

At March 31, 1999, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of approximately ¥61,406 million (\$509,382 thousand), which are available to offset future taxable income, if any. Periods available to offset future taxable income vary in each tax jurisdiction and range from one year to an indefinite period as follows:

	Yen (millions)	U.S. dollars (thousands) (note 2)
Within 1 year	¥ 1,825	\$ 15,139
1 to 5 years	17,465	144,878
5 to 15 years	11,106	92,128
Indefinite periods	31,010	257,237
	<u>¥61,406</u>	<u>\$509,382</u>

At March 31, 1998 and 1999, Honda did not recognize deferred tax liabilities of ¥51,039 million and ¥5,116 million (\$42,439 thousand), respectively, for certain portions of the undistributed earnings of the Company's subsidiaries because such portions were reinvested or were determined to be reinvested. At March 31, 1998 and 1999, the undistributed earnings not subject to deferred tax liabilities were ¥592,800 million and ¥622,340 million (\$5,162,505 thousand), respectively. Honda has recognized deferred tax liabilities for undistributed earnings for which decisions of reinvestment have not been made.

Deferred income taxes at March 31, 1998 and 1999 are reflected in the consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Current assets—Deferred income taxes	¥132,697	¥133,959	\$1,111,232
Other assets	16,176	59,590	494,317
Other current liabilities	(36,571)	(50,168)	(416,159)
Net deferred tax asset	<u>¥112,302</u>	<u>¥143,381</u>	<u>\$1,189,390</u>

(10) Common Stock

During the years ended March 31, 1997 and 1998, the Company issued approximately 19 thousand and 88 thousand shares, respectively, of common stock in connection with the conversion of convertible debt. Conversions of convertible debt issued subsequent to October 1, 1982 into common stock and exercise of

warrants were accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half of the aggregate conversion price equally to the common stock account and the capital surplus account.

(11) Dividends and Legal Reserves

The Japanese Commercial Code provides that earnings in an amount equal to at least 10% of all appropriations of retained earnings that are paid in cash, such as cash dividends and bonuses to directors, shall be appropriated as a legal reserve until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends and appropriations to the legal reserves charged to retained earnings during the years in the three-year period ended March 31, 1999 represent dividends paid out during those years and the related appropriations to the legal reserves. Cash dividends per share for each of the years in the three-year period ended March 31, 1999 were ¥14, ¥17 and ¥21 (\$0.17), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥10 (\$0.08) per share aggregating ¥9,744 million (\$80,830 thousand) to be proposed in June 1999.

(12) Pension and Other Postretirement Benefits

The Company and its subsidiaries have various pension plans covering substantially all of their employees in Japan and in certain foreign countries. Benefits under the plans are primarily based on the combination of years of service and compensation. The funding policy is to make periodic contributions as required by applicable regulations. Plan assets consist primarily of listed equity securities and bonds.

Retirement benefits for directors, excluding certain benefits, are subject to a resolution at the stockholders' meeting, and are charged to income at the time when such a resolution is made. There are occasions where officers other than directors receive special lump-sum payments at retirement. Such payments are charged to income as paid since amounts vary with circumstances and it is impractical to compute a liability for future payments.

Reconciliations of beginning and ending balances of the pension benefit obligations and the fair value of the plan assets are as follows:

	Yen (millions)			
	Japanese plans		Foreign plans	
	1998	1999	1998	1999
Change in benefit obligations:				
Benefit obligations at beginning of year	¥ (859,473)	¥(1,034,272)	¥(60,027)	¥(88,383)
Service cost	(33,427)	(40,897)	(6,441)	(9,314)
Interest cost	(34,270)	(36,200)	(4,665)	(6,284)
Plan participants' contributions	(6,136)	(6,347)	(374)	(459)
Actuarial gain (loss)	(114,080)	(128,382)	(9,967)	4,125
Benefits paid	10,387	10,464	658	836
Foreign exchange translation	—	—	(2,853)	6,686
Other	2,727	—	(4,714)	(435)
Benefit obligations at end of year	<u>(1,034,272)</u>	<u>(1,235,634)</u>	<u>(88,383)</u>	<u>(93,228)</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	478,289	563,748	51,481	77,380
Actual return on plan assets	39,584	29,599	16,303	4,780
Employer contributions	52,156	43,512	7,292	12,280
Plan participants' contributions	6,136	6,347	374	459
Benefits paid	(10,387)	(10,464)	(658)	(836)
Foreign exchange translation	—	—	2,588	(6,497)
Other	(2,030)	—	—	(152)
Fair value of plan assets at end of year	<u>563,748</u>	<u>632,742</u>	<u>77,380</u>	<u>87,414</u>
Funded status	(470,524)	(602,892)	(11,003)	(5,814)
Unrecognized actuarial loss	408,412	509,413	3,203	740
Unrecognized net transition obligations	12,970	11,935	316	233
Unrecognized prior service cost	—	—	4,475	4,485
Net amount recognized	<u>(49,142)</u>	<u>(81,544)</u>	<u>(3,009)</u>	<u>(356)</u>
Adjustments to recognize additional minimum liabilities (note 8):				
Intangible assets	(12,831)	(11,811)	—	—
Amount included in accumulated other comprehensive income (loss)	(159,980)	(215,613)	—	—
	<u>(172,811)</u>	<u>(227,424)</u>	<u>—</u>	<u>—</u>
Accrued pension cost recognized in the consolidated balance sheets	<u>¥ (221,953)</u>	<u>¥ (308,968)</u>	<u>¥ (3,009)</u>	<u>¥ (356)</u>
Pension plans with accumulated benefit obligations in excess of plan assets:				
Projected benefit obligations	¥(1,034,272)	¥(1,235,634)	¥(26,519)	¥ —
Accumulated benefit obligations	(785,579)	(941,562)	(18,869)	—
Fair value of plan assets	<u>563,748</u>	<u>632,742</u>	<u>18,042</u>	<u>—</u>

