

Financial Section



CONTENTS

- 18 Financial Review
- 22 Consolidated Balance Sheets
- 24 Consolidated Statements of Income
- 25 Consolidated Statements of Stockholders' Equity
- 26 Consolidated Statements of Cash Flows
- 27 Notes to Consolidated Financial Statements
- 48 Independent Auditors' Report
- 49 Selected Quarterly Financial Data (Unaudited)
- 49 Net Sales and Operating Income by Business Segment



OVERVIEW

NET SALES

Honda's consolidated net sales and other operating income for fiscal 2001, ended March 31, 2001, totaled ¥6,463.8 billion, a 6.0% increase compared with the previous fiscal year. Primary factors driving these results include increased automobile sales in North America, and Japan.

OPERATING INCOME

Consolidated operating income for the term totaled ¥406.9 billion, a decrease of 4.5% compared with the previous fiscal year. This decline is the result of a strong yen, increased SG&A expenses and higher research and development costs, which undermined the positive effects of the increase in unit sales and cost-reduction efforts.

SG&A EXPENSES

SG&A expenses for the year amounted to ¥1,146.6 billion, a 1.2% increase compared with the previous fiscal year. Increases in selling expenses were mainly attributable to such expenses as advertisement for new models and product warranty-related expenses in accordance with growth of sales.

R&D ACTIVITIES

The aim of the R&D activities of the Honda Group (the Company and its consolidated subsidiaries) 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. Principal companies responsible for product research include Honda R&D Co., Ltd., Honda R&D Americas, Inc., and Honda R&D Europe (Deutschland) G.m.b.H., while research into production technologies is carried out by Honda Engineering Co., Ltd., and Honda Engineering North America, Inc. Each company works in close cooperation with its surrounding communities.

R&D expenses for fiscal 2001 totaled ¥352.8 billion.

The following is a summary of R&D activities during the term for each business segment.

Motorcycles

During the term under review, Honda sought to meet the diverse needs of its customers around the world by developing products with new value and implementing swift development processes at the local level in its overseas operations. At the same time, the Company placed emphasis on developing technologies to grapple with industry-leading environmental and safety-related solutions.

As a result of its efforts, in the domestic market Honda introduced the FTR, as well as the Crea Scoopy and Dio scooters, both of which have newly developed water-cooled, four-stroke engines. These new engines feature superior environment-friendliness with excellent fuel

economy and cleaner emissions. Also, the Company completely remodeled its CBR600F, thus attaining new heights in sports performance and handling, and brought it to market worldwide. Furthermore, to meet increasingly diverse customer needs, in the North American market Honda introduced the new Gold Wing touring motorcycle. Featuring a new 1800cc six-cylinder engine, the Gold Wing is the largest motorcycle in terms of engine displacement available on the market. Meanwhile, in Thailand the Company introduced the Sonic family bike, featuring an environmentally superior four-stroke engine.

R&D expenses in the motorcycle segment amounted to ¥64.5 billion.

Automobiles

To meet ever evolving customer needs, Honda strove to create new products and innovative technologies by pursuing more creative development processes and worked to create products underpinned by competitive technologies. At the same time, the Company also proactively developed advanced solutions to environmental and safety concerns.

As a result, Honda introduced the all-new Civic series worldwide, developed under the concepts of "smart and compact." Domestically, the Company developed the DOHC i-VTEC next-generation engine, featuring world-leading fuel economy and clean emissions as well as high output and copious amount of torque and installed it in the new Stream minivan. Both the Civic series and the Stream were named Japan Car of the Year 2000-2001, and the Civic series received the 2001 RJC Car of the Year award. In addition, Honda introduced the Life Dunk minivehicle, which has been accepted as the first excellent low-emission vehicle with a turbo engine by the Ministry of Land, Infrastructure and Transport. Honda also strove to augment its product lineup and developed and brought to market its first full-fledged SUV, the Acura MDX, in North America.

Furthermore, Honda developed and put to practical use the world's first next-generation automobile exhaust-cleansing system. The system substantially reduces the metal content used in catalytic converters while attaining high levels of exhaust purification.

