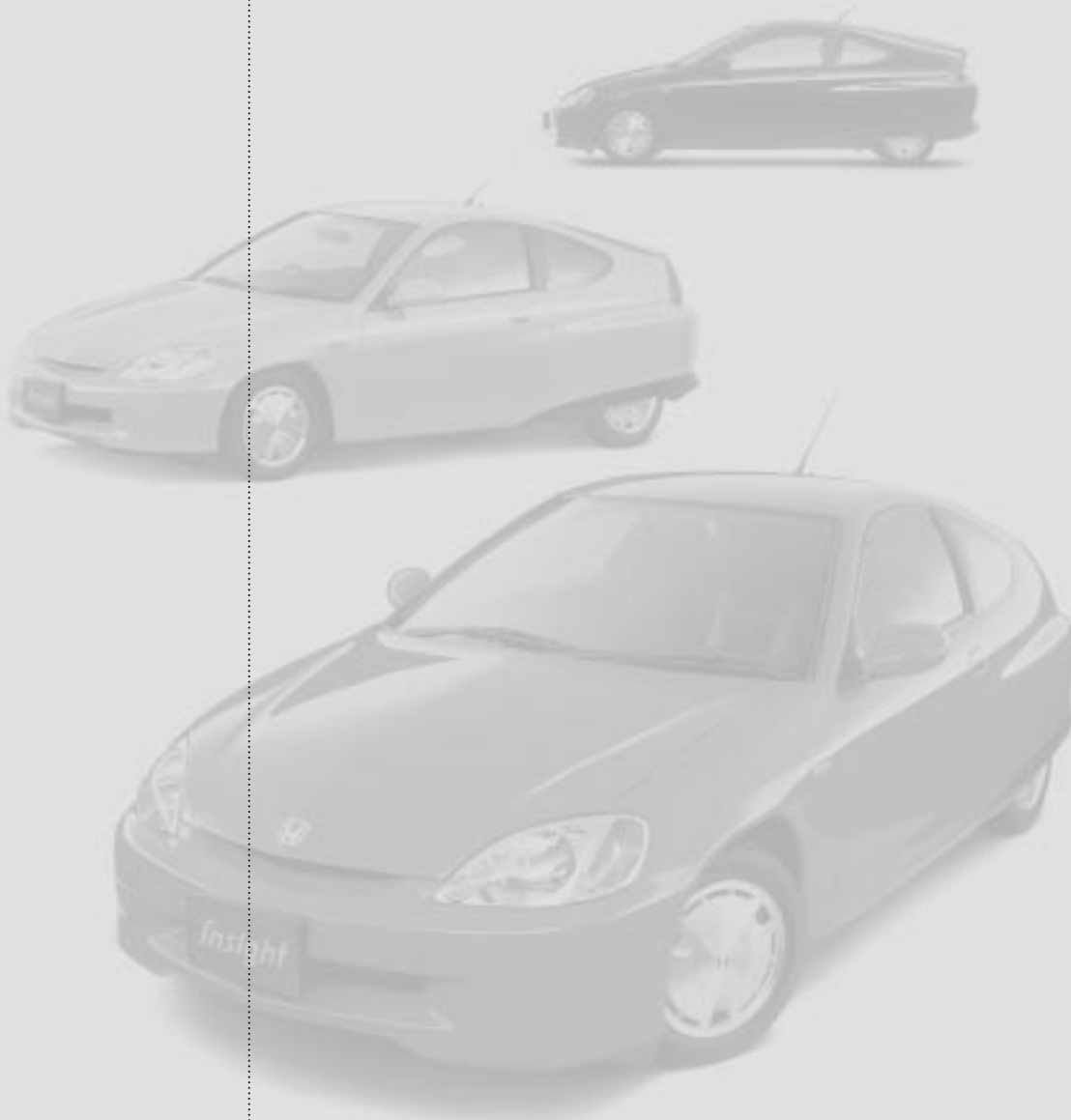


FINANCIAL SECTION



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OVERVIEW

Net sales

Honda's consolidated net sales and other operating revenue for fiscal 2000, ended March 31, 2000, totaled ¥6,098.8 billion, a 2.1% decrease from the previous fiscal year. This decline in revenue was due primarily to currency translation effects, which had a negative impact on foreign currency-denominated revenue from Honda's overseas subsidiaries translated into yen. We estimate that had the exchange rate of the yen remained unchanged from the previous year, our revenue for the year would have increased by approximately 7.9%.

Operating income

Consolidated operating income for the year totaled ¥426.2 billion, a decrease of 22.3% compared to the previous year. Higher automobile unit sales, cost reduction efforts and decreases in selling, general and administrative (SG&A) expenses were not enough to offset the negative impact of the appreciation of the yen and an increase in research and development (R&D) expenses.

SG&A expenses

SG&A expenses for the year amounted to ¥1,132.6 billion, a 1.6% decrease compared with the previous fiscal year. Despite increases in selling expenses, such as advertisement and product warranty-related expenses, positive effects of currency translation contributed to this decrease.

R&D expenses

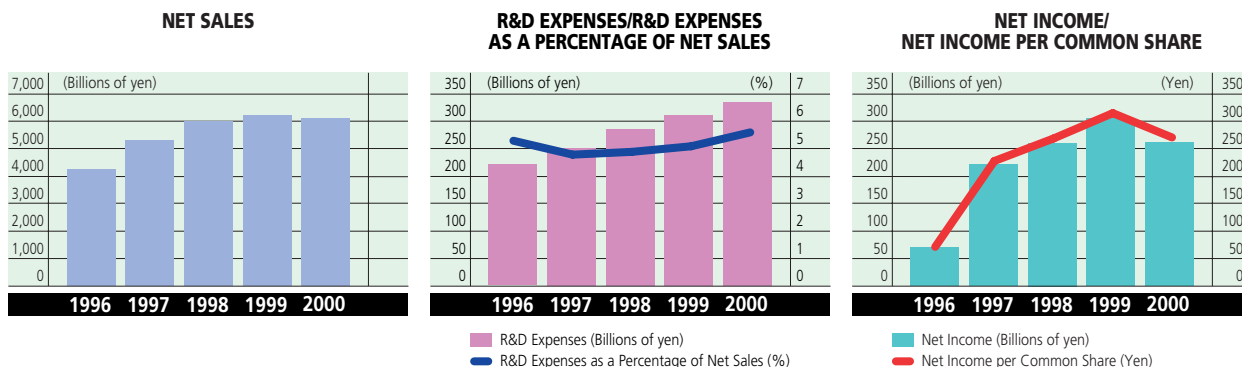
The aim of Honda's technical R&D activities is to create, through the application of the latest technologies, products that possess both individuality and international competitiveness. For this purpose, Honda has maintained its R&D functions as separate entities to enable its engineers to perform their 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 2000 totaled ¥334.0 billion, up 7.2% from fiscal 1999. This result was due primarily to higher spending on the enhancement of environment-related technologies as well as Honda's automobile lineup worldwide.

Income before income taxes

Consolidated income before income taxes and equity in income of affiliates amounted to ¥416.0 billion, a 20.1% decrease from the previous fiscal year.

Equity in income of affiliates

Equity in income of affiliates amounted to ¥16.7 billion, up 18.6% from the previous fiscal year. Higher sales at Honda's affiliates operating in Japan and Southeast Asia positively affected equity in income of affiliates.



Net income

Net income for the year totaled ¥262.4 billion, a 14.0% decrease from the previous fiscal year. The effective tax rate for the year was 41.0%, 3.1 percentage points less than the previous fiscal year. Basic net income per common share for the year amounted to ¥269.31, and diluted net income per share totaled ¥269.31, compared with ¥313.05 and ¥313.05, respectively, for the preceding year. Each American share represents two common shares.

FINANCIAL POSITION

Cash flows

Net cash provided by operating activities for fiscal 2000 amounted to ¥407.2 billion, up ¥62.2 billion from the previous fiscal year, due mainly to the increase in accrued expenses and trade payables.

Net cash used in investing activities amounted to ¥301.5 billion, down ¥194.7 billion from the previous fiscal year, principally resulting from an increase in collections of finance subsidiaries–receivables.

Net cash used in financing activities for fiscal 2000 amounted to ¥29.9 billion, compared with ¥203.7 billion provided in the previous fiscal year.

As a result of the aforementioned activities, the net increase in cash and cash equivalents amounted to ¥52.9 billion and total cash and cash equivalents at fiscal year-end were ¥430.5 billion.

Capital expenditures

Capital expenditures for fiscal 2000 decreased 6.0% compared with the previous fiscal year, to ¥222.8 billion. This is due primarily to lower spending for the motorcycle business.

In fiscal 2001, greater expenditures relating to automobile plants in North America and Europe are projected. Total spending for fiscal 2001 is estimated at ¥290.0 billion.

Working capital

Working capital for fiscal 2000 was ¥253.4 billion, up ¥148.7 billion 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 111.5%, up 6.9 percentage points from the previous fiscal year-end.

Stockholders' equity

Total stockholders' equity at fiscal year-end amounted to ¥1,930.3 billion, an increase of ¥166.5 billion, or 9.4%, from the previous fiscal year-end.