	U.S. dollars (thousands) (note 2)	
	Japanese plans	Foreign plans
	1999	1999
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ (8,579,610)	\$(733,165)
Service cost	(339,254)	(77,263)
Interest cost	(300,290)	(52,128)
Plan participants' contributions	(52,650)	(3,808)
Actuarial gain (loss)	(1,064,969)	34,219
Benefits paid	86,802	6,935
Foreign exchange translation	—	55,463
Other	—	(3,608)
Benefit obligations at end of year	<u>(10,249,971)</u>	<u>(773,355)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	4,676,466	641,891
Actual return on plan assets	245,533	39,652
Employer contributions	360,946	101,866
Plan participants' contributions	52,650	3,808
Benefits paid	(86,802)	(6,935)
Foreign exchange translation	—	(53,895)
Other	—	(1,261)
Fair value of plan assets at end of year	<u>5,248,793</u>	<u>725,126</u>
Funded status	(5,001,178)	(48,229)
Unrecognized actuarial loss	4,225,740	6,139
Unrecognized net transition obligations	99,005	1,933
Unrecognized prior service cost	—	37,204
Net amount recognized	<u>(676,433)</u>	<u>(2,953)</u>
Adjustments to recognize additional minimum liabilities (note 8):		
Intangible assets	(97,976)	—
Amount included in accumulated other comprehensive income (loss)	(1,788,577)	—
	<u>(1,886,553)</u>	<u>—</u>
Accrued pension cost recognized in the consolidated balance sheets	<u>\$ (2,562,986)</u>	<u>\$ (2,953)</u>
Pension plans with accumulated benefit obligation in excess of plan assets:		
Projected benefit obligations	\$(10,249,971)	\$ —
Accumulated benefit obligations	(7,810,552)	—
Fair value of plan assets	<u>5,248,793</u>	<u>—</u>

Pension expense for each of the years in the three-year period ended March 31, 1999 includes the following:

	Yen (millions)		U.S. dollars (thousands) (note 2)	
	1997	1998	1999	1999
Japanese plans:				
Service cost-benefits earned during the year.....	¥25,826	¥33,427	¥40,897	\$339,254
Interest cost on projected benefit obligations.....	30,098	34,270	36,200	300,290
Expected return on plan assets.....	(17,489)	(18,924)	(21,735)	(180,299)
Net amortization and deferral.....	9,970	15,489	18,973	157,387
	<u>¥48,405</u>	<u>¥64,262</u>	<u>¥74,335</u>	<u>\$616,632</u>
Foreign plans:				
Service cost-benefits earned during the year.....	¥ 4,993	¥ 6,441	¥ 9,314	\$ 77,263
Interest cost on projected benefit obligations.....	3,441	4,665	6,284	52,128
Expected return on plan assets.....	(3,433)	(4,645)	(6,186)	(51,315)
Net amortization and deferral.....	(15)	292	315	2,613
	<u>¥ 4,986</u>	<u>¥ 6,753</u>	<u>¥ 9,727</u>	<u>\$ 80,689</u>

The assumptions used in computing the information above are as follows:

	1997	1998	1999
Japanese plans:			
At March 31:			
Discount rate.....	4.0%	3.5%	3.0%
Rate of salary increase.....	3.0%	3.0%	3.0%
Year ended March 31:			
Expected long-term rate of return.....	4.0%	4.0%	4.0%
Foreign plans:			
At March 31:			
Discount rate.....	7.5–8.5%	6.75–8.5%	5.5–7.5%
Rate of salary increase.....	5.0–6.0%	4.25–6.0%	3.5–6.0%
Year ended March 31:			
Expected long-term rate of return.....	7.5–9.0%	6.75–9.0%	6.0–9.0%

Certain of the Company's subsidiaries in North America provide certain health care and life insurance benefits to retired employees. Such benefits have no material effect on Honda's financial position and results of operations.

(13) Supplemental Disclosures of Cash Flow Information

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
Cash paid during the year for:				
Interest	¥ 63,050	¥ 71,257	¥108,694	\$ 901,651
Income taxes.....	<u>112,013</u>	<u>248,024</u>	<u>254,973</u>	<u>2,115,081</u>
Noncash financing activities:				
Additional common stock issued upon the conversion of long-term debt (note 10)	<u>¥ 8</u>	<u>¥ 43</u>	<u>¥ —</u>	<u>\$ —</u>

(14) Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) is as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
Adjustments from foreign currency translation:				
Balance at beginning of year	¥(421,784)	¥(320,440)	¥(314,885)	\$(2,612,070)
Adjustments for the year.....	<u>101,344</u>	<u>5,555</u>	<u>(104,249)</u>	<u>(864,778)</u>
Balance at end of year	<u>(320,440)</u>	<u>(314,885)</u>	<u>(419,134)</u>	<u>(3,476,848)</u>
Net unrealized gains on marketable equity securities:				
Balance at beginning of year	57,850	34,218	21,135	175,321
Realized (gain) loss on marketable equity securities	(5,026)	—	389	3,227
Increase (decrease) in net unrealized gains on marketable equity securities.....	<u>(18,606)</u>	<u>(13,083)</u>	<u>4,148</u>	<u>34,409</u>
Balance at end of year	<u>34,218</u>	<u>21,135</u>	<u>25,672</u>	<u>212,957</u>
Minimum pension liabilities adjustment:				
Balance at beginning of year	(18,340)	(59,698)	(76,791)	(637,005)
Adjustments for the year.....	<u>(41,358)</u>	<u>(17,093)</u>	<u>(28,929)</u>	<u>(239,976)</u>
Balance at end of year	<u>(59,698)</u>	<u>(76,791)</u>	<u>(105,720)</u>	<u>(876,981)</u>
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(382,274)	(345,920)	(370,541)	(3,073,754)
Adjustments for the year.....	<u>36,354</u>	<u>(24,621)</u>	<u>(128,641)</u>	<u>(1,067,118)</u>
Balance at end of year	<u>¥(345,920)</u>	<u>¥(370,541)</u>	<u>¥(499,182)</u>	<u>\$(4,140,872)</u>