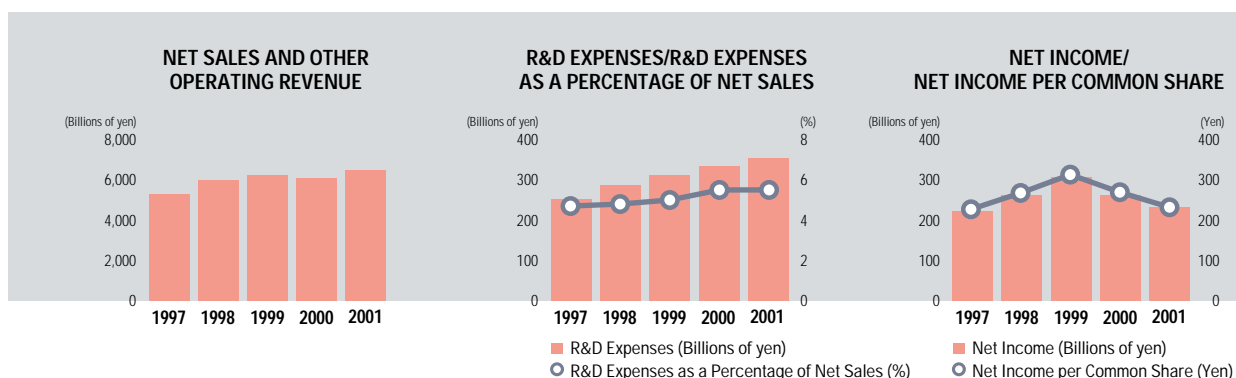
In the development of fuel cell cars, Honda developed the commercially superior FCX-V3 and is working to develop cars that help minimize the impact on the global environment.

With regard to safety efforts, the Tochigi Laboratory of Honda R&D Co., Ltd., built an indoor omni-directional car-to-car crash test facility, and the Company is working to improve the "real world" safety features of its products.

R&D expenses for the automobile segment amounted to ¥277.8 billion.

Others

In power products, Honda strove to develop products with new value to meet the increasingly diverse needs of its customers, while at the same time working to enhance its lineup of environment-friendly products.



As a result, the Company developed the GX100 four-stroke OHC general-purpose engine, which is suited to use as a power plant for portable electric generators and similar devices, features high-level reliability, and is environment-friendly. Honda also launched a compact generator that uses this same engine. Honda also substantially enhanced its environmental soundness by installing a newly developed four-stroke OHV engine into its F220 minitiller. The Company also developed and introduced the BF8 and BF9.9 low-emission, lightweight, compact, four-stroke outboard engines.

R&D expenses for Honda's other business segments amounted to ¥10.4 billion.

In its fundamental research, aiming robots of the future to work in harmony with people within society, the Company introduced ASIMO—the result of its painstaking R&D in the field of humanoid robots—as well as strove to develop innovative technologies to meet the energy, environmental, and safety needs of the future.

Expenses stemming from fundamental research are included in the R&D expenses of each business segment.

INCOME BEFORE INCOME TAXES

Consolidated income before income taxes for fiscal 2001 amounted to ¥384.9 billion, a 7.5% decrease compared with the previous fiscal year.

EQUITY IN INCOME OF AFFILIATES

Equity in income of affiliates for fiscal 2001 amounted to ¥25.7 billion, an increase of 53.1% compared with the previous fiscal year. This increase is due primarily to higher income of the Company's affiliates in Asia.

NET INCOME

Net income for the term decreased 11.5%, to ¥232.2 billion. The effective tax rate for the term was 46.4%, 5.4 percentage points greater than the previous fiscal year. Basic net income per common share for the term amounted to ¥238.34, compared with ¥269.31 for the preceding term. Each American share represents two common shares.

CASH FLOWS

Consolidated cash and cash equivalents (hereinafter "cash") at fiscal 2001 year-end declined ¥13.0 billion compared with the previous fiscal year, to ¥417.5 billion. This was primarily due to an increase in capital demand in connection with increases in repayment of long-term debt, investment in property, plant and equipment and finance subsidiaries—receivables, which offset the increase in capital procurement from short-term loans and commercial paper.

Net cash provided by operating activities increased ¥101.0 billion, to ¥508.3 billion, due primarily to such factors as increases in trade accounts and notes receivable, which offset the decline in net income for the term.

Net cash used in investing activities declined ¥215.4 billion compared with the previous fiscal year, to ¥517.0 billion, due to investments made to install the New Manufacturing System as well as increases in investment

in manufacturing facilities of overseas branches and an increase in acquisitions of finance subsidiaries—receivables.

Net cash used in financing activities for fiscal 2001 amounted to ¥14.7 billion, due to the repayment of long-term debt, despite the procurement of capital through short-term loans and commercial paper. This corresponds to an increase of ¥15.1 billion, compared with the ¥29.9 billion used in the previous fiscal year.