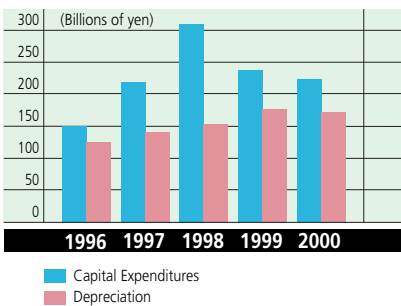
Stockholders' equity ratio

The stockholders' equity ratio for fiscal 2000 rose 4.4 percentage points, to 39.4%, and is expected to continue to show improvement in the coming years.

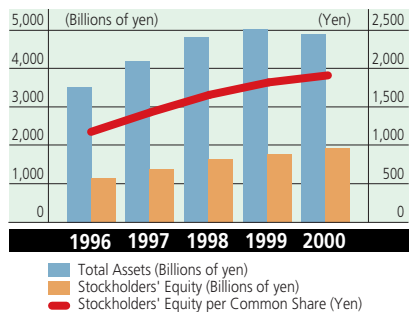
ENVIRONMENTAL MATTERS

Automobiles and motorcycles manufactured by Honda for sale in Japan comply with Japan's exhaust emission and 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.

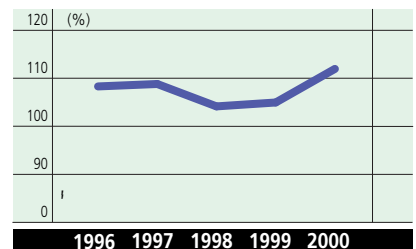
CAPITAL EXPENDITURES/DEPRECIATION



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



CURRENT RATIO



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

Business segment is based on Honda's business organization and the similarity of the principal products included within each segment as well as the relevant markets for such products.

The Motorcycle Business segment consists of motorcycles, all-terrain vehicles (ATVs) and relevant parts; the Automobile Business segment consists of automobiles and relevant parts; the Financial Services segment consists of financial and insurance services business; and the Other Businesses segment consists of other businesses, including power products and relevant parts.

Reviewing the year by business segment, operating income decreased in every segment.

Honda's overall automobile sales on a unit basis totaled 2,473,000 units, increasing 6.0% from the previous fiscal year. Despite intensified global competition and the sluggish economy in Japan, favorable sales in North America, notably of the Odyssey and the Acura TL, contributed to this result. However, net sales for the year decreased 0.6%, to ¥4,961.0 billion, due primarily to the appreciation of the yen.

Operating income in the automobile business amounted to ¥348.0 billion, an 18.5% decrease from the previous fiscal year. The ratio of operating income to net sales was 7.0%.

In the motorcycle business, unit sales increased 3.3% from fiscal 1999, totaling 4,436,000 units. In Japan, unit sales were down 72,000 units, to 440,000 units, while overseas unit sales increased 213,000 units, to 3,996,000 units. There were stable gains in North America and a gradual recovery was seen in the motorcycle markets of Southeast Asia in fiscal 2000, while net sales declined 11.0% from fiscal 1999, to ¥718.9 billion. Operating income totaled ¥47.2 billion, a decrease of 42.6% from the previous fiscal year. The ratio of operating income to net sales was down to 6.6%.

Both revenue and operating income in the financial services segment decreased. Decreased gains from sales of finance subsidiaries—receivables, together with the appreciation of the yen, were responsible for these decreases.

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

	1999	2000
Motorcycle business.....	15.0%	11.1%
Automobile business	77.8%	81.7%
Financial services	4.4%	4.2%
Other businesses	2.8%	3.0%

Geographical segment

Geographical segment is based on the location of the company and its subsidiaries.

Reviewing fiscal 2000 by geographical segment, revenue generated in Japan amounted to ¥1,806.8 billion, up ¥50.9 billion, or 2.9%, compared with the previous fiscal year. Revenue generated in North America, Europe and elsewhere amounted to ¥3,197.3 billion, ¥664.4 billion, and ¥430.1 billion, respectively. Despite the favorable unit sales of automobiles in North America, operating income in this region decreased 4.8%, to ¥273.0 billion, due to the appreciation of the yen. Due to the current sluggish economic environment in Japan, income from operations in Japan decreased to ¥116.3 billion.

Business Segment Information

Years ended March 31	Yen (millions)	
	1999	2000
Net sales and other operating revenue:		
Motorcycle Business		
Sales to unaffiliated customers.....	¥ 807,593	¥ 718,910
Automobile Business		
Sales to unaffiliated customers.....	4,989,071	4,961,026
Financial Services		
Sales to unaffiliated customers.....	162,007	137,128
Intersegment sales.....	7,958	7,601
Total.....	169,965	144,729
Other Businesses		
Sales to unaffiliated customers.....	272,370	281,776
Intersegment sales.....	6,679	7,100
Total.....	279,049	288,876
Eliminations.....	(14,637)	(14,701)
Consolidated.....	¥6,231,041	¥6,098,840
Operating income:		
Motorcycle Business.....	¥ 82,350	¥ 47,264
Automobile Business.....	427,039	348,061
Financial Services.....	24,308	18,054
Other Businesses.....	15,001	12,851
Consolidated.....	¥ 548,698	¥ 426,230
Assets:		
Motorcycle Business.....	¥ 538,924	¥ 491,301
Automobile Business.....	2,454,184	2,422,352
Financial Services.....	1,811,915	1,725,309
Other Businesses.....	161,161	177,176
Corporate assets and eliminations....	68,063	82,290
Consolidated.....	¥5,034,247	¥4,898,428
Depreciation:		
Motorcycle Business.....	¥ 20,312	¥ 19,106
Automobile Business.....	148,887	144,898
Financial Services.....	409	389
Other Businesses.....	8,058	7,746
Consolidated.....	¥ 177,666	¥ 172,139
Capital expenditures:		
Motorcycle Business.....	¥ 40,057	¥ 24,761
Automobile Business.....	185,037	190,311
Financial Services.....	1,432	1,014
Other Businesses.....	10,554	6,805
Consolidated.....	¥ 237,080	¥ 222,891

Geographical Segment Information

Years ended March 31	Yen (millions)	
	1999	2000
Net sales and other operating revenue:		
Japan		
Sales to unaffiliated customers.....	¥1,755,958	¥1,806,876
Transfers between geographical segments.....	1,695,011	1,641,347
Total.....	3,450,969	3,448,223
North America		
Sales to unaffiliated customers.....	3,227,025	3,197,391
Transfers between geographical segments.....	171,842	134,139
Total.....	3,398,867	3,331,530
Europe		
Sales to unaffiliated customers.....	786,277	664,460
Transfers between geographical segments.....	12,633	14,061
Total.....	798,910	678,521
Others		
Sales to unaffiliated customers.....	461,781	430,113
Transfers between geographical segments.....	6,162	8,550
Total.....	467,943	438,663
Eliminations.....	(1,885,648)	(1,798,097)
Consolidated.....	¥6,231,041	¥6,098,840
Operating income:		
Japan.....	¥ 206,252	¥ 116,338
North America.....	286,950	273,083
Europe.....	12,971	(14,460)
Others.....	35,824	33,671
Eliminations.....	6,701	17,598
Consolidated.....	¥ 548,698	¥ 426,230
Assets:		
Japan.....	¥1,863,756	¥1,843,040
North America.....	2,217,777	2,061,874
Europe.....	470,209	418,523
Others.....	258,471	234,596
Corporate assets and eliminations....	224,034	340,395
Consolidated.....	¥5,034,247	¥4,898,428

Effective fiscal 2000, Honda changed its method of business segment categorization from the former categorization based on the similarity of the principal products included within each segment as well as the relevant markets for such products, to the new categorization including the factor of the Honda's business organization as an additional criterion. Honda believes the new method will more precisely reflect Honda's current business operation.

As the result of the change, Honda's all-terrain vehicle (ATV) business is now categorized in Motorcycle Business segment, previously categorized in Other Businesses segment.

Prior year business segment information has been retroactively restated to reflect this change. The effects on fiscal 1999 business segment information are amounts of Motorcycle Business were to increase as sales to unaffiliated customers ¥106,633 million, operating income ¥15,950 million, assets ¥45,881 million, depreciation ¥1,170 million and capital expenditures ¥2,193 million, respectively. It was to decrease each category above in Other Businesses by the same amount, respectively.