The effects allocated to each component of other comprehensive income (loss) and reclassification adjustments are as follows:

	Yen (millions)		
	Before-tax amount	Tax (expense) or benefit (note 9)	Net-of-tax amount
1997:			
Adjustments from foreign currency translation	¥ 111,128	¥ (9,784)	¥ 101,344
Unrealized gains on marketable equity securities:			
Unrealized holding losses arising during the year	(38,762)	20,156	(18,606)
Reclassification adjustments for gains realized in net income	(10,471)	5,445	(5,026)
Net unrealized losses	(49,233)	25,601	(23,632)
Minimum pension liabilities adjustment	(86,162)	44,804	(41,358)
Other comprehensive income (loss).....	¥ (24,267)	¥60,621	¥ 36,354
1998:			
Adjustments from foreign currency translation	¥ 13,016	¥ (7,461)	¥ 5,555
Unrealized holding losses on marketable equity securities arising during the year.....	(27,257)	14,174	(13,083)
Minimum pension liabilities adjustment	(35,610)	18,517	(17,093)
Other comprehensive income (loss).....	¥ (49,851)	¥25,230	¥ (24,621)
1999:			
Adjustments from foreign currency translation	¥(109,137)	¥ 4,888	¥(104,249)
Unrealized gains on marketable equity securities:			
Unrealized holding gains arising during the year	7,977	(3,829)	4,148
Reclassification adjustments for losses realized in net income.....	747	(358)	389
Net unrealized gains	8,724	(4,187)	4,537
Minimum pension liabilities adjustment	(55,633)	26,704	(28,929)
Other comprehensive income (loss).....	¥(156,046)	¥27,405	¥(128,641)

	U.S. dollars (thousands) (note 2)		
	Before-tax amount	Tax (expense) or benefit (note 9)	Net-of-tax amount
1999:			
Adjustments from foreign currency translation	\$ (905,326)	\$ 40,548	\$ (864,778)
Unrealized gains on marketable equity securities:			
Unrealized holding gains arising during the year.....	66,172	(31,763)	34,409
Reclassification adjustments for losses realized in net income	6,197	(2,970)	3,227
Net unrealized gains.....	72,369	(34,733)	37,636
Minimum pension liabilities adjustment.....	(461,494)	221,518	(239,976)
Other comprehensive income (loss).....	\$(1,294,451)	\$227,333	\$(1,067,118)

(15) Net Income per Common Share

A reconciliation of the numerators and denominators of the basic and diluted net income per common share computations is as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1997	1998	1999	1999
Net income available to common stockholders.....	¥221,168	¥260,625	¥305,045	\$2,530,444
Effect of dilutive securities:				
Convertible bonds.....	(1)	(18)	—	—
Diluted net income	<u>¥221,167</u>	<u>¥260,607</u>	<u>¥305,045</u>	<u>\$2,530,444</u>

	Number of shares		
	1997	1998	1999
Average common shares outstanding.....	974,310,124	974,348,808	974,414,215
Effect of dilutive securities:			
Convertible bonds.....	106,760	67,630	—
Diluted common shares outstanding.....	<u>974,416,884</u>	<u>974,416,438</u>	<u>974,414,215</u>

	Yen			U.S. dollars (note 2)
	1997	1998	1999	1999
Net income per common share:				
Basic.....	¥227.00	¥267.49	¥313.05	\$2.60
Diluted	<u>226.97</u>	<u>267.45</u>	<u>313.05</u>	<u>2.60</u>

(16) Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 1998 and 1999 were as follows:

	Yen (millions)				U.S. dollars (thousands) (note 2)	
	1998		1999		1999	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries—receivables (a)	¥ 657,507	¥ 662,125	¥ 643,308	¥ 682,179	\$ 5,336,441	\$ 5,658,888
Investments and advances—marketable equity securities	114,812	114,812	122,233	122,233	1,013,961	1,013,961
Debt	(1,407,926)	(1,420,149)	(1,553,946)	(1,585,654)	(12,890,469)	(13,153,496)
Foreign exchange instruments (b)						
Asset position	¥ 967	¥ 4,340	¥ 463	¥ 5,262	\$ 3,841	\$ 43,650
Liability position	(54,608)	(51,759)	(20,741)	(15,175)	(172,053)	(125,881)
Net	¥ (53,641)	¥ (47,419)	¥ (20,278)	¥ (9,913)	\$ (168,212)	\$ (82,231)
Interest rate instruments						
Asset position	¥ —	¥ 609	¥ —	¥ 165	\$ —	\$ 1,369
Liability position	—	(2,126)	—	(3,007)	—	(24,944)
Net	¥ —	¥ (1,517)	¥ —	¥ (2,842)	\$ —	\$ (23,575)

(a) The carrying amounts of Finance subsidiaries—receivables at March 31, 1998 and 1999 in the table exclude ¥898,194 million and ¥1,044,749 million (\$8,666,520 thousand) of direct financing leases, net, classified as Finance subsidiaries—receivables in the consolidated balance sheets, respectively.