CAPITAL EXPENDITURES

In manufacturing related expenditures for fiscal 2001, Honda expanded its manufacturing equipment and improved energy saving and streamlining, as well as renewed older equipment. On the other hand, the Company established new sales facilities, expanded existing ones and augmented its R&D facilities. Capital expenditures for fiscal 2001 increased by ¥62.7 billion compared with the previous term, to ¥285.6 billion. Capital expenditures for each business segment were as follows:

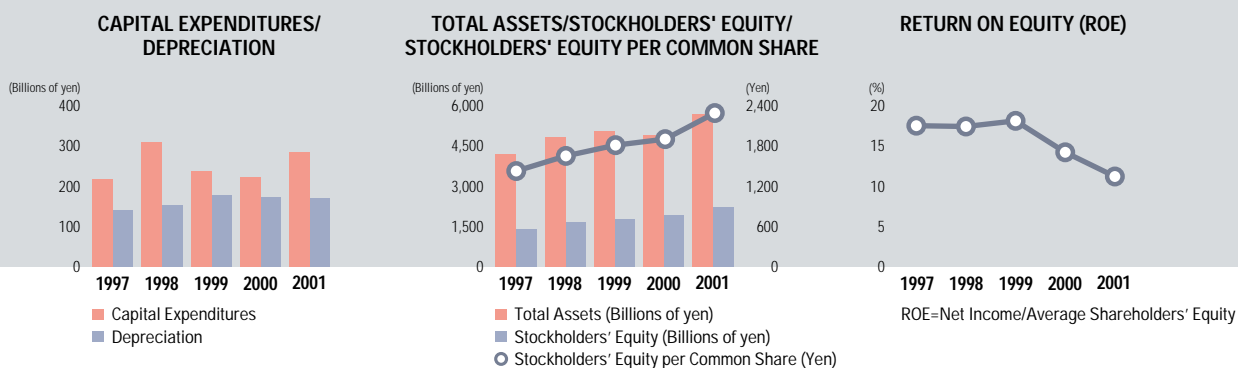
| | Yen (millions) | |
|---------------------|-------------------|-----------------|
| | 2000 | 2001 |
| Motorcycle business | ¥ 24,761 | ¥ 34,012 |
| Automobile business | 190,311 | 239,609 |
| Financial services | 1,014 | 1,320 |
| Other businesses | 6,805 | 10,746 |
| Total | ¥222,891 | ¥285,687 |

Honda invested ¥34.0 billion in its motorcycle business, mainly for the introduction of new models and new manufacturing systems. Capital expenditures for the term included construction of a plant at Honda Motorcycle and Scooter India (Private) Limited, to produce primarily 4-stroke scooter models.

In automobiles, a total of ¥239.6 billion was invested. These expenditures primarily comprised investments in new model production and the new manufacturing system at Honda of America Mfg., Inc. Further, Honda invested in the construction of a new plant at Honda Manufacturing of Alabama, LLC to produce the Odyssey minivan (called the La Great in Japan) as well as V-6 engines for it. Honda also invested in the construction of a second plant at Honda of the U.K. Manufacturing Limited to expand its annual production capacity by 100,000 units.

Expenditures in financial services amounted to ¥1.3 billion, and ¥10.7 billion was invested in other businesses, mainly for the expansion and renewal of power product manufacturing equipment and renovation of motor sports related facilities.

There was neither elimination nor sales of manufacturing facilities deemed to be mentioned.



SEGMENT INFORMATION

The following 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 segments are based on Honda's business organization and the similarity of the principal products within each segment as well as the relevant markets for such products.

Motorcycles

In the motorcycle segment, in the Japanese market Honda fitted the Crea Scoopy and the remodeled Dio scooters and introduced the CBR1100 XX super sport motorcycle, which fully leverages the Company's leading-edge technologies. Honda also introduced the GL1800 large touring motorcycle in North America and, in Europe, produced and brought to market the @125 and @150 models as well as the XL125V sport bike. The Company also produced and introduced the Passion in India and the Sonic family-sport motorcycle in Thailand.

In the domestic market, despite an increase in sport bike sales, motorcycle unit sales declined 7.5% compared with the previous fiscal year, to 407,000 units, due to a decrease in sales of business motorcycles and scooters. Overseas unit sales, on the other hand, increased 17.9%, to 4,711,000 units, due to sales growth in the regions of Asia and North America. Total unit sales for the motorcycle segment grew 15.4% year-on-year, to 5,118,000 units. Despite the negative currency translation effects due to the strong yen, owing to the increase in unit sales, net sales for the motorcycle business climbed 12.0% compared with the previous fiscal year, to ¥805.3 billion. Operating income increased 19.5%, to ¥56.4 billion.

Automobiles

In the automobile segment, aiming to set the standard for compact cars in the 21st century, Honda redesigned its Civic series for all regions. In the domestic market, the Company strove to enhance its lineup of environment-friendly products with superior safety features. In addition to the Stream minivan, the Company also introduced the Life Dunk minivale. Honda also commenced local production of the Acura MDX SUV in North America.