CONSOLIDATED BALANCE SHEETS

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1999 and 2000

Assets	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Current assets:			
Cash and cash equivalents	¥ 377,624	¥ 430,587	\$ 4,056,401
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥7,975 million in 1999 and ¥7,077 million (\$66,670 thousand) in 2000	397,142	390,659	3,680,254
Finance subsidiaries–receivables, net (note 3)	661,697	731,580	6,891,945
Inventories (note 4)	599,150	567,705	5,348,139
Deferred income taxes (note 9)	133,959	154,277	1,453,387
Other current assets (note 7)	200,281	180,903	1,704,222
Total current assets	2,369,853	2,455,711	23,134,348
Finance subsidiaries–receivables, net (note 3)	1,026,360	878,242	8,273,594
Investments and advances:			
Investments in and advances to affiliates (note 5)	177,228	175,389	1,652,275
Other, including marketable equity securities (note 6)	199,888	213,705	2,013,236
Total investments and advances	377,116	389,094	3,665,511
Property, plant and equipment, at cost (note 7):			
Land	292,631	296,591	2,794,074
Buildings	783,200	783,055	7,376,872
Machinery and equipment	1,773,767	1,731,589	16,312,661
Construction in progress	40,357	63,408	597,344
	2,889,955	2,874,643	27,080,951
Less accumulated depreciation	1,742,594	1,753,603	16,520,047
Net property, plant and equipment	1,147,361	1,121,040	10,560,904
Other assets (notes 7 and 9)	113,557	54,341	511,927
	¥5,034,247	¥4,898,428	\$46,146,284

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Current liabilities:			
Bank loans and commercial paper (note 7).....	¥ 622,344	¥ 495,953	\$ 4,672,190
Current portion of long-term debt (note 7).....	258,518	343,576	3,236,703
Trade payables:			
Notes.....	15,695	19,332	182,120
Accounts.....	684,287	677,544	6,382,892
Accrued expenses.....	455,461	483,917	4,558,804
Income taxes payable (note 9).....	71,618	53,319	502,299
Other current liabilities (notes 7 and 9).....	157,273	128,670	1,212,152
Total current liabilities.....	<u>2,265,196</u>	<u>2,202,311</u>	<u>20,747,160</u>
Long-term debt (note 7).....	673,084	574,566	5,412,774
Other liabilities (notes 7, 8, 9 and 12).....	332,112	191,178	1,801,018
Total liabilities.....	<u>3,270,392</u>	<u>2,968,055</u>	<u>27,960,952</u>
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares, par value ¥50 (\$0.47) or without par value; issued 974,414,215 shares at March 31, 1999 and 2000 (note 10).....	86,067	86,067	810,805
Capital surplus (note 10).....	172,529	172,529	1,625,332
Legal reserves (note 11).....	26,828	27,545	259,491
Retained earnings (note 11).....	1,977,613	2,218,848	20,902,949
Accumulated other comprehensive income (loss) (notes 6, 9, 12 and 14).....	(499,182)	(574,616)	(5,413,245)
Total stockholders' equity.....	<u>1,763,855</u>	<u>1,930,373</u>	<u>18,185,332</u>
Commitments and contingent liabilities (notes 18 and 19)			
	<u>¥5,034,247</u>	<u>¥4,898,428</u>	<u>\$46,146,284</u>

CONSOLIDATED STATEMENTS OF INCOME

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1998, 1999 and 2000

	Yen (millions)		U.S. dollars (thousands) (note 2)	
	1998	1999	2000	2000
Net sales and other operating revenue (note 3).....	¥5,999,738	¥6,231,041	¥6,098,840	\$57,454,922
Operating costs and expenses:				
Cost of sales (note 3).....	4,142,967	4,219,689	4,205,879	39,622,035
Selling, general and administrative.....	1,108,595	1,151,022	1,132,695	10,670,702
Research and development.....	285,863	311,632	334,036	3,146,829
	<u>5,537,425</u>	<u>5,682,343</u>	<u>5,672,610</u>	<u>53,439,566</u>
Operating income.....	462,313	548,698	426,230	4,015,356
Other income:				
Interest.....	13,005	11,136	10,780	101,554
Other.....	3,896	1,617	10,732	101,102
	<u>16,901</u>	<u>12,753</u>	<u>21,512</u>	<u>202,656</u>
Other expenses:				
Interest.....	27,655	27,890	18,920	178,238
Other.....	8,208	13,050	12,759	120,198
	<u>35,863</u>	<u>40,940</u>	<u>31,679</u>	<u>298,436</u>
Income before income taxes and equity in income of affiliates.....	443,351	520,511	416,063	3,919,576
Income taxes (note 9):				
Current.....	215,287	233,298	212,978	2,006,387
Deferred.....	(14,009)	(3,674)	(42,544)	(400,791)
	<u>201,278</u>	<u>229,624</u>	<u>170,434</u>	<u>1,605,596</u>
Income before equity in income of affiliates.....	242,073	290,887	245,629	2,313,980
Equity in income of affiliates (note 5).....	18,552	14,158	16,786	158,135
Net income.....	<u>¥ 260,625</u>	<u>¥ 305,045</u>	<u>¥ 262,415</u>	<u>\$ 2,472,115</u>

	Yen		U.S. dollars (note 2)	
	1998	1999	2000	2000
Net income per common share (notes 1 (m) and 15):				
Basic.....	¥ 267.49	¥ 313.05	¥ 269.31	\$ 2.54
Diluted.....	<u>267.45</u>	<u>313.05</u>	<u>269.31</u>	<u>2.54</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

 Honda Motor Co., Ltd. and Subsidiaries
 March 31, 1998, 1999 and 2000

	Yen (millions)		U.S. dollars (thousands) (note 2)	
	1998	1999	2000	2000
Common stock:				
Balance at beginning of year	¥ 86,028	¥ 86,067	¥ 86,067	\$ 810,805
Conversion of convertible debt (note 10).....	39	—	—	—
Balance at end of year	<u>86,067</u>	<u>86,067</u>	<u>86,067</u>	<u>810,805</u>
Capital surplus:				
Balance at beginning of year	171,910	171,914	172,529	1,625,332
Conversion of convertible debt (note 10).....	4	—	—	—
Transfer from retained earnings.....	—	615	—	—
Balance at end of year	<u>171,914</u>	<u>172,529</u>	<u>172,529</u>	<u>1,625,332</u>
Legal reserves:				
Balance at beginning of year	25,668	26,404	26,828	252,736
Transfer from retained earnings (note 11).....	736	424	717	6,755
Balance at end of year	<u>26,404</u>	<u>26,828</u>	<u>27,545</u>	<u>259,491</u>
Retained earnings:				
Balance at beginning of year	1,450,744	1,694,070	1,977,613	18,630,363
Net income for the year.....	260,625	305,045	262,415	2,472,115
Cash dividends (note 11).....	(16,563)	(20,463)	(20,463)	(192,774)
Transfer to capital surplus.....	—	(615)	—	—
Transfer to legal reserves (note 11).....	(736)	(424)	(717)	(6,755)
Balance at end of year	<u>1,694,070</u>	<u>1,977,613</u>	<u>2,218,848</u>	<u>20,902,949</u>
Accumulated other comprehensive income (loss):				
(notes 6, 9, 12 and 14)				
Balance at beginning of year	(345,920)	(370,541)	(499,182)	(4,702,609)
Other comprehensive income (loss) for the year, net of tax.....	(24,621)	(128,641)	(75,434)	(710,636)
Balance at end of year	<u>(370,541)</u>	<u>(499,182)</u>	<u>(574,616)</u>	<u>(5,413,245)</u>
Total stockholders' equity.....	<u>¥1,607,914</u>	<u>¥1,763,855</u>	<u>¥1,930,373</u>	<u>\$18,185,332</u>
Disclosure of comprehensive income:				
Net income for the year.....	¥ 260,625	¥ 305,045	¥ 262,415	\$ 2,472,115
Other comprehensive income (loss) for the year, net of tax (notes 6, 9, 12 and 14).....	(24,621)	(128,641)	(75,434)	(710,636)
Total comprehensive income for the year.....	<u>¥ 236,004</u>	<u>¥ 176,404</u>	<u>¥ 186,981</u>	<u>\$ 1,761,479</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1998, 1999 and 2000

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Cash flows from operating activities (note 13):				
Net income.....	¥ 260,625	¥ 305,045	¥ 262,415	\$ 2,472,115
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation.....	153,337	177,666	172,139	1,621,658
Deferred income taxes.....	(14,009)	(3,674)	(42,544)	(400,791)
Equity in income of affiliates.....	(18,552)	(14,158)	(16,786)	(158,135)
Provision for credit and lease residual losses on finance subsidiaries–receivables.....	18,133	19,855	15,777	148,629
Decrease (increase) in assets:				
Trade accounts and notes receivable.....	(34,105)	(9,069)	(43,732)	(411,983)
Inventories.....	(41,994)	(43,327)	(42,376)	(399,208)
Other current assets.....	(11,025)	(50,610)	(19,071)	(179,661)
Other assets.....	3,481	(10,018)	(11,437)	(107,744)
Increase (decrease) in liabilities:				
Trade payables.....	104,615	29,807	62,506	588,846
Accrued expenses.....	76,802	1,240	52,400	493,641
Income taxes payable.....	(60,364)	(20,130)	(13,988)	(131,776)
Other current liabilities.....	13,754	(42,692)	3,459	32,586
Other liabilities.....	19,994	(2,952)	19,647	185,087
Other, net.....	3,786	8,038	8,821	83,100
Net cash provided by operating activities.....	<u>474,478</u>	<u>345,021</u>	<u>407,230</u>	<u>3,836,364</u>
Cash flows from investing activities:				
Decrease (increase) in investments and advances.....	(16,483)	1,400	14,102	132,850
Capital expenditures.....	(309,517)	(237,080)	(222,891)	(2,099,774)
Proceeds from sales of property, plant and equipment.....	16,159	21,148	18,573	174,969
Acquisitions of finance subsidiaries–receivables.....	(1,505,069)	(1,751,694)	(1,809,817)	(17,049,618)
Collections of finance subsidiaries–receivables.....	706,424	1,074,553	1,299,862	12,245,520
Proceeds from sales of finance subsidiaries–receivables.....	445,796	395,374	398,580	3,754,875
Net cash used in investing activities.....	<u>(662,690)</u>	<u>(496,299)</u>	<u>(301,591)</u>	<u>(2,841,178)</u>
Cash flows from financing activities (note 13):				
Increase (decrease) in short-term debt.....	79,061	198,946	(42,096)	(396,571)
Proceeds from long-term debt.....	340,616	266,375	290,822	2,739,727
Repayment of long-term debt.....	(239,715)	(293,264)	(265,392)	(2,500,160)
Cash dividends paid (note 11).....	(16,563)	(20,463)	(20,463)	(192,774)
Increase (decrease) in commercial paper classified as long-term debt.....	(826)	52,163	7,187	67,706
Net cash provided by (used in) financing activities.....	<u>162,573</u>	<u>203,757</u>	<u>(29,942)</u>	<u>(282,072)</u>
Effect of exchange rate changes on cash and cash equivalents.....	<u>3,785</u>	<u>(12,149)</u>	<u>(22,734)</u>	<u>(214,169)</u>
Net change in cash and cash equivalents.....	<u>(21,854)</u>	<u>40,330</u>	<u>52,963</u>	<u>498,945</u>
Cash and cash equivalents at beginning of year.....	<u>359,148</u>	<u>337,294</u>	<u>377,624</u>	<u>3,557,456</u>
Cash and cash equivalents at end of year.....	<u>¥ 337,294</u>	<u>¥ 377,624</u>	<u>¥ 430,587</u>	<u>\$ 4,056,401</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 of America, 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, 2000 were derived from: motorcycle business—11.8%, automobile business—81.3%, financial services—2.2%, and other businesses—4.7%. Operating income by category of activity for the year ended March 31, 2000 was derived from: motorcycle business—11.1%, automobile business—81.7%, financial services—4.2%, and other businesses—3.0%. The total assets at March 31, 2000 were attributed to: motorcycle business—10.0%, automobile business—49.5%, financial services—35.2%, other businesses—3.6%, and corporate assets (net of company-wide accounts eliminated in consolidation)—1.7%.