(b) The effects of foreign currency exchange rate fluctuations resulting from currency swap agreements are included in Other assets/liabilities and Other current assets/liabilities in the consolidated balance sheets as follows (see note 7):

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1998	1999	1999
Other current assets	¥ —	¥ 48	\$ 398
Other assets	43	415	3,443
Other current liabilities	(11,385)	(4,762)	(39,502)
Other liabilities	(42,453)	(15,979)	(132,551)
	¥(53,795)	¥(20,278)	\$(168,212)

The estimated fair value amounts have been determined using relevant market information and appropriate valuation methodologies. However, these estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. The effect of using different assumptions and/or estimation methodologies may be significant to the estimated fair value amounts.

The methodologies and assumptions used to estimate the fair values of financial instruments are as follows:

Cash and cash equivalents, trade receivables and trade payables

The carrying amounts approximate fair values because of the short maturity of these instruments.

Finance subsidiaries—receivables

The fair values of retail receivables and term loans to dealers were estimated by discounting future cash flows using the current rates for these instruments of similar remaining maturities. Given the short maturities of wholesale receivables, the carrying amount of such receivables approximates fair value.

Marketable equity securities

The fair value of marketable equity securities was estimated using quoted market prices.

Debt

The fair values of bonds and notes were estimated based on the quoted market prices for the same or similar issues. The fair value

of long-term loans was estimated by discounting future cash flows using rates currently available for loans of similar terms and remaining maturities. The carrying amounts of short-term bank loans and commercial paper approximate fair values because of the short maturity of these instruments.

Foreign exchange and interest rate instruments

The fair values of foreign currency forward contracts and foreign currency option contracts were estimated by obtaining quotes from banks. The fair values of currency swap agreements and interest rate swap agreements were estimated by discounting future cash flows using rates currently available for these instruments of similar terms and remaining maturities.

(17) Risk Management Activities and Derivative Financial Instruments

The Company and certain of its subsidiaries are parties to derivative financial instruments in the normal course of business to reduce their exposure to fluctuations in foreign exchange rates and interest rates. Currency swap agreements are used to convert long-term debt denominated in a certain currency to long-term debt denominated in other currency(ies). Foreign currency forward contracts and purchased option contracts are normally used to hedge sale commitments denominated in foreign currencies (principally U.S. dollars). Foreign currency written option contracts are entered into in combination with purchased option contracts to offset premium amounts to be paid for purchased option contracts. Interest rate swap agreements are mainly used to convert floating rate financing, such as commercial paper, to (normally 3–5 years) fixed rate financing in order to match financing costs with income from finance receivables. These instruments involve, to varying degrees, elements of credit, exchange rate and interest rate risks in excess of the amount recognized in the consolidated balance sheet.

The aforementioned instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, Honda minimizes the risk exposure by limiting the counterparties to major international banks and financial

institutions meeting established credit guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default. Honda generally does not require or place collateral for these financial instruments.

Foreign currency forward contracts and currency swap agreements are agreements to exchange different currencies at a specified rate on a specific future date. Foreign currency option contracts are contracts that allow the holder of the option the right but not the obligation to exchange different currencies at a specified rate on a specific future date. At March 31, 1998 and 1999, the total amounts of foreign currency forward contracts, currency swap agreements and foreign currency option contracts outstanding were ¥809,766 million and ¥624,221 million (\$5,178,109 thousand), respectively.

Interest rate swap agreements generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amount. At March 31, 1998 and 1999, the notional principal amounts of interest rate swap agreements were ¥1,485,178 million and ¥1,494,362 million (\$12,396,201 thousand), respectively.

(18) Commitments and Contingent Liabilities

At March 31, 1999, Honda had commitments for purchases of property, plant and equipment of approximately ¥24,989 million (\$207,292 thousand). Contingent liabilities for guarantees and similar activities of bank loans of employees, affiliates and other companies amounted to approximately ¥116,279 million (\$964,571 thousand).

Honda is subject to potential liability under various lawsuits and claims. Such lawsuits and claims include product liability and

personal injury lawsuits or claims, lawsuits from dealers alleging impropriety in allocation of products and other claims. Although the aggregate ultimate liability under these lawsuits and claims at March 31, 1999 was not determinable, on the basis of legal advice received, management is of the opinion that such liability would not have a significant adverse effect on the consolidated financial statements.

(19) Subsequent Event

On May 6, 1999, Honda announced that it will invest approximately U.S. dollar 400,000 thousand in a new automobile plant in Alabama, in the United States. The facility will employ approximately 1,500 associates and, beginning in spring 2002, will

manufacture minivans, sport utility vehicles and car engines with an annual production capacity of 120,000 vehicles and 120,000 engines.

**The Board of Directors and Stockholders****Honda Motor Co., Ltd.:**

We have audited the accompanying consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries as of March 31, 1998 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The segment information required to be disclosed in financial statements under United States generally accepted accounting principles is not presented in the accompanying consolidated financial statements. Foreign issuers are presently exempted from such disclosure requirement in Securities Exchange Act filings with the Securities and Exchange Commission of the United States.

In our opinion, except for the omission of the segment information referred to in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Honda Motor Co., Ltd. and subsidiaries as of March 31, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1999 in conformity with United States generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended March 31, 1999 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in note 2 to consolidated financial statements.

A large, stylized handwritten signature of the letters 'KPMG' in black ink.

