

2000

ANNUAL REPORT
YEAR ENDED MARCH 31, 2000



HONDA

CORPORATE PROFILE

Established in 1948, Honda Motor Co., Ltd., is one of today's leading manufacturers of automobiles and the largest manufacturer of motorcycles in the world. The Company is recognized internationally for its expertise and leadership in developing and manufacturing a wide variety of products, ranging from small general-purpose engines to specialty sports cars that incorporate Honda's highly efficient internal combustion engine technology. Approximately 11 million Honda engines were sold worldwide during the fiscal year ended March 31, 2000.

By following a corporate policy that emphasizes originality, innovation and efficiency in every facet of the Company's operations—from product development and manufacturing to marketing—Honda strives to attain its goal of satisfying its customers. Through a worldwide commitment to advancing this goal, Honda and its many partners who share in this commitment have succeeded in creating a global network comprising 119 production facilities in 33 countries that supply Honda products to most industrialized countries in the world.

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The Insight: America's first gasoline-electric hybrid vehicle, with a 1,000cc engine assisted by Honda's Integrated Motor Assist system. Built with a combination of innovative technologies and aerodynamic design, the Insight represents a major technological achievement for Honda. The Insight is the first mass-produced gasoline-powered vehicle in history to achieve more than 70 mpg (35km/l)—the world's best fuel economy for a gasoline-powered automobile.

This annual report contains the consolidated financial statements of Honda Motor Co., Ltd., and its subsidiaries, prepared for holders of Honda American and European shares. Please note that the financial statements appearing in the Notice of Convocation of the 76th Ordinary General Meeting of Stockholders, which was held in Tokyo, Japan, on June 29, 2000, were prepared on the basis of accounting principles generally accepted in Japan in accordance with the Japanese Commercial Code and related solely to Honda Motor Co., Ltd., and were not consolidated with those of its subsidiaries. On June 5, 2000, the original notice in the Japanese language was mailed to holders of Honda common stock in Japan and an English translation thereof was mailed to holders of Honda American shares.

Caution with respect to forward-looking statements

This annual report contains forward-looking statements about the future performance of Honda, which are based on management's assumptions and beliefs taking into account information currently available to it. Therefore, please be advised that Honda's actual results could differ materially from those described in these forward-looking statements as a result of numerous factors outside of the Company's control, including general economic conditions in Honda's principal markets and foreign exchange rates between the Japanese yen and other major currencies, as well as other factors detailed from time to time in the Company's reports filed with the U.S. Securities and Exchange Commission.

FINANCIAL HIGHLIGHTS

Honda Motor Co., Ltd. and Subsidiaries
Years ended March 31

	Yen (millions except per share amounts)		U.S. dollars (thousands except per share amounts)
	1999	2000	2000
Net sales and other operating revenue	¥6,231,041	¥6,098,840	\$57,454,922
Operating income	548,698	426,230	4,015,356
Income before income taxes and equity in			
income of affiliates	520,511	416,063	3,919,576
Net income	305,045	262,415	2,472,115
Per common share:			
Basic	313.05	269.31	2.54
Diluted	313.05	269.31	2.54
Per American share:			
Basic	626.10	538.62	5.07
Diluted	626.10	538.62	5.07
Cash dividends paid during the period	20,463	20,463	192,774
Per common share	21	21	0.20
Per American share	42	42	0.40
Stockholders' equity	1,763,855	1,930,373	18,185,332
Per common share	1,810.20	1,981.07	18.66
Per American share	3,620.40	3,962.14	37.33
Total assets	5,034,247	4,898,428	46,146,284
Depreciation	177,666	172,139	1,621,658
Capital expenditures	237,080	222,891	2,099,774

Note: One American share represents two shares of Honda common stock.