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 2000, 70.4% of net sales and other operating revenue (¥4,291,964 million (\$40,433,010 thousand)) were derived from subsidiaries operating outside Japan (1999: ¥4,475,083 million, 1998: ¥3,984,064 million). Net sales and other operating revenue for the year ended March 31, 2000 were geographically broken down based on the location of customers as follows: Japan—26.4%, North America—52.3%, Europe—11.1%, and others—10.2%. For the year ended March 31, 2000, 68.6% of operating income (¥292,294 million (\$2,753,594 thousand)) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (1999: ¥335,745 million, 1998: ¥269,793 million). Also, 55.4% of Honda's assets at March 31, 2000 (¥2,714,993 million (\$25,576,948 thousand)) were identified with foreign operations (1999: ¥2,946,457 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 accounting principles generally accepted in the United States of America.

(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 accounting principles generally accepted in the United States of America. 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 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, 1999 and 2000 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, 1999 and 2000, 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, 1999 and 2000.

(i) Depreciation

Depreciation of property, plant and equipment is calculated principally by the declining-balance method based on 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, 2000 were ¥193,915 million, ¥210,032 million and ¥189,774 million (\$1,787,791 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, 2000 were as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)	
	1998	1999	2000	
	¥154	¥(886)	¥1,305	\$12,294

(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.

(q) Internal-Use Software

As of April 1, 1999, Honda adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," issued by the American Institute of Certified Public Accountants. Based on SOP 98-1, certain internal-use software costs historically expensed are now capitalized once specific criteria are met and these costs are amortized on a straight-line basis over a five-year period. The adoption of this statement did not have a material impact on Honda's consolidated financial position and results of operations.

(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, 2000 have been translated into United States dollars at the rate of ¥106.15=US\$1, the mean of the telegraphic transfer

(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.

(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, as amended, in the year beginning April 1, 2001. Honda is presently assessing the impact of the adoption of this statement 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, 2000.

selling exchange rate and the telegraphic transfer buying exchange rate prevailing on the Tokyo foreign exchange market on March 31, 2000. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

Finance subsidiaries of the Company purchase insurance to cover a substantial amount of the estimated residual value of vehicles leased to customers. The allowance for losses on lease residual values is maintained at an amount management deems adequate to cover estimated losses on the uninsured portion of the vehicles' lease residual values. The allowance is also based on management's evaluation of many factors, including current economic conditions, industry experience and the finance subsidiaries' historical experience with residual value losses.

Finance subsidiaries–receivables, net, consisted of the following at March 31, 1999 and 2000:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Direct financing leases.....	¥1,177,565	¥ 671,860	\$ 6,329,345
Retail	449,520	769,573	7,249,863
Wholesale	166,751	169,988	1,601,394
Term loans to dealers.....	29,176	32,346	304,720
Total finance receivables	1,823,012	1,643,767	15,485,322
Retained interests in the sold pools of finance receivables	35,102	67,560	636,458
	1,858,114	1,711,327	16,121,780
Less:			
Allowance for credit losses.....	12,974	8,898	83,825
Allowance for losses on lease residual values.....	13,952	9,489	89,392
Unearned interest income and fees	143,131	83,118	783,024
Finance subsidiaries–receivables, net	1,688,057	1,609,822	15,165,539
Less current portion	661,697	731,580	6,891,945
Noncurrent finance subsidiaries–receivables, net	¥1,026,360	¥ 878,242	\$ 8,273,594

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2000 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (thousands) (note 2)
2001.....	¥ 708,554	\$ 6,675,026
2002.....	351,790	3,314,084
2003.....	328,221	3,092,049
2004.....	183,184	1,725,709
2005.....	58,765	553,603
After five years.....	13,253	124,851
	935,213	8,810,296
Total	¥1,643,767	\$15,485,322

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, 2000 as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Finance income	¥147,439	¥169,965	¥144,729	\$1,363,439
Finance cost	60,169	78,853	68,638	646,613

Finance subsidiaries of the Company periodically sell finance receivables. Pre-tax net gains or losses on such sales for each of the years in the three-year period ended March 31, 2000, which

are included in finance income in the table above, are ¥12,018 million net gains, ¥7,741 million net gains and ¥617 million (\$5,813 thousand) net losses, respectively.

(4) Inventories

Inventories at March 31, 1999 and 2000 are summarized as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Finished goods	¥428,681	¥393,091	\$3,703,165
Work in process.....	23,475	26,431	248,997
Raw materials.....	146,994	148,183	1,395,977
	<u>¥599,150</u>	<u>¥567,705</u>	<u>\$5,348,139</u>

(5) Investments and Advances—Affiliates

Certain financial information in respect of affiliates at March 31, 1999 and 2000, and for each of the years in the three-year period ended March 31, 2000 is shown below:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Current assets.....	¥ 510,582	¥ 515,628	\$ 4,857,541
Other assets, principally property, plant and equipment	585,148	584,722	5,508,450
	1,095,730	1,100,350	10,365,991
Current liabilities.....	454,112	464,586	4,376,693
Other liabilities.....	133,897	131,981	1,243,344
Net assets	<u>¥ 507,721</u>	<u>¥ 503,783</u>	<u>\$ 4,745,954</u>

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Net sales.....	¥1,988,141	¥1,804,313	¥1,866,464	\$17,583,269
Net income.....	53,867	41,659	42,764	402,864
Cash dividends received by Honda during the year	<u>3,766</u>	<u>2,684</u>	<u>4,843</u>	<u>45,624</u>

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, 1999 and 2000 included in retained earnings was ¥91,834 million and ¥91,857 million (\$865,351 thousand), respectively.

Honda's intercompany balances and transactions with affiliates at March 31, 1999 and 2000, and for each of the years in the three-year period ended March 31, 2000 were as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Due from	¥ 9,033	¥ 9,923	\$ 93,481
Due to	90,701	92,880	874,988

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Purchases from	¥540,795	¥498,556	¥509,969	\$4,804,230
Sales to	76,052	62,528	75,172	708,168

(6) Investments and Advances—Other

Investments and advances—other at March 31, 1999 and 2000 consist of the following:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Marketable equity securities	¥122,233	¥146,465	\$1,379,793
Nonmarketable preferred stock—The Bank of Tokyo-Mitsubishi, Ltd.	10,200	10,200	96,090
Guaranty deposits	36,185	33,477	315,374
Life insurance contracts	11,320	10,965	103,297
Advances.....	3,811	3,734	35,177
Other	16,139	8,864	83,505
	¥199,888	¥213,705	\$2,013,236

Certain information with respect to available-for-sale securities, all of which are marketable equity securities at March 31, 1999 and 2000, is summarized below:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Cost	¥ 69,478	¥ 67,694	\$ 637,720
Fair value.....	122,233	146,465	1,379,793
Gross unrealized gains.....	58,968	86,441	814,329
Gross unrealized losses.....	6,213	7,670	72,256

(7) Short-term and Long-term Debt

Short-term bank loans and commercial paper at March 31, 1999 and 2000 were as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Short-term bank loans	¥549,630	¥443,625	\$4,179,227
Commercial paper	72,714	52,328	492,963
	<u>¥622,344</u>	<u>¥495,953</u>	<u>\$4,672,190</u>

The weighted average interest rates on short-term loans outstanding at March 31, 1999 and 2000 were 5.7% and 5.0%, respectively.