Tokyo, Japan

May 14, 1999

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) *

	Yen (millions except per share amounts)							
	Year ended March 31, 1998				Year ended March 31, 1999			
	I	II	III	IV	I	II	III	IV
Net sales and other								
operating revenue	¥1,418,751	¥1,375,916	¥1,554,822	¥1,650,249	¥1,595,372	¥1,538,211	¥1,494,837	¥1,602,621
Operating income.....	110,116	119,350	127,062	105,785	143,637	153,736	137,132	114,193
Income before income taxes.....	108,025	114,535	122,045	98,746	137,741	143,771	136,029	102,970
Net income.....	62,250	64,244	65,203	68,928	78,221	80,062	75,586	71,176
Net income per common share:								
Basic.....	¥63.89	¥65.94	¥66.92	¥70.74	¥80.27	¥82.16	¥77.57	¥73.04
Diluted	63.88	65.93	66.91	70.72	80.27	82.16	77.57	73.04
Net income per American share, each representing two shares of common stock:								
Basic.....	127.78	131.88	133.84	141.48	160.54	164.32	155.14	146.08
Diluted	127.76	131.86	133.82	141.44	160.54	164.32	155.14	146.08
Tokyo Stock Exchange: (TSE) (in yen)								
High	¥4,180	¥4,460	¥5,000	¥5,000	¥4,980	¥5,530	¥4,800	¥5,500
Low.....	3,070	3,210	3,950	4,280	4,550	3,860	2,870	3,430
New York Stock Exchange: (NYSE) (in U.S. dollars)								
High	\$66 ³ / ₄	\$71 ⁵ / ₈	\$75 ³ / ₈	\$76 ¹ / ₄	\$72¹³/₁₆	\$74	\$72⁷/₁₆	\$89¹/₈
Low.....	57 ¹ / ₈	58 ³ / ₁₆	63 ⁵ / ₁₆	67 ¹ / ₄	66 1/2	60¹¹/₁₆	61 3/8	74³/₈

*All quarterly financial data is unaudited and has not been reviewed by the independent auditors.

NET SALES AND OPERATING INCOME BY BUSINESS SEGMENT *

Years ended March 31	Yen (millions)				
	1995	1996	1997	1998	1999
Motorcycle Business:					
Net sales	¥ 552,676	¥ 585,108	¥ 689,461	¥ 767,160	¥ 700,960
Operating income	54,699	59,308	77,532	87,374	66,400
(Operating income/Net sales).....	(9.9%)	(10.1%)	(11.2%)	(11.4%)	(9.5%)
Automobile Business:					
Net sales	3,109,468	3,311,936	4,229,055	4,752,473	4,989,071
Operating income	29,709	55,591	289,820	320,469	427,039
(Operating income/Net sales).....	(1.0%)	(1.7%)	(6.9%)	(6.7%)	(8.6%)
Financial Services:					
Net sales	60,658	72,559	94,009	139,582	162,007
Operating income	16,051	17,674	21,681	30,917	24,308
(Operating income/Net sales).....	(26.5%)	(24.4%)	(23.1%)	(22.1%)	(15.0%)
Other Businesses:					
Net sales	243,362	282,647	280,777	340,523	379,003
Operating income	7,457	11,060	12,414	23,553	30,951
(Operating income/Net sales).....	(3.1%)	(3.9%)	(4.4%)	(6.9%)	(8.2%)
Total:					
Net sales	¥3,966,164	¥4,252,250	¥5,293,302	¥5,999,738	¥6,231,041
Operating income	107,916	143,633	401,447	462,313	548,698
(Operating income/Net sales).....	(2.7%)	(3.4%)	(7.6%)	(7.7%)	(8.8%)

*The business segment information has been prepared according to a Ministerial Ordinance under the Securities and Exchange Law of Japan.

HONDA MOTOR CO., LTD.

Established

September 24, 1948

Principal Lines of Business

Manufacture, sale, lease and repair of motorcycles, automobiles and power products

Head Office1-1, 2-chome, Minami-Aoyama,
Minato-ku, Tokyo 107-8556, Japan**Saitama Factory**Sayama Plant: Sayama, Saitama
Wako Plant: Wako, Saitama**Tochigi Factory**Mohka Plant: Mohka, Tochigi
Takanezawa Plant: Takanezawa-cho, Tochigi**Hamamatsu Factory**

Hamamatsu, Shizuoka

Suzuka Factory

Suzuka, Mie

Kumamoto Factory

Ohzu-machi, Kumamoto

Parts Division

Sayama, Saitama

SUBSIDIARIES (Percentage owned by the Honda Group)

■ JAPAN

Honda R&D Co., Ltd. (100%) Saitama and Tochigi
Technical research and development work to supply blueprints to Honda Motor Co., Ltd.**Honda Engineering Co., Ltd.** (100%) Saitama
Manufacture and sale of machine tools, equipment and production techniques including plant layout**Yutaka Giken Co., Ltd.** (69.7%) Shizuoka
Precision stamping of parts for motorcycles, automobiles and power products**Honda Foundry Co., Ltd.** (82.1%) Saitama
Manufacture of engine parts for motorcycles and automobiles**Asamagiken Co., Ltd.** (77.5%) Nagano
Casting and manufacture of precision parts for automobiles**Honda Lock Mfg., Co., Ltd.** (100%) Miyazaki
Manufacture of keys and locks for motorcycles, automobiles and power products**Honda Access Sales Corp.** (100%) Tokyo
Sale of Honda special accessories for automobiles**Honda Access Corp.** (100%) Saitama
Manufacture and sale of Honda special accessories for motorcycles, automobiles and power products**Honda Parts Sales Co., Ltd.** (100%) Saitama
Wholesale of Honda spare parts**Twin Ring Motegi Co., Ltd.** (100%)
Tokyo and Tochigi
Operation of racing circuits**Honda Finance Co., Ltd.** (100%) Tokyo
Financing of Honda products and leasing of machinery and equipment**Suzuka Circuitland Co., Ltd.** (85.4%) Mie and Tokyo
Operation of amusement parks and a racing circuit**Honda Trading Corporation** (87.6%) Tokyo
Import, export and marketing operations**Honda Leasing Corporation** (100%) Tokyo
Leasing of Honda products**Honda Sogo Tatemono Co., Ltd.** (70%) Tokyo and 22 other companies
Administration and lease of real estate, research, development, manufacture and sale of Honda products as well as various other businesses**Honda Verno Shin Tokyo Co., Ltd.**
(96.2%) Tokyo and 127 other sales companies
Distribution and sale of Honda products