OPERATING HIGHLIGHTS

Years ended March 31	Motorcycles		Automobiles		Power Products	
	1999	2000	1999	2000	1999	2000
Unit Sales Breakdown (thousands)						
Japan	512	440	690	706	168	183
North America	308	394	1,183	1,295	1,346	1,614
Europe	395	389	250	249	1,086	1,325
Others	3,080	3,213	210	223	812	935
Total	<u>4,295</u>	<u>4,436</u>	<u>2,333</u>	<u>2,473</u>	<u>3,412</u>	<u>4,057</u>

Years ended March 31	Motorcycle Business		Automobile Business		Others	
	1999	2000	1999	2000	1999	2000
Net Sales Breakdown (millions of yen)						
Japan	¥118,276	¥100,822	¥1,330,502	¥1,393,414	¥107,555	¥117,955
North America	191,186	199,793	2,789,638	2,781,869	228,700	207,562
Europe	192,292	172,803	542,706	449,987	57,940	56,092
Others	305,839	245,492	326,225	335,756	40,182	37,295
Total	<u>¥807,593</u>	<u>¥718,910</u>	<u>¥4,989,071</u>	<u>¥4,961,026</u>	<u>¥434,377</u>	<u>¥418,904</u>

Throughout this report, the United States dollar amounts have been translated from Japanese yen solely for the convenience of the reader at the rate of ¥106.15=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, 2000.

Effective fiscal 2000, due to the change in method of business segment categorization as described on page 21, above unit sales breakdown and net sales breakdown are restated; i.e., unit sales of all-terrain vehicles (ATVs) are now included in Motorcycles, previously included in Power Products. Net sales of all-terrain vehicles (ATVs) are now included in Motorcycle Business, previously included in Others. The geographic breakdown is based on the location of affiliated and unaffiliated customers.



*Hiroiyuki Yoshino,
President and
Chief Executive Officer*

During fiscal year 2000, ended March 31, 2000, economic conditions surrounding the Company were sound, buoyed by increased consumer spending in the United States. The principal European economies also fared well, and Asian economies displayed signs of recovery. However, in Japan, consumer spending remained sluggish, resulting in a protracted, severe business operating environment.

Under such circumstances, although total unit sales of our three business segments—motorcycles,

automobiles and power products—achieved a new company record, the negative impact of the yen affected Honda's financial performance.

Financial Review

Consolidated net sales and other operating revenue for the year amounted to ¥6,098.8 billion (\$57,455 million), a decrease of 2.1% from the previous year. This decline in revenue was due primarily to the effects of currency translation, which had a negative impact on foreign currency-denominated revenue from Honda's overseas subsidiaries when translated into yen. We estimate that had the exchange rate of the yen remained unchanged from the previous year, our revenue for the year actually would have increased by approximately 7.9%.

Consolidated operating income for the year totaled ¥426.2 billion (\$4,015 million), a decline of 22.3% compared to the previous year. Despite increased unit sales of Honda's three business segments and continued cost-cutting efforts, the substantial appreciation of the yen was the major factor in this decline in operating income.

Consolidated income before income taxes for the year totaled ¥416.0 billion (\$3,920 million), a decrease of 20.1% compared to the previous year.

Consolidated net income for the year totaled ¥262.4 billion (\$2,472 million), a decline of 14.0% from the previous year.

Operational Review

We continue to enhance the speed, efficiency and flexibility of the Company by strengthening our R&D operations and improving our manufacturing systems and global marketing

activities. This regionally-focused strategy reflects Honda's ongoing commitment to what we call a "market-in" approach, basing activities on the needs of the local customer.

Reviewing the Company's market-focused efforts to develop quicker and more accurate responses to changes in local needs, on April 1, 2000, Honda established its fifth regional headquarters in South America. Previously, this area had been the responsibility of the Americas Region operations. The Company expects that the new organization with five regional headquarters—based in Japan, North America, South America, Europe and Asia/Oceania—will enable Honda to even better reflect market needs.

In fiscal 2000, the total automobile market in Japan showed a slight increase of 0.3%, totaling 5.88 million units, and Honda's unit sales increased to 706,000 units, or 2.3%, from the previous fiscal year. This increase in unit sales was led by strong sales of such minivehicles as the Life and the newly introduced Vamos, which offset a decline in unit sales of larger-sized cars.