Long-term debt at March 31, 1999 and 2000 was as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Honda Motor Co., Ltd.:			
Loans, maturing 1999–2002:			
Unsecured, principally from banks	¥ 32,223	¥ 30,000	\$ 282,619
5.05% Japanese yen unsecured bonds due 1999	50,000	—	—
3.8% Japanese yen unsecured bonds due 2001	50,000	50,000	471,031
	<u>132,223</u>	<u>80,000</u>	<u>753,650</u>
Subsidiary companies:			
Commercial paper	194,284	177,801	1,674,998
Loans, maturing 1999–2018:			
Secured, principally from banks	9,246	6,546	61,667
Unsecured, principally from banks	270,210	216,470	2,039,284
1.31% Japanese yen unsecured bond due 2005	—	30,000	282,619
Medium-term notes, maturing 1999–2008	327,342	408,765	3,850,824
Other	83	21	198
Less unamortized discount, net	1,786	1,461	13,763
	<u>799,379</u>	<u>838,142</u>	<u>7,895,827</u>
Total long-term debt	931,602	918,142	8,649,477
Less current portion	258,518	343,576	3,236,703
	<u>¥673,084</u>	<u>¥574,566</u>	<u>\$5,412,774</u>

The loans are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.52% to 15.98% per annum at March 31, 2000.

Property, plant and equipment with a net book value of approximately ¥14,379 million and ¥13,025 million (\$122,704 thousand) at March 31, 1999 and 2000, 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, 1999 and 2000, U.S. dollar 1,611,648 thousand and U.S. dollar 1,675,000 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 5.95% at March 31, 2000.

Medium-term notes are unsecured, and their interest rates range from 0.48% to 6.55% at March 31, 2000.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2000 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (thousands) (note 2)
2001.....	¥343,576	\$3,236,703
2002.....	398,221	3,751,493
2003.....	49,390	465,285
2004.....	20,275	191,003
2005.....	42,797	403,175
After five years.....	63,883	601,818
	<u>574,566</u>	<u>5,412,774</u>
Total.....	<u>¥918,142</u>	<u>\$8,649,477</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.

At March 31, 2000, Honda had unused line of credit facilities amounting to ¥843,216 million (\$7,943,627 thousand) of which ¥331,991 million (\$3,127,565 thousand) related to commercial paper programs and ¥511,225 million (\$4,816,062 thousand) related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2000, Honda also had committed lines of credit amounting to ¥372,517 million (\$3,509,345 thousand), none of which was in use. The committed lines are used to back up the commercial paper programs. Borrowings under those committed lines of credit generally are available at the prime interest rate.

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, 1999 and 2000 are summarized as follows:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Allowance for dealers and customers	¥ 42,018	¥ 39,781	\$ 374,762
Minority interest.....	25,186	30,278	285,238
Additional minimum pension liabilities (note 12).....	227,424	95,685	901,413
Deferred income taxes.....	—	2,533	23,862
Other	37,484	22,901	215,743
	<u>¥332,112</u>	<u>¥191,178</u>	<u>\$1,801,018</u>

(9) Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2000 were allocated as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Income.....	¥201,278	¥229,624	¥170,434	\$1,605,596
Stockholders' equity—accumulated other comprehensive income (loss) (note 14).....	(25,230)	(27,405)	55,051	518,615
	<u>¥176,048</u>	<u>¥202,219</u>	<u>¥225,485</u>	<u>\$2,124,211</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, 2000 consist of the following:

	Yen (millions)			
	Income before income taxes	Income taxes		Total
		Current	Deferred	
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>
2000:				
Japanese	¥127,562	¥ 76,015	¥(22,160)	¥ 53,855
Foreign (a)	288,501	136,963	(20,384)	116,579
	<u>¥416,063</u>	<u>¥212,978</u>	<u>¥(42,544)</u>	<u>¥170,434</u>

	U.S. dollars (thousands) (note 2)			
	Income before income taxes	Income taxes		Total
		Current	Deferred	
2000:				
Japanese	\$1,201,715	\$ 716,109	\$(208,761)	\$ 507,348
Foreign (a)	2,717,861	1,290,278	(192,030)	1,098,248
	<u>\$3,919,576</u>	<u>\$2,006,387</u>	<u>\$(400,791)</u>	<u>\$1,605,596</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, 2000 are as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Deferred tax expense (exclusive of the effects of other components listed below)	¥ (1,488)	¥ 18,478	¥(41,699)	\$(392,831)
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	(10,631)	(21,942)	—	—
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(1,890)	(210)	(845)	(7,960)
	<u>¥(14,009)</u>	<u>¥ (3,674)</u>	<u>¥(42,544)</u>	<u>\$(400,791)</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 for each of the years in the three-year period ended March 31, 2000 of approximately 52%, 48% and 41%, respectively. 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, 2000 differs from the normal Japanese income tax rate for the following reasons:

	1998	1999	2000
Normal income tax rate	52.0%	48.0%	41.0%
Valuation allowance provided for current year operating losses of subsidiaries	0.2	1.2	2.8
Difference in normal tax rates of foreign subsidiaries.....	(3.9)	(3.0)	(1.3)
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.....	(0.3)	(0.1)	(0.1)
Other.....	(0.2)	2.2	(1.4)
Effective tax rate.....	<u>45.4%</u>	<u>44.1%</u>	<u>41.0%</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, 1999 and 2000 are presented below:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Deferred tax assets:			
Inventory valuation	¥ 73,207	¥ 64,660	\$ 609,138
Allowance for dealers and customers.....	67,142	68,257	643,024
Foreign tax credit.....	20,804	23,936	225,492
Operating loss carryforwards	20,304	24,523	231,022
Minimum pension liabilities adjustment	88,401	39,231	369,581
Accrued other pension liabilities	35,060	50,847	479,011
Other	72,397	90,863	855,987
Total gross deferred tax assets.....	377,315	362,317	3,413,255
Less valuation allowance.....	18,436	26,514	249,779
Net deferred tax assets	<u>358,879</u>	<u>335,803</u>	<u>3,163,476</u>
Deferred tax liabilities:			
Inventory valuation	(16,580)	(11,323)	(106,670)
Depreciation and amortization, excluding lease transactions	(13,194)	(12,957)	(122,063)
Lease transactions	(111,263)	(89,389)	(842,101)
Undistributed earnings of subsidiaries and affiliates	(28,525)	(32,224)	(303,570)
Net unrealized gains on marketable equity securities	(21,630)	(32,296)	(304,249)
Other	(24,306)	(26,740)	(251,907)
Total gross deferred tax liabilities.....	(215,498)	(204,929)	(1,930,560)
Net deferred tax asset.....	<u>¥143,381</u>	<u>¥130,874</u>	<u>\$1,232,916</u>

The valuation allowance for deferred tax assets at March 31, 1998 was ¥16,466 million. The net change in the total valuation allowance for the years ended March 31, 1999 and 2000 was an increase of ¥1,970 million and ¥8,078 million (\$76,100 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, 1999 and 2000.

At March 31, 2000, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of approximately ¥73,635 million (\$693,688 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	¥ 1,887	\$ 17,777
1 to 5 years	13,074	123,165
5 to 15 years	9,306	87,668
Indefinite periods	49,368	465,078
	<u>¥73,635</u>	<u>\$693,688</u>

At March 31, 1999 and 2000, Honda did not recognize deferred tax liabilities of ¥5,116 million and ¥5,131 million (\$48,337 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, 1999 and 2000, the undistributed earnings not subject to deferred tax liabilities were ¥622,340 million and ¥649,929 million (\$6,122,741 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, 1999 and 2000 are reflected in the consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (thousands) (note 2)
	1999	2000	2000
Current assets—Deferred income taxes	¥133,959	¥154,277	\$1,453,387
Other assets	59,590	10,345	97,456
Other current liabilities	(50,168)	(31,215)	(294,065)
Other liabilities	—	(2,533)	(23,862)
Net deferred tax asset	<u>¥143,381</u>	<u>¥130,874</u>	<u>\$1,232,916</u>

(10) Common Stock

During the year ended March 31, 1998, the Company issued approximately 88 thousand shares 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, 2000 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, 2000 were ¥17, ¥21 and ¥21 (\$0.20), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥12 (\$0.11) per share aggregating ¥11,693 million (\$110,155 thousand) to be proposed in June 2000.

(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	
	1999	2000	1999	2000
Change in benefit obligations:				
Benefit obligations at beginning of year	¥(1,034,272)	¥(1,235,634)	¥(88,383)	¥(93,228)
Service cost	(40,897)	(48,254)	(9,314)	(8,725)
Interest cost	(36,200)	(37,068)	(6,284)	(6,206)
Plan participants' contributions	(6,347)	(6,257)	(459)	(469)
Actuarial gain (loss)	(128,382)	42,133	4,125	2,939
Benefits paid	10,464	11,573	836	1,046
Amendment	—	33,059	—	(912)
Foreign exchange translation	—	—	6,686	11,569
Other	—	—	(435)	(592)
Benefit obligations at end of year	<u>(1,235,634)</u>	<u>(1,240,448)</u>	<u>(93,228)</u>	<u>(94,578)</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	563,748	632,742	77,380	87,414
Actual return on plan assets	29,599	91,206	4,780	23,987
Employer contributions	43,512	44,296	12,280	11,853
Plan participants' contributions	6,347	6,257	459	469
Benefits paid	(10,464)	(11,573)	(836)	(1,046)
Foreign exchange translation	—	—	(6,497)	(11,928)
Other	—	—	(152)	—
Fair value of plan assets at end of year	<u>632,742</u>	<u>762,928</u>	<u>87,414</u>	<u>110,749</u>
Funded status	(602,892)	(477,520)	(5,814)	16,171
Unrecognized actuarial loss (gain)	509,413	373,595	740	(18,825)
Unrecognized net transition obligations	11,935	10,900	233	169
Unrecognized prior service cost (benefit)	—	(30,993)	4,485	5,105
Net amount recognized	<u>(81,544)</u>	<u>(124,018)</u>	<u>(356)</u>	<u>2,620</u>
Adjustments to recognize additional minimum liabilities (note 8):				
Intangible assets	(11,811)	—	—	—
Amount included in accumulated other comprehensive income (loss)	(215,613)	(95,685)	—	—
	<u>(227,424)</u>	<u>(95,685)</u>	<u>—</u>	<u>—</u>
Prepaid (accrued) pension cost recognized in the consolidated balance sheets....	¥ (308,968)	¥ (219,703)	¥ (356)	¥ 2,620
Pension plans with accumulated benefit obligations in excess of plan assets:				
Projected benefit obligations	¥(1,235,634)	¥(1,236,579)	¥ —	¥ —
Accumulated benefit obligations	(941,562)	(978,752)	—	—
Fair value of plan assets	<u>632,742</u>	<u>759,805</u>	<u>—</u>	<u>—</u>