■ NORTH AMERICA

American Honda Motor Co., Inc. (100%) U.S.A. and its five subsidiaries
Import, manufacture and distribution of Honda products and precision parts**Honda North America, Inc.** (100%) U.S.A.
Coordination of operations of subsidiaries in North America**Honda of America Mfg., Inc.** (100%) U.S.A. and its subsidiary
Manufacture of motorcycles, automobiles and all-terrain vehicles**American Honda Finance Corporation** (100%) U.S.A. and its 13 subsidiaries
Financing and leasing of Honda products**Cardington Yutaka Technologies Inc.** (100%) U.S.A.
Manufacture of precision parts for automobiles**Honda R&D Americas, Inc.** (100%) U.S.A.
Research and development work in North America in collaboration with Honda R&D Co., Ltd.**Celina Aluminum Precision Technology Inc.** (100%) U.S.A.
Manufacture of precision parts for automobiles**Asama Coldwater Manufacturing, Inc.** (100%) U.S.A.
Manufacture of precision parts for automobiles**Honda Trading America Corp.** (100%) U.S.A. and its three subsidiaries
Import, export and marketing operations**Honda Engineering North America, Inc.** (100%) U.S.A. and three other companies
Manufacture and sale of machine tools, equipment and production techniques including plant layout**Honda Canada Inc.** (100%) Canada
Import, manufacture and distribution of Honda products**Honda Canada Finance, Inc.** (100%) Canada
Financing and leasing of Honda products**Honda de Mexico, S.A. de C.V.** (100%) Mexico
Import, manufacture and distribution of Honda products and spare parts

■ EUROPE

Honda Austria G.m.b.H. (100%) Austria
Import and distribution of Honda products**Honda Europe N.V.** (100%) Belgium and its four subsidiaries
Import and distribution of power products and supply of spare parts for Honda products in Europe**Honda Belgium N.V.** (100%) Belgium and its subsidiary
Import and distribution of Honda products and manufacture of precision parts**Honda Motor Europe Limited** (100%) U.K. and its three subsidiaries
Coordination of operations of subsidiaries in Europe and import and distribution of Honda products**Honda of the U.K. Manufacturing Limited** (100%) U.K. and its subsidiary
Manufacture of automobiles and engines**Honda Finance Europe plc.** (100%) U.K. and its two subsidiaries
Financing of Honda products**Honda France S.A.** (100%) France
Import and distribution of Honda products**Honda Europe Power Equipment S.A.** (100%) France
Import, manufacture and distribution of power products**Honda Deutschland G.m.b.H.** (100%) Germany
Import and distribution of Honda products**Honda R&D Europe (Deutschland) G.m.b.H.** (100%) Germany
Research and development work in Europe in collaboration with Honda R&D Co., Ltd.**Honda Nederland B.V.** (100%) The Netherlands
Import and distribution of Honda products**Honda International Finance B.V.** (100%) The Netherlands
Financing to Honda's subsidiaries**Honda Italia Industriale S.p.A.** (100%) Italy
Import, manufacture and distribution of Honda products**Honda Automobili Italia S.p.A.** (100%) Italy
Import and distribution of automobiles**Honda Automovel de Portugal S.A.** (67%) Portugal
Import and distribution of automobiles**Honda Motor de Portugal, S.A.** (80%) Portugal
Import and distribution of motorcycles**Honda Automoviles España, S.A.** (100%) Spain
Import and distribution of automobiles

Montesa Honda S.A. (88.1%) Spain
Import, manufacture and distribution of Honda products

Svenska Honda Bil Import AB (100%) Sweden
Import and distribution of automobiles

Honda (Suisse) S.A. (60%) Switzerland
and 12 other companies
Import, distribution, research, development and manufacture of Honda products as well as various other businesses

■ ASIA AND OTHER AREAS

Honda-Mindong Generator Co., Ltd. (60%) China

Manufacture of power products

Honda Siel Cars India Ltd. (95%) India
Manufacture of automobiles

P.T. Honda Federal (54.7%) Indonesia
Manufacture of precision parts for motorcycles

Honda Autoparts Mfg. (M) Sdn. Bhd. (51%) Malaysia
Manufacture of component parts for automobiles

Honda Atlas Cars (Pakistan) Ltd. (51%) Pakistan
Manufacture of automobiles

Honda Philippines, Inc. (99.6%) Philippines
Import, manufacture and distribution of Honda products

Honda Engine Mfg. Philippines, Inc. (100%) Philippines
Manufacture of automobile engines

Honda Parts Manufacturing Corp. (100%) Philippines
Manufacture of spare parts for automobiles

Yutaka Manufacturing (Philippines), Inc. (100%) Philippines
Manufacture of precision parts for motorcycles and automobiles

Asian Honda Motor Co., Ltd. (100%) Thailand
Coordination of operations of subsidiaries in the ASEAN region and import and distribution of Honda products

Honda Cars Manufacturing (Thailand) Co., Ltd. (97%) Thailand
Manufacture of automobiles

Thai Honda Manufacturing Co., Ltd. (60%) Thailand
Manufacture of motorcycles and power products

Honda Vietnam Co., Ltd. (70%) Vietnam
Manufacture of motorcycles

Honda Gulf Fze (100%) U.A.E.
Import and distribution of spare parts for Honda products

Honda Anadolu Motorsiklet Uretim Ve Pazarlama A.S. (51%) Turkey
Manufacture of motorcycles

Honda Motor de Argentina S.A. (100%) Argentina
Import and distribution of Honda products

Honda Motor do Brasil Ltda. (100%) Brazil
and its six subsidiaries
Import, manufacture and distribution of Honda products and precision parts

Honda Automoveis do Brasil Ltda. (100%) Brazil
Import, manufacture and distribution of automobiles