Notwithstanding the continued growth in importance of Honda's regional operations, the core of all Honda's expansion efforts is centered in Japan. We must bolster the foundation of Honda in Japan to strengthen its role as the center of product development and production systems. At the same time, we aim to establish an organization capable of consistently selling 800,000 automobiles per year in Japan. Our sales objective for fiscal 2001 is set at 750,000 automobiles. We will seek to achieve these objectives through continued success in the minivan and minivehicle categories, and by introducing a new Civic in fall 2000.

In North America, amid a stable economy, the U.S. automobile market enjoyed continued growth to 16.9 million units in calendar year 1999. Honda's automobile unit sales in North

America increased 9.5%, to 1,295,000 units in fiscal 2000, due primarily to higher sales of the Odyssey minivan and the Acura TL near-luxury sedan. Although we anticipate that the U.S. automobile market will decline this year, we are determined to enhance Honda's automobile unit sales in North America by 2.7%, to 1,330,000 units in fiscal 2001.

In early 2000, we displayed several new Acura models at U.S. auto shows. The all-new Acura CL coupe went on sale in March 2000 and the Acura MDX, a new sport utility vehicle (SUV) will be on the market during 2000 as the first locally designed, developed and assembled SUV for the Acura channel. We also plan to boost production of V-6 engines at our Anna, Ohio plant to increase sales of V-6 models, including the Honda Accord, Odyssey, Acura TL and Acura CL. Looking to the future, in April 2000 we broke ground for Honda's new light truck and engine production facility in Lincoln, Alabama in the United States. This new plant will help Honda meet growing demand for light truck class vehicles in North America.

In Europe, Honda's automobile unit sales totaled 249,000 units, a decline of 0.4% from fiscal 1999. The significant devaluation of the euro had a negative impact on the profitability of Honda's European operations, and we anticipate the severe business conditions to continue until the first half of fiscal 2002. Under such circumstances, Honda will continue efforts to streamline our business structure. We began a major reorganization of our sales operations throughout Europe in October 1999, by dividing responsibility for management of product planning and marketing into three "sub-regions"—U.K., North and South. The goal of this strategy is to make Honda's European operations more efficient, profitable and customer-focused. We also began reorganizing our dealer network in Germany.

For fiscal 2001, Honda's automobile sales target is set at 250,000 units. In order to respond to steady demand for the SUV model, we have decided to begin producing the CR-V SUV model at our U.K. plant from June 2000. In spring of 2001, Honda's second U.K. automobile plant will begin operation with an annual capacity of 100,000 units, and production of the remodeled

Civic, to be followed by a new "B category" car in calendar year 2002. The U.K. automobile plant will also become part of Honda's global product supply network, as auto exports from the U.K. to markets outside Europe will begin in the future.

In other regions, including Asia/Oceania, Latin America, the Middle East and Africa, Honda increased its motorcycle unit sales by 4.3% to 3,213,000 units, and automobile unit sales grew 6.2%, totaling 223,000 units. We see the economies of Southeast Asian countries beginning to recover. In particular, significant sales growth in Thailand contributed to these increases in unit sales. In fiscal 2001, we expect continued growth in sales of Honda motorcycles and automobiles, with forecasts totaling 3,610,000 units and 270,000 units, respectively.

For the Future

Today, "Powered by Honda" heralds the synergy of Honda's motorcycle, automobile and power products businesses—and the fact that Honda produces high performance, fuel efficient, low-emission engines. Over the last five years, Honda's global sales of automobiles, motorcycles and power products increased from about 8.6 million units per year to nearly 11 million units.

We have developed these three core businesses worldwide by localizing manufacturing facilities—totaling 119 plants in 33 countries—strengthening marketing and R&D capabilities and improving manufacturing processes.

We will continue on this path through a strategy we call "Self-Innovation." This approach is based on Honda's willingness to seek out our own challenges—beyond what regulations require us to do. But it also implies the need to pursue new dreams.

For instance, we will continue to accelerate our innovation in both R&D and manufacturing to respond more quickly to changing customer needs and evolving markets.