	U.S. dollars (thousands) (note 2)	
	Japanese plans	Foreign plans
	2000	2000
Change in benefit obligations:		
Benefit obligations at beginning of year	\$(11,640,452)	\$(878,267)
Service cost	(454,583)	(82,195)
Interest cost	(349,204)	(58,464)
Plan participants' contributions.....	(58,945)	(4,418)
Actuarial gain.....	396,919	27,687
Benefits paid	109,025	9,854
Amendment.....	311,437	(8,592)
Foreign exchange translation.....	—	108,988
Other	—	(5,577)
Benefit obligations at end of year	<u>(11,685,803)</u>	<u>(890,984)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	5,960,829	823,495
Actual return on plan assets	859,218	225,973
Employer contributions.....	417,296	111,663
Plan participants' contributions.....	58,945	4,418
Benefits paid	(109,025)	(9,854)
Foreign exchange translation.....	—	(112,370)
Fair value of plan assets at end of year	<u>7,187,263</u>	<u>1,043,325</u>
Funded status.....	(4,498,540)	152,341
Unrecognized actuarial loss (gain).....	3,519,501	(177,343)
Unrecognized net transition obligations.....	102,685	1,592
Unrecognized prior service cost (benefit)	(291,974)	48,092
Net amount recognized.....	<u>(1,168,328)</u>	<u>24,682</u>
Adjustments to recognize additional minimum liabilities (note 8):		
Amount included in accumulated other comprehensive income (loss)	(901,413)	—
	<u>(901,413)</u>	<u>—</u>
Prepaid (accrued) pension cost recognized in the consolidated balance sheets	<u>\$ (2,069,741)</u>	<u>\$ 24,682</u>
Pension plans with accumulated benefit obligations in excess of plan assets:		
Projected benefit obligations	\$(11,649,355)	\$ —
Accumulated benefit obligations	(9,220,462)	—
Fair value of plan assets.....	<u>7,157,843</u>	<u>—</u>

Pension expense for each of the years in the three-year period ended March 31, 2000 includes the following:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Japanese plans:				
Service cost-benefits earned during the year.....	¥33,427	¥40,897	¥48,254	\$454,583
Interest cost on projected benefit obligations.....	34,270	36,200	37,068	349,204
Expected return on plan assets.....	(18,924)	(21,735)	(24,423)	(230,080)
Net amortization and deferral.....	15,489	18,973	23,073	217,362
	<u>¥64,262</u>	<u>¥74,335</u>	<u>¥83,972</u>	<u>\$791,069</u>
Foreign plans:				
Service cost-benefits earned during the year.....	¥ 6,441	¥ 9,314	¥ 8,725	\$ 82,195
Interest cost on projected benefit obligations.....	4,665	6,284	6,206	58,464
Expected return on plan assets.....	(4,645)	(6,186)	(6,657)	(62,713)
Net amortization and deferral.....	292	315	501	4,720
	<u>¥ 6,753</u>	<u>¥ 9,727</u>	<u>¥ 8,775</u>	<u>\$ 82,666</u>

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

	1998	1999	2000
Japanese plans:			
At March 31:			
Discount rate.....	3.5%	3.0%	3.0%
Rate of salary increase.....	3.0%	3.0%	2.7%
Year ended March 31:			
Expected long-term rate of return.....	4.0%	4.0%	4.0%
Foreign plans:			
At March 31:			
Discount rate.....	6.75–8.5%	5.5–7.5%	5.5–8.0%
Rate of salary increase.....	4.25–6.0%	3.5–6.0%	3.8–6.0%
Year ended March 31:			
Expected long-term rate of return.....	6.75–9.0%	6.0–9.0%	6.3–9.0%

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)
	1998	1999	2000	2000
Cash paid during the year for:				
Interest	¥ 71,257	¥108,694	¥ 78,512	\$ 739,633
Income taxes.....	248,024	254,973	231,277	2,178,775
Noncash financing activities:				
Additional common stock issued upon the conversion of long-term debt (note 10)	¥ 43	¥ —	¥ —	\$ —

(14) Comprehensive Income

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.

Changes in accumulated other comprehensive income (loss) for each of the years in the three-year period ended March 31, 2000 are as follows:

	Yen (millions)			U.S. dollars (thousands) (note 2)
	1998	1999	2000	2000
Adjustments from foreign currency translation:				
Balance at beginning of year	¥(320,440)	¥(314,885)	¥(419,134)	\$ (3,948,507)
Adjustments for the year	5,555	(104,249)	(161,542)	(1,521,827)
Balance at end of year	(314,885)	(419,134)	(580,676)	(5,470,334)
Net unrealized gains on marketable equity securities:				
Balance at beginning of year	34,218	21,135	25,672	241,847
Realized (gain) loss on marketable equity securities.....	—	389	(1,577)	(14,857)
Increase (decrease) in net unrealized gains on marketable equity securities	(13,083)	4,148	16,927	159,463
Balance at end of year	21,135	25,672	41,022	386,453
Minimum pension liabilities adjustment:				
Balance at beginning of year	(59,698)	(76,791)	(105,720)	(995,949)
Adjustments for the year	(17,093)	(28,929)	70,758	666,585
Balance at end of year	(76,791)	(105,720)	(34,962)	(329,364)
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(345,920)	(370,541)	(499,182)	(4,702,609)
Adjustments for the year	(24,621)	(128,641)	(75,434)	(710,636)
Balance at end of year	¥(370,541)	¥(499,182)	¥(574,616)	\$ (5,413,245)

The tax 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
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).....	<u>¥ (49,851)</u>	<u>¥25,230</u>	<u>¥ (24,621)</u>
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	<u>8,724</u>	<u>(4,187)</u>	<u>4,537</u>
Minimum pension liabilities adjustment	(55,633)	26,704	(28,929)
Other comprehensive income (loss).....	<u>¥(156,046)</u>	<u>¥27,405</u>	<u>¥(128,641)</u>
2000:			
Adjustments from foreign currency translation	¥(166,327)	¥ 4,785	¥(161,542)
Unrealized gains on marketable equity securities:			
Unrealized holding gains arising during the year	28,689	(11,762)	16,927
Reclassification adjustments for gains realized in net income	(2,673)	1,096	(1,577)
Net unrealized gains	<u>26,016</u>	<u>(10,666)</u>	<u>15,350</u>
Minimum pension liabilities adjustment	119,928	(49,170)	70,758
Other comprehensive income (loss).....	<u>¥ (20,383)</u>	<u>¥(55,051)</u>	<u>¥ (75,434)</u>

	U.S. dollars (thousands) (note 2)		
	Before-tax amount	Tax (expense) or benefit (note 9)	Net-of-tax amount
2000:			
Adjustments from foreign currency translation	\$(1,566,905)	\$ 45,078	\$(1,521,827)
Unrealized gains on marketable equity securities:			
Unrealized holding gains arising during the year.....	270,268	(110,805)	159,463
Reclassification adjustments for gains realized in net income	(25,181)	10,324	(14,857)
Net unrealized gains.....	<u>245,087</u>	<u>(100,481)</u>	<u>144,606</u>
Minimum pension liabilities adjustment.....	1,129,797	(463,212)	666,585
Other comprehensive income (loss)	<u>\$ (192,021)</u>	<u>\$(518,615)</u>	<u>\$ (710,636)</u>

(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)	
	1998	1999	2000	2000
Net income available to common stockholders.....	¥260,625	¥305,045	¥262,415	\$2,472,115
Effect of dilutive securities:				
Convertible bonds.....	(18)	—	—	—
Diluted net income	<u>¥260,607</u>	<u>¥305,045</u>	<u>¥262,415</u>	<u>\$2,472,115</u>
	Number of shares			
	1998	1999	2000	
Average common shares outstanding.....	974,348,808	974,414,215	974,414,215	
Effect of dilutive securities:				
Convertible bonds.....	67,630	—	—	
Diluted common shares outstanding.....	<u>974,416,438</u>	<u>974,414,215</u>	<u>974,414,215</u>	
	Yen		U.S. dollars (note 2)	
	1998	1999	2000	2000
Net income per common share:				
Basic.....	¥267.49	¥313.05	¥269.31	\$2.54
Diluted	<u>267.45</u>	<u>313.05</u>	<u>269.31</u>	<u>2.54</u>