Honda del Peru S.A. (81.8%) Peru
Import, manufacture and distribution of Honda products

Honda Australia Pty., Ltd. (100%) Australia
and its two subsidiaries
Import, manufacture and distribution of Honda products

Honda New Zealand Limited (100%) New Zealand
and 20 other companies
Import, distribution and manufacture of Honda products as well as various other businesses

(As of March 31, 1999)

PRINCIPAL MANUFACTURING FACILITIES

Location	Start of operations	Floor space (thousands of square feet)	Number of employees	Principal products manufactured
Wako, Saitama, Japan	May 1953	868	1,281	Engines
Sayama, Saitama, Japan	Nov. 1964	4,854	4,975	Automobiles
Takanezawa-cho, Tochigi, Japan	May 1990	551	1,116	Automobiles
Hamamatsu, Shizuoka, Japan	Apr. 1954	1,918	3,956	Motorcycles, power products and transmissions
Suzuka, Mie, Japan	May 1960	6,090	8,537	Automobiles
Ohzu-machi, Kumamoto, Japan	Mar. 1976	1,694	2,980	Motorcycles, power products and engines
Marysville, Ohio, U.S.A.	Sept. 1979	3,714	7,892	Motorcycles, automobiles and all-terrain vehicles
Anna, Ohio, U.S.A.	July 1985	1,640	2,652	Engines
East Liberty, Ohio, U.S.A.	Dec. 1989	1,391	2,585	Automobiles
Sweptonville, North Carolina, U.S.A.	Aug. 1984	124	309	Power products
Timmonsville, South Carolina, U.S.A.	July 1998	283	382	All-terrain vehicles
Alliston, Ontario, Canada	Nov. 1986	1,814	3,342	Automobiles
El Salto, Mexico	Mar. 1988	457	837	Motorcycles, automobiles and all-terrain vehicles
Swindon, Wiltshire, U.K.	July 1989	1,156	2,966	Automobiles and engines
Ormes, France	Jan. 1985	47	82	Power products
Atessa, Italy	Apr. 1977	470	545	Motorcycles, power products and engines
Barcelona, Spain	May 1980	132	348	Motorcycles
Gautambudh Nager, India	Dec. 1997	564	803	Automobiles
Lahore, Pakistan	Oct. 1993	248	340	Automobiles
Manila, Philippines	May 1973	92	370	Motorcycles and power products
Ayutthaya, Thailand	Jan. 1993	1,904	1,467	Automobiles
Bangkok, Thailand	Apr. 1965	1,113	2,440	Motorcycles and power products
Vinhphuc, Vietnam	Dec. 1997	292	812	Motorcycles
Sumare, Brazil	Sept. 1997	351	714	Automobiles
Manaus, Brazil	Jan. 1977	1,138	2,527	Motorcycles and power products

(As of March 31, 1999)

FINANCIAL SUMMARY

Honda Motor Co., Ltd. and Subsidiaries

	1989	1990	1991	1992
Sales, income, and dividends				
Net sales and other operating revenue	¥3,489,258	¥3,852,905	¥4,301,518	¥4,391,864
Operating income	177,058	200,585	146,833	153,345
Income before income taxes	172,089	152,132	132,021	130,756
Income taxes	80,559	75,292	63,418	68,459
Equity in income of affiliates	5,769	4,844	7,670	1,273
Net income	97,299	81,684	76,273	59,731
As percentage of sales	2.8%	2.1%	1.8%	1.4%
Cash dividends paid during the period	11,283	13,295	13,564	13,617
Research and development	183,652	185,780	194,039	192,475
Interest paid	24,547	36,349	40,231	42,615
Assets, long-term debt, and stockholders' equity				
Total assets	¥2,284,449	¥2,842,319	¥2,949,333	¥3,153,992
Long-term debt	334,570	427,713	479,015	589,899
Stockholders' equity	901,458	1,084,576	1,087,707	1,097,663
Depreciation	130,915	165,244	191,233	190,671
Capital expenditures	278,895	332,801	261,207	237,861
Per common share				
Net income				
Basic	¥ 103.17	¥ 85.65	¥ 78.57	¥ 61.40
Diluted	98.48	83.37	77.46	61.27
Cash dividends paid during the period	12	14	14	14
Stockholders' equity	950.91	1,122.07	1,118.29	1,128.35
Per American share, each representing two shares of common stock				
Net income				
Basic	206.34	171.30	157.14	122.80
Diluted	196.96	166.74	154.92	122.54
Cash dividends paid during the period	24	28	28	28
Stockholders' equity	1,901.82	2,244.14	2,236.58	2,256.70
Sales progress				
Sales amounts				
Japan	¥1,293,790	¥1,320,483	¥1,392,962	¥1,444,852
	(37%)	(34%)	(32%)	(33%)
Overseas	2,195,468	2,532,422	2,908,556	2,947,012
	(63%)	(66%)	(68%)	(67%)
Total	¥3,489,258	¥3,852,905	¥4,301,518	¥4,391,864
	(100%)	(100%)	(100%)	(100%)
Unit sales				
Motorcycles	3,032	2,987	3,398	3,614
Automobiles	1,903	1,936	1,915	1,961
Power products	1,543	1,521	1,397	1,416
Number of employees	71,200	79,200	85,500	90,500
Exchange rate (yen amounts per U.S. dollar)				
Rates for the period-end	¥ 132	¥ 158	¥ 141	¥ 133
Average rates for the period	128	143	141	133