We have expanded use of Information Technology (IT) in R&D, including the introduction of what we call the Digital Manufacturing Circle, or DMC, into the automobile development process. DMC acts as a kind of networking system with a database for core functions from design through production engineering. We will reduce the total lead-time throughout all steps of the development process and cut the number of prototype models. We have plans to introduce the DMC system for motorcycle and power products development as well.

In manufacturing, this fall, our new manufacturing system for body assembly will begin at the Suzuka and Sayama plants in Japan, and at major Honda plants in the United States and the United Kingdom, to coincide with production of the all-new 2001 Civic. This new system will increase speed by reducing the time needed to bring a new model to mass production or to add an existing model to a different plant. It will increase efficiency by minimizing the investment normally needed for re-tooling.

We predict the new manufacturing system will double production resource efficiency within the



President and CEO Yoshino at NYSE: On April 24, on an occasion for the next day's groundbreaking event at Honda's new automobile plant in Alabama, President and CEO Yoshino visited the New York Stock Exchange for the ringing of the opening bell

Honda group, as this system is put into place throughout Honda and at the major companies of the Honda group, both in Japan and overseas.

Looking at Honda's medium-term plan, our sales target represents an expansion of all three product lines, totaling 16 million units for the fiscal year ending March 2004. Motorcycle sales are targeted to reach 7 million units; automobile sales to reach 3 million units; and power product sales to increase to 6 million units.

While the market for each of these product lines is becoming increasingly competitive, we are confident that we will be able to continue to grow in each business line by implementing the following strategies.

Honda will focus on high-growth segments within each product line.

- The biggest increase in motorcycle sales will be achieved in Asia and other emerging markets.
- The expansion of auto sales will be achieved by focusing on the growing light truck segment in North America and strengthening the small car lineup in Japan and Europe, as well as developing advanced technologies for top-class environmental and safety performance.
- Power product sales will expand largely through general-purpose engine business.

In fiscal 2004, the total cost cutting at Honda's major production facilities is expected to reach ¥100 billion—compared to fiscal 2000—assuming the number of new models introduced is close to the current level.

We will continue to strengthen our profitability both by seeking to expand unit sales and through substantial cost-cutting efficiency improvements in all aspects of our operations.

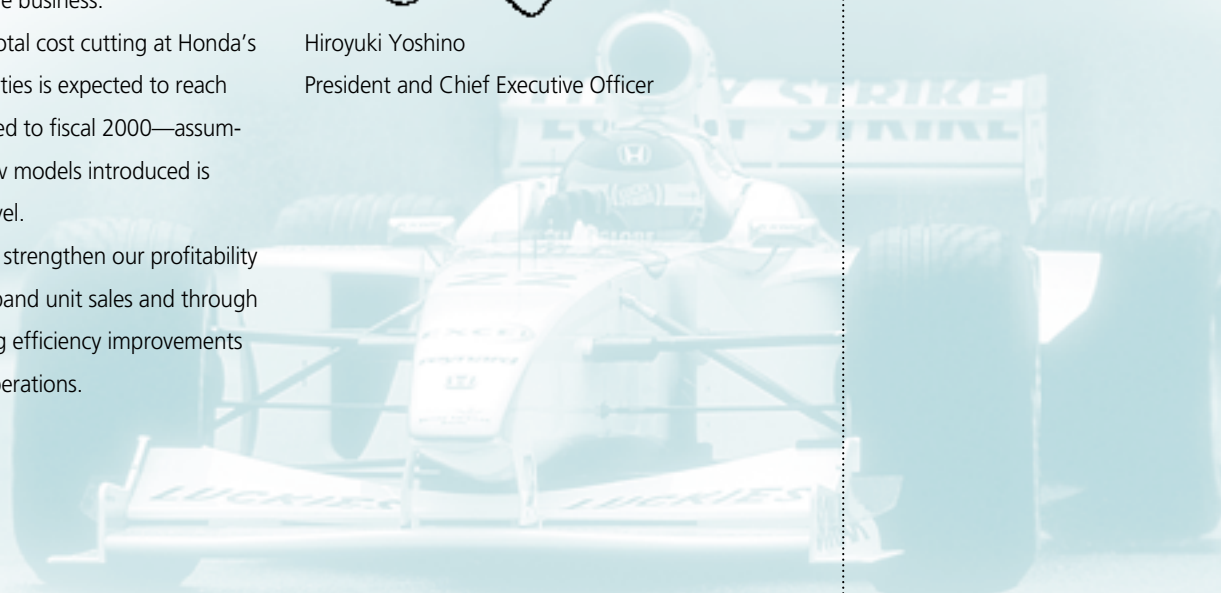
In our long-term vision, Honda's goal is to be a company on the leading edge that creates new values for our customers. As a unique company with a variety of products and a wide-ranging customer base, we will continue to maximize corporate value for our shareholders by fulfilling our mission as a manufacturer.