(16) Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 1999 and 2000 were as follows:

	Yen (millions)				U.S. dollars (thousands) (note 2)	
	1999		2000		2000	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries—receivables (a)	¥ 643,308	¥ 682,179	¥1,002,546	¥ 975,419	\$ 9,444,616	\$ 9,189,063
Investments and advances—marketable						
equity securities.....	122,233	122,233	146,465	146,465	1,379,793	1,379,793
Debt.....	(1,553,946)	(1,585,654)	(1,414,095)	(1,417,669)	(13,321,667)	(13,355,337)
Foreign exchange instruments (b)						
Asset position.....	¥ 463	¥ 5,262	¥ 10,811	¥ 20,230	\$ 101,846	\$ 190,579
Liability position.....	(20,741)	(15,175)	(300)	(1,086)	(2,826)	(10,231)
Net.....	<u>¥ (20,278)</u>	<u>¥ (9,913)</u>	<u>¥ 10,511</u>	<u>¥ 19,144</u>	<u>\$ 99,020</u>	<u>\$ 180,348</u>
Interest rate instruments:						
Asset position.....	¥ —	¥ 165	¥ —	¥ 11,374	\$ —	\$ 107,150
Liability position.....	—	(3,007)	—	(510)	—	(4,804)
Net.....	<u>¥ —</u>	<u>¥ (2,842)</u>	<u>¥ —</u>	<u>¥ 10,864</u>	<u>\$ —</u>	<u>\$ 102,346</u>

(a) The carrying amounts of Finance subsidiaries–receivables at March 31, 1999 and 2000 in the table exclude ¥1,044,749 million and ¥607,276 million (\$5,720,923 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)
	1999	2000	2000
Other current assets	¥ 48	¥ 7,603	\$71,625
Other assets	415	3,208	30,221
Other current liabilities	(4,762)	(287)	(2,704)
Other liabilities	(15,979)	(13)	(122)
	<u>¥(20,278)</u>	<u>¥10,511</u>	<u>\$99,020</u>

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, 1999 and 2000, the total amounts of foreign currency forward contracts, currency swap agreements and foreign currency option contracts outstanding were ¥624,221 million and ¥656,700 million (\$6,186,528 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, 1999 and 2000, the notional principal amounts of interest rate swap agreements were ¥1,494,362 million and ¥1,149,563 million (\$10,829,609 thousand), respectively.

(18) Commitments and Contingent Liabilities

At March 31, 2000, Honda had commitments for purchases of property, plant and equipment of approximately ¥35,668 million (\$336,015 thousand). Contingent liabilities for guarantees and similar activities of bank loans of employees, affiliates and other companies amounted to approximately ¥103,538 million (\$975,393 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, 2000 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) Lease

Honda has several operating leases, primarily for office and other facilities, and certain office equipment.

Future minimum lease payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year at March 31, 2000 are as follows:

Year ending March 31	Yen (millions)	U.S. dollars (thousands) (note 2)
2001	¥26,911	\$253,519
2002	20,119	189,534
2003	12,562	118,342
2004	8,335	78,521
2005	5,089	47,941
After five years	<u>21,528</u>	<u>202,807</u>
Total minimum lease payments	<u>¥94,544</u>	<u>\$890,664</u>

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2000 were ¥46,630 million, ¥48,939 million and ¥49,014 million (\$461,743 thousand), respectively.

**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, 1999 and 2000, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America 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 of America.

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, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended March 31, 2000 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 the consolidated financial statements.

A large, stylized handwritten signature of 'KPMG' in black ink, written in a cursive, slanted font.

Tokyo, Japan

May 12, 2000

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)*

	Yen (millions except per share amounts)							
	Year ended March 31, 1999				Year ended March 31, 2000			
	I	II	III	IV	I	II	III	IV
Net sales and other								
operating revenue	¥1,595,372	¥1,538,211	¥1,494,837	¥1,602,621	¥1,516,668	¥1,516,248	¥1,448,010	¥1,617,914
Operating income.....	143,637	153,736	137,132	114,193	124,997	104,548	105,780	90,905
Income before income taxes.....	137,741	143,771	136,029	102,970	121,062	105,366	104,393	85,242
Net income.....	78,221	80,062	75,586	71,176	72,862	63,518	63,308	62,727
Net income per common share:								
Basic.....	¥80.27	¥82.16	¥77.57	¥73.04	¥74.78	¥65.19	¥64.97	¥64.37
Diluted	80.27	82.16	77.57	73.04	74.78	65.19	64.97	64.37
Net income per American share, each representing two shares of common stock:								
Basic.....	160.54	164.32	155.14	146.08	149.56	130.38	129.94	128.74
Diluted	160.54	164.32	155.14	146.08	149.56	130.38	129.94	128.74
Tokyo Stock Exchange:								
(TSE) (in yen)								
High	¥4,980	¥5,530	¥4,800	¥5,500	¥5,880	¥5,400	¥4,620	¥4,300
Low	4,550	3,860	2,870	3,430	4,800	4,100	3,600	3,380
New York Stock Exchange:								
(NYSE) (in U.S. dollars)								
High	\$72 ¹³ / ₁₆	\$74	\$72 ⁷ / ₁₆	\$89 ¹ / ₈	\$88⁷/₈	\$86⁵/₈	\$84³/₈	\$81¹/₄
Low.....	66 ¹ / ₂	60 ¹¹ / ₁₆	61 ³ / ₈	74 ³ / ₈	82	80¹/₂	75¹⁵/₁₆	65

*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)				
	1996	1997	1998	1999	2000
Motorcycle Business:					
Net sales	¥ 634,410	¥ 755,873	¥ 853,279	¥ 807,593	¥ 718,910
Operating income	62,569	84,752	101,922	82,350	47,264
(Operating income/Net sales).....	(9.9%)	(11.2%)	(11.9%)	(10.2%)	(6.6%)
Automobile Business:					
Net sales	3,311,936	4,229,055	4,752,473	4,989,071	4,961,026
Operating income	55,591	289,820	320,469	427,039	348,061
(Operating income/Net sales).....	(1.7%)	(6.9%)	(6.7%)	(8.6%)	(7.0%)
Financial Services:					
Net sales	72,559	94,009	139,582	162,007	137,128
Operating income	17,674	21,681	30,917	24,308	18,054
(Operating income/Net sales).....	(24.4%)	(23.1%)	(22.1%)	(15.0%)	(13.2%)
Other Businesses:					
Net sales	233,345	214,365	254,404	272,370	281,776
Operating income	7,799	5,194	9,005	15,001	12,851
(Operating income/Net sales).....	(3.3%)	(2.4%)	(3.5%)	(5.5%)	(4.6%)
Total:					
Net sales	¥4,252,250	¥5,293,302	¥5,999,738	¥6,231,041	¥6,098,840
Operating income	143,633	401,447	462,313	548,698	426,230
(Operating income/Net sales).....	(3.4%)	(7.6%)	(7.7%)	(8.8%)	(7.0%)

*The business segment information has been prepared in accordance with the Ministerial Ordinance under the Securities and Exchange Law of Japan. Effective fiscal 2000, Honda changed its business segment categorization, whereby the all-terrain vehicle (ATV) business is now included in the Motorcycle Business, previously included in Other Businesses. All prior years' figures have been restated to reflect this change. See page 21 for details.

HONDA MOTOR CO., LTD.

Established

September 24, 1948

Principal Lines of Business

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

Head Office

1-1, 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

PRINCIPAL 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, automobiles and power products

Asamagiken Co., Ltd. (77.5%) Nagano
Casting and manufacture of precision parts for Honda products

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

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 Corp. (87.6%) Tokyo
Import, export and marketing operations

Honda Sogo Tatemono Co., Ltd. (70%) Tokyo
Administration and lease of real estate

Honda Verno Shin Tokyo Co., Ltd.
(100%) Tokyo and 129 other sales companies
Distribution and sale of Honda products

■ **NORTH AMERICA**

American Honda Motor Co., Inc. (100%) U.S.A. and its six 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 14 subsidiaries
Financing and leasing of Honda products

Cardington Yutaka Technologies Inc.
(100%) U.S.A.
Manufacture of precision parts for motorcycles and 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

Honda Trading America Corp. (100%) U.S.A. and its three subsidiaries
Import, export and marketing operations

Honda Canada Inc. (100%) Canada
Import and distribution of Honda products and manufacture of automobiles

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 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 Motor Europe Limited (100%) U.K. and its four subsidiaries
Coordination of operations 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 Motor Europe (South) S.A.
(100%) France
Coordination of regional operations and import and distribution of Honda products

Honda Europe Power Equipment S.A.
(100%) France
Import, manufacture and distribution of power products

Honda Motor Europe (North) G.m.b.H.
(100%) Germany
Coordination of regional operations and import and distribution of Honda products

Honda Italia Industriale S.p.A. (100%) Italy
Import, manufacture and distribution of Honda products

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

■ ASIA AND OTHER AREAS

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

Honda Motorcycle and Scooter India Private Ltd. (100%) India
Manufacture and distribution of motorcycles

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

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

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

Honda Cars Philippines, Inc. (54.2%) Philippines
Manufacture and distribution of 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 and distribution of motorcycles

Honda Motor do Brasil Ltda. (100%) Brazil
and its eight 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 Australia Pty., Ltd. (100%) Australia
and its two subsidiaries
Import, manufacture and distribution of Honda products