Yen (millions)							U.S. dollars (thousands)
Fiscal years ended March 31							
1993	1994	1995	1996	1997	1998	1999	1999
¥4,132,435	¥3,862,716	¥3,966,164	¥4,252,250	¥5,293,302	¥5,999,738	¥6,231,041	\$51,688,436
108,756	78,328	107,916	143,633	401,447	462,313	548,698	4,551,622
88,564	46,890	94,287	115,134	390,722	443,351	520,511	4,317,802
53,208	33,719	44,904	58,281	189,044	201,278	229,624	1,904,803
1,801	10,528	12,142	13,948	19,490	18,552	14,158	117,445
37,157	23,699	61,525	70,801	221,168	260,625	305,045	2,530,444
0.9%	0.6%	1.6%	1.7%	4.2%	4.3%	4.9%	
13,620	13,631	13,635	13,638	13,640	16,563	20,463	169,747
199,233	188,815	203,004	220,573	251,128	285,863	311,632	2,585,085
43,426	35,379	34,382	30,601	27,514	27,655	27,890	231,356
¥3,012,896	¥2,921,084	¥3,014,410	¥3,516,113	¥4,191,294	¥4,815,265	¥5,034,247	\$41,760,656
569,479	612,511	589,537	656,461	734,255	677,750	673,084	5,583,443
1,030,867	967,345	1,017,462	1,144,540	1,388,430	1,607,914	1,763,855	14,631,729
173,733	143,229	125,115	125,007	141,351	153,337	177,666	1,473,795
168,205	121,838	128,644	150,489	217,782	309,517	237,080	1,966,653
Yen							U.S. dollars
¥ 38.19	¥ 24.34	¥ 63.16	¥ 72.68	¥ 227.00	¥ 267.49	¥ 313.05	\$ 2.60
37.94	24.28	63.00	72.63	226.97	267.45	313.05	2.60
14	14	14	14	14	17	21	0.17
1,058.80	993.47	1,044.44	1,174.73	1,425.04	1,650.14	1,810.20	15.02
76.38	48.68	126.32	145.36	454.00	534.98	626.10	5.19
75.88	48.56	126.00	145.26	453.94	534.90	626.10	5.19
28	28	28	28	28	34	42	0.35
2,117.60	1,986.94	2,088.88	2,349.46	2,850.08	3,300.28	3,620.40	30.03
Yen (millions)							U.S. dollars (thousands)
¥1,379,748	¥1,282,771	¥1,326,487	¥1,540,463	¥1,826,284	¥1,710,813	¥1,556,333	\$12,910,269
(33%)	(33%)	(33%)	(36%)	(35%)	(29%)	(25%)	
2,752,687	2,579,945	2,639,677	2,711,787	3,467,018	4,288,925	4,674,708	38,778,167
(67%)	(67%)	(67%)	(64%)	(65%)	(71%)	(75%)	
¥4,132,435	¥3,862,716	¥3,966,164	¥4,252,250	¥5,293,302	¥5,999,738	¥6,231,041	\$51,688,436
(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
(Thousands)							
3,951	4,169	4,815	5,373	5,198	5,101	4,118	
1,793	1,753	1,794	1,887	2,184	2,343	2,333	
1,534	1,714	2,004	2,383	2,648	3,013	3,589	
90,900	91,300	92,800	96,800	101,100	109,400	112,200	
¥ 116	¥ 103	¥ 89	¥ 106	¥ 124	¥ 132	¥ 121	
125	108	99	96	113	123	128	

Notes:

(1) The amounts for the fiscal year ended March 31, 1999, have been translated into U.S. dollars at the rate of ¥120.55=US\$1, the mean of the telegraphic transfer selling exchange rate and the telegraphic transfer buying exchange rate prevailing on the Tokyo foreign exchange market on March 31, 1999.

(2) One American share represents two shares of Honda common stock. Per American share information presented prior to fiscal 1990 is restated in accordance with the change in the basis of issuance of American shares from 10 common shares to two common shares per American share as a result of a 5-for-1 split of American shares effected April 3, 1989. (One European share remains unchanged, representing 10 shares of Honda common stock.)

(3) Net income per common (or American) share amounts are computed based on Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." All net income per common (or American) share data presented prior to fiscal 1998 has been restated to conform with the provisions of SFAS No. 128.

(4) The consolidated financial statements in this summary have been prepared in accordance with an accounting pronouncement, Statement of Financial Accounting Standards (SFAS) No. 94, "Consolidation of All Majority-Owned Subsidiaries." Consolidated financial information for fiscal 1989 has been restated to conform to the requirements of SFAS No. 94.

(5) The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," from the fiscal year ended March 31, 1994, and applied the provisions of SFAS No. 109 retroactively to April 1, 1991. Accordingly, the consolidated financial results for fiscal years 1992 and 1993 have been restated.

(6) Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Net unrealized gains on marketable equity securities, less related income taxes, are included in accumulated other comprehensive income (loss) in the stockholders' equity, and net income for the fiscal year ended March 31, 1995, was not affected by the adoption of this statement.

Transfer Agent for Common Stock

The Chuo Trust & Banking Co., Ltd.
7-1, Kyobashi 1-chome,
Chuo-ku, Tokyo 104-0031, Japan

**Depository and Transfer Agent
for American Depository Receipts**

Morgan Guaranty Trust Company of New York
60 Wall Street,
New York, NY 10260-0060, U.S.A.

Stock Exchange Listings in Japan

Tokyo, Osaka, Nagoya, Sapporo, Niigata, Kyoto,
Hiroshima, and Fukuoka

Stock Exchange Listings Overseas

New York, London, Paris and Swiss stock exchanges

Total Shares of Common Stock Issued and Outstanding

974,414,215 (as of March 31, 1999)

Number of Stockholders

34,992 (as of March 31, 1999)

Classification	Number of stockholders	Number of shares held	%
Financial institutions.....	300	571,081,756	58.61
Legal persons.....	615	137,274,893	14.09
Foreign institutions and individuals.....	868	189,442,184	19.44
Securities companies.....	32	2,068,787	0.21
Individuals and others.....	33,177	74,546,595	7.65

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