Finally, even as we achieve ever-greater corporate success, we are committed that the Honda name will also continue to stand for fun and excitement. Thus, this year we have begun our third era of Formula One Grand Prix Racing. Considering our long racing history, this represents the purest form of "Powered by Honda" activities. Following this path of "Self-Innovation," we anticipate that there will be many challenges to overcome, but also many dreams to be fulfilled. So, to our shareholders, customers, dealers, suppliers, associates . . . and fans, I extend my heartfelt gratitude for your sustaining interest in the past and your continued support in the future.

June 29, 2000



Hiroyuki Yoshino
President and Chief Executive Officer





The Accord SULEV: A new variation of Honda's environmental-friendly product lineup built on its advanced Ultra Low Emission Vehicle technologies and patented VTEC engine.



The Giorno Crea: A 4-stroke, liquid-cooled 50cc scooter with the world's first Idle Stop System offered on a mass-produced, two-wheel vehicle. Its aluminum die-cast frame contributes to higher recyclability and rigidity, while reducing the weight.



Honda's Fuel Cell Unit (Prototype): An extremely compact unit with methanol reformer, which was displayed at the Tokyo Motor Show in 1999.

Following a path of "Self-Innovation" related to the "environmental challenge" means an unparalleled, voluntary commitment to bring advanced technologies to the market that reduce the impact of Honda products and facilities on the environment. Honda realizes that the key to protecting the environment for the future is to build products that pollute less, use less gasoline and that people want to use and enjoy.

For fiscal 2000, Honda's environment achievements for its products and activities included the following topics.

Honda Introduced Quiet, Fuel-Efficient Scooter with Four-Stroke Engine

Honda introduced the Giorno Crea, a new 50cc scooter in Japan. Honda is gradually switching its 50cc scooters to cleaner, more fuel-efficient four-stroke engines, which in the case of the Giorno Crea reduces noise levels, improves fuel efficiency 30% and cuts emissions of carbon monoxide and hydrocarbons to about half of industry regulations. The Giorno Crea was the first motor bike to be marketed with the Idle Stop System, which momentarily cuts out the engine for brief stops, such as at traffic lights.

Honda Motorcycle First to Meet 2008 CARB Standards

Honda introduced its remodeled 800cc Interceptor as the first motorcycle to meet the stringent emission standards set by the California Air Resources Board (CARB) for 2008. Using a new three-way catalytic converter, the Interceptor cuts carbon monoxide emissions to one-eighth and nitrogen oxide emissions to one-third of those of the previous model.

Honda Insight, Hybrid Earns EPA's Highest Mileage Rating

The Honda Insight, the first gasoline-electric hybrid powered car sold in the United States, received the highest mileage ratings ever from the Environmental Protection Agency (EPA) in its annual listing of automotive fuel efficiency. The Insight, which went on sale in late 1999 in the United States, earned an EPA city rating of 61 miles per gallon (mpg) and a highway rating of 70 mpg. In addition to its outstanding mileage rating, the Insight also meets California's stringent Ultra Low Emission Vehicle (ULEV) standard. The Insight features Honda's Integrated Motor Assist (IMA) System, combining a 1.0-liter, 3-cylinder gasoline engine with electric motor assist for improved efficiency. The Insight does not require an outside source of electric power because the IMA System automatically recharges the battery pack, using energy generated during braking. The Insight has an aluminum body, which is about 40% lighter than a comparably sized steel body. The design also provides outstanding safety, meeting all current U.S., European and Japanese standards, as well as the 2003 safety standards for side impact and head-injury protection.