Honda New Zealand Limited (100%) New Zealand
Import and distribution of Honda products

(As of March 31, 2000)

PRINCIPAL MANUFACTURING FACILITIES

Location	Start of operations	Number of employees	Principal products manufactured
Wako, Saitama, Japan	May 1953	1,224	Engines
Sayama, Saitama, Japan	Nov. 1964	5,023	Automobiles
Takanezawa-cho, Tochigi, Japan	May 1990	1,245	Automobiles
Hamamatsu, Shizuoka, Japan	Apr. 1954	3,889	Motorcycles, power products and transmissions
Suzuka, Mie, Japan	May 1960	8,465	Automobiles
Ohzu-machi, Kumamoto, Japan	Mar. 1976	2,907	Motorcycles, power products and engines
Marysville, Ohio, U.S.A.	Sept. 1979	7,815	Motorcycles, automobiles and all-terrain vehicles
Anna, Ohio, U.S.A.	July 1985	2,643	Engines
East Liberty, Ohio, U.S.A.	Dec. 1989	2,788	Automobiles
Sweptonville, North Carolina, U.S.A.	Aug. 1984	327	Power products
Timmonsville, South Carolina, U.S.A.	July 1998	497	All-terrain vehicles
Alliston, Ontario, Canada	Nov. 1986	3,940	Automobiles
El Salto, Mexico	Mar. 1988	1,208	Motorcycles and automobiles
Swindon, Wiltshire, U.K.	July 1989	3,114	Automobiles and engines
Ormes, France	Jan. 1985	81	Power products
Atessa, Italy	Apr. 1977	555	Motorcycles, power products and engines
Barcelona, Spain	May 1980	248	Motorcycles
Gautambudh Nager, India	Dec. 1997	805	Automobiles
Lahore, Pakistan	Oct. 1993	238	Automobiles
Manila, Philippines	May 1973	407	Motorcycles and power products
Ayutthaya, Thailand	Jan. 1993	1,338	Automobiles
Bangkok, Thailand	Apr. 1965	2,403	Motorcycles and power products
Vinhphuc, Vietnam	Dec. 1997	808	Motorcycles
Sumare, Brazil	Sept. 1997	758	Automobiles
Manaus, Brazil	Jan. 1977	2,931	Motorcycles and power products

(As of March 31, 2000)

FINANCIAL SUMMARY

Honda Motor Co., Ltd. and Subsidiaries

	1990	1991	1992	1993
Sales, income, and dividends				
Net sales and other operating revenue	¥3,852,905	¥4,301,518	¥4,391,864	¥4,132,435
Operating income	200,585	146,833	153,345	108,756
Income before income taxes	152,132	132,021	130,756	88,564
Income taxes	75,292	63,418	68,459	53,208
Equity in income of affiliates	4,844	7,670	1,273	1,801
Net income	81,684	76,273	59,731	37,157
As percentage of sales	2.1%	1.8%	1.4%	0.9%
Cash dividends paid during the period	13,295	13,564	13,617	13,620
Research and development	185,780	194,039	192,475	199,233
Interest expense	36,349	40,231	42,615	43,426
Assets, long-term debt, and stockholders' equity				
Total assets	¥2,842,319	¥2,949,333	¥3,153,992	¥3,012,896
Long-term debt	427,713	479,015	589,899	569,479
Stockholders' equity	1,084,576	1,087,707	1,097,663	1,030,867
Depreciation	165,244	191,233	190,671	173,733
Capital expenditures	332,801	261,207	237,861	168,205
Per common share				
Net income:				
Basic	¥ 85.65	¥ 78.57	¥ 61.40	¥ 38.19
Diluted	83.37	77.46	61.27	37.94
Cash dividends paid during the period	14	14	14	14
Stockholders' equity	1,122.07	1,118.29	1,128.35	1,058.80
Per American share, each representing two shares of common stock				
Net income:				
Basic	171.30	157.14	122.80	76.38
Diluted	166.74	154.92	122.54	75.88
Cash dividends paid during the period	28	28	28	28
Stockholders' equity	2,244.14	2,236.58	2,256.70	2,117.60
Sales progress				
Sales amounts:				
Japan	¥1,320,483 (34%)	¥1,392,962 (32%)	¥1,444,852 (33%)	¥1,379,748 (33%)
Overseas	2,532,422 (66%)	2,908,556 (68%)	2,947,012 (67%)	2,752,687 (67%)
Total	¥3,852,905 (100%)	¥4,301,518 (100%)	¥4,391,864 (100%)	¥4,132,435 (100%)
Unit sales:				
Motorcycles	3,057	3,464	3,675	4,035
Automobiles	1,936	1,915	1,961	1,793
Power Products	1,451	1,331	1,355	1,450
Number of employees	79,200	85,500	90,500	90,900
Exchange rate (yen amounts per U.S. dollar)				
Rates for the period-end	¥ 158	¥ 141	¥ 133	¥ 116
Average rates for the period	143	141	133	125

Yen (millions)							U.S. dollars (thousands)
Fiscal years ended March 31							
1994	1995	1996	1997	1998	1999	2000	2000
¥3,862,716	¥3,966,164	¥4,252,250	¥5,293,302	¥5,999,738	¥6,231,041	¥6,098,840	\$57,454,922
78,328	107,916	143,633	401,447	462,313	548,698	426,230	4,015,356
46,890	94,287	115,134	390,722	443,351	520,511	416,063	3,919,576
33,719	44,904	58,281	189,044	201,278	229,624	170,434	1,605,596
10,528	12,142	13,948	19,490	18,552	14,158	16,786	158,135
23,699	61,525	70,801	221,168	260,625	305,045	262,415	2,472,115
0.6%	1.6%	1.7%	4.2%	4.3%	4.9%	4.3%	
13,631	13,635	13,638	13,640	16,563	20,463	20,463	192,774
188,815	203,004	220,573	251,128	285,863	311,632	334,036	3,146,829
35,379	34,382	30,601	27,514	27,655	27,890	18,920	178,238
¥2,921,084	¥3,014,410	¥3,516,113	¥4,191,294	¥4,815,265	¥5,034,247	¥4,898,428	\$46,146,284
612,511	589,537	656,461	734,255	677,750	673,084	574,566	5,412,774
967,345	1,017,462	1,144,540	1,388,430	1,607,914	1,763,855	1,930,373	18,185,332
143,229	125,115	125,007	141,351	153,337	177,666	172,139	1,621,658
121,838	128,644	150,489	217,782	309,517	237,080	222,891	2,099,774
Yen							U.S. dollars
¥ 24.34	¥ 63.16	¥ 72.68	¥ 227.00	¥ 267.49	¥ 313.05	¥ 269.31	\$ 2.54
24.28	63.00	72.63	226.97	267.45	313.05	269.31	2.54
14	14	14	14	17	21	21	0.20
993.47	1,044.44	1,174.73	1,425.04	1,650.14	1,810.20	1,981.07	18.66
48.68	126.32	145.36	454.00	534.98	626.10	538.62	5.07
48.56	126.00	145.26	453.94	534.90	626.10	538.62	5.07
28	28	28	28	34	42	42	0.40
1,986.94	2,088.88	2,349.46	2,850.08	3,300.28	3,620.40	3,962.14	37.33
Yen (millions)							U.S. dollars (thousands)
¥1,282,771	¥1,326,487	¥1,540,463	¥1,826,284	¥1,710,813	¥1,556,333	¥1,612,191	\$15,187,857
(33%)	(33%)	(36%)	(35%)	(29%)	(25%)	(26%)	
2,579,945	2,639,677	2,711,787	3,467,018	4,288,925	4,674,708	4,486,649	42,267,065
(67%)	(67%)	(64%)	(65%)	(71%)	(75%)	(74%)	
¥3,862,716	¥3,966,164	¥4,252,250	¥5,293,302	¥5,999,738	¥6,231,041	¥6,098,840	\$57,454,922
(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
(Thousands)							
4,251	4,910	5,488	5,325	5,257	4,295	4,436	
1,753	1,794	1,887	2,184	2,343	2,333	2,473	
1,632	1,909	2,268	2,521	2,857	3,412	4,057	
91,300	92,800	96,800	101,100	109,400	112,200	112,400	
¥ 103	¥ 89	¥ 106	¥ 124	¥ 132	¥ 121	¥ 106	
108	99	96	113	123	128	112	

INVESTOR INFORMATION

Notes:

(1) The amounts for the fiscal year ended March 31, 2000, have been translated into U.S. dollars 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.

(2) 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.

(3) 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.

(4) 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.

(5) Effective fiscal 2000, due to the change in method of business segment categorization, all prior years' unit sales under Sales progress have been restated to reflect the change; i.e., unit sales of all-terrain vehicles (ATVs) are now included in Motorcycles, previously included in Power Products.

Transfer Agent for Common Stock

The Chuo Mitsui 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, Kyoto 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, 2000)

Number of Stockholders

37,107 (as of March 31, 2000)

Classification	Number of stockholders	Number of shares held	%
Financial institutions.....	319	560,439,752	57.52
Legal persons.....	686	135,163,819	13.87
Foreign institutions and individuals.....	836	199,722,789	20.50
Securities companies.....	58	2,280,401	0.23
Individuals and others.....	35,208	76,807,454	7.88

Honda Motor Co., Ltd.

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(03) 3423-1111
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(01753) 590-590

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