Next-Generation Engine Series Boasts Higher Fuel Economy and Lower Emissions

Honda announced the development of its next-generation engine series, a family of 2-liter, in-line 4-cylinder Valve Timing and Lift Electronic Control (VTEC) engines. Designed to set a new benchmark for internal combustion engines for the 21st century, these high-performance, light and compact powertrain generate a 10% to 20% boost in fuel economy and exhaust gas emissions at least 50% cleaner than required by the new emissions standards slated for introduction in Japan in October 2000. These next-generation engines will be introduced in Japan this fall and replace Honda's entire engine lineup globally by the year 2005.

Honda's Prototype Fuel Cell Electric Vehicles

Honda introduced two prototype fuel cell electric vehicles in 1999, the much-anticipated next-generation powertrain for automobiles. The FCX-V1 uses hydrogen fuel and is equipped with a fuel cell stack

manufactured by Ballard Power Systems, Inc., which employs metal hydride for hydrogen storage. The FCX-V2 is equipped with a fuel cell stack manufactured by Honda, incorporating a Honda-developed methanol fuel processor for extracting hydrogen. Honda is planning to introduce a fuel cell vehicle to the market by 2003.

Honda Joins California Fuel Cell Partnership

Honda has joined the California Fuel Cell Partnership to help demonstrate the future potential of fuel cell vehicles. In addition to Honda, the Partnership, which was established in April 1999, is made up of auto manufacturers DaimlerChrysler, Ford Motor Company, and Volkswagen; energy providers ARCO, Shell, and Texaco; fuel cell makers Ballard Power Systems, and CARB and the California Energy Commission. The Partnership was established to demonstrate the potential of fuel cell technology, identify issues regarding potential fuels and fueling infrastructure and increase public awareness of fuel cell technology.

Honda Receives Clean Air Award for World's Cleanest Vehicle

Honda's natural gas-powered Civic GX, the cleanest internal combustion engine vehicle ever made—with "almost zero" emissions—has received a coveted "Clean Air Award" from California's South Coast Air Quality Management District.

Honda was the only automaker honored with a Clean Air Award. The awards are presented to "individuals, organizations, communities and businesses who have made a significant contribution to cleaner air." Honda has earned one of these awards in three of the last four years. The 2000 Civic GX has been certified as meeting Super Ultra Low Emission Vehicle (SULEV) certification standards, at just 1/10 ULEV levels. In addition, the Civic GX boasts a 25% reduction in greenhouse gas emissions compared to an equivalent gasoline vehicle. The new SULEV requirements are the most stringent in the world and part of the California LEV-II exhaust emission standards that go into effect beginning in the 2004 model year.

Honda Accord Certified as World's Cleanest Gasoline-Powered Production Car

The 2000 Honda Accord model was certified by CARB to the new SULEV standard.

The Accord SULEV went on sale in California in February 2000, making it the first gasoline-powered SULEV on the market, well in advance of future requirements and in continuation of Honda's leadership in low-emission technologies.

The Accord SULEV is yet another example of Honda's long-standing commitment to bringing advances in low-emission technology to the market as soon as technically feasible. In 1999, Honda sold more than one million vehicles in the United States equipped with advanced low-emission technology. And with the addition of the Accord SULEV, more than 85% of all Honda vehicles sold during the 2000 model year will be low-emission vehicles.

The SULEV certification was applied to the Accord EX sedan with a 2.3-liter, 4-cylinder engine and automatic transmission. Building on Honda's advanced Ultra Low Emission Vehicle (ULEV) technology, it employs advanced electronic controls, Honda's patented VTEC engine and new catalytic converter technology. The 2000 Accord SULEV represents Honda's ongoing efforts to reduce emissions from gasoline-fueled internal combustion engines.

The FCX concept model: Displayed at the Tokyo Motor Show in 1999, featuring Honda's Fuel Cell Unit, the concept model demonstrates a radical exterior and comfortable cabin interior.