Due to the introduction of the new Civic series and Stream as well as strong sales of the Odyssey, unit sales in Japan for fiscal 2001 increased 9.9% compared with the previous fiscal year, to 776,000 units. Overseas as well, unit sales climbed 2.1%, to 1,804,000 units, due to the introduction of the Acura MDX and strong sales of the Odyssey (known as LaGreat in Japan) in North America as well as increases in sales in Asia. Overall unit sales for the automobile segment increased 4.3%, to 2,580,000 units. Despite the negative currency translation effects due to the strong yen, net sales in the automobile segment rose 5.4%, to ¥5,231.3 billion. Operating income amounted to ¥320.0 billion, a decline of 8.1%, compared with the previous fiscal year.

Financial Services

Net sales in Honda's Financial Services business grew 21.7% compared with the previous fiscal year, to ¥176.0 billion. Operating income surged 70.6%, to ¥30.8 billion.

Others (Power products, etc.)

During the term under review, Honda strove to increase its lineup of environment-friendly products throughout the world. The Company introduced its new GX100 general-purpose engine—the optimum power source for portable generators and other such devices—and completely redesigned its BF8 and BF9.9 outboard engines and the Komame minitiller. Honda also commenced local production of the GC160 general-purpose engine for such devices as water pumps and generators in the United States and the GCV135E lawnmower engine in Italy.

Honda's domestic unit sales of power products for the term under review decreased 10.4% compared with the previous fiscal year, to 164,000 units. Despite the increase in unit sales to Asian markets, overseas unit sales decreased 4.0%, to 3,720,000 units, due to declines in North America and Europe. Total unit sales for power products decreased 4.3%, to 3,884,000 units. Owing to the decline in unit sales volumes as well as the negative currency translation effects due to the strong yen, net sales for the Company's power products and other businesses decreased 8.4%, to ¥264.7 billion. The operating loss for this business segment amounted to ¥0.3 billion, a decline of ¥13.2 billion compared with the previous fiscal year.

GEOGRAPHICAL SEGMENT

Japan

Despite the negative translation effects due to the strong yen on foreign currency denominated export amounts, net sales in Japan for the term increased 4.2%, to ¥3,594.5 billion, supported by strong automobile sales. Operating income likewise increased 25.6%, to ¥146.0 billion.

North America

The increase in sales of both motorcycles and automobiles offset the negative foreign currency translation effects due to the strong yen and resulted in an 8.3% increase in net sales, to ¥3,608.4 billion. Operating income rose 1.3%, to ¥276.5 billion.

Europe

Owing to declines in sales of motorcycles, automobiles, and power products, as well as the negative foreign currency translation effects due to the strong yen, net sales declined 19.3%, to ¥547.2 billion. Operating loss amounted to ¥55.5 billion, a decline of ¥41.0 billion.

Other regions

Despite the negative foreign currency translation effects due to the strong yen, unit sales volumes for motorcycles, automobiles, and power products increased, resulting in a rise in net sales of 16.4%, to ¥510.5 billion. Operating income increased 6.7%, to ¥35.9 billion.

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 respective markets. Honda does not foresee any significant difficulty in complying with regulations expected to be enacted in such markets.

Business Segment Information

| Years ended March 31 | Yen (millions) | |
|---|-------------------|------------|
| | 2000 | 2001 |
| Net sales and other operating revenue: | | |
| Motorcycle Business | | |
| Sales to unaffiliated customers ... | ¥ 718,910 | ¥ 805,304 |
| Automobile Business | | |
| Sales to unaffiliated customers ... | 4,961,026 | 5,231,326 |
| Financial Services | | |
| Sales to unaffiliated customers ... | 137,128 | 169,293 |
| Intersegment sales | 7,601 | 6,781 |
| Total | 144,729 | 176,074 |
| Other Businesses | | |
| Sales to unaffiliated customers ... | 281,776 | 257,907 |
| Intersegment sales | 7,100 | 6,796 |
| Total | 288,876 | 264,703 |
| Eliminations | (14,701) | (13,577) |
| Consolidated | ¥6,098,840 | ¥6,463,830 |
| Operating income: | | |
| Motorcycle Business | ¥ 47,264 | ¥ 56,478 |
| Automobile Business | 348,061 | 320,035 |
| Financial Services | 18,054 | 30,802 |
| Other Businesses | 12,851 | (355) |
| Consolidated | ¥ 426,230 | ¥ 406,960 |
| Assets: | | |
| Motorcycle Business | ¥ 491,301 | ¥ 597,998 |
| Automobile Business | 2,422,352 | 2,828,579 |
| Financial Services | 1,725,309 | 2,217,186 |
| Other Businesses | 177,176 | 191,223 |
| Corporate assets and eliminations ... | 82,290 | (167,577) |
| Consolidated | ¥4,898,428 | ¥5,667,409 |
| Depreciation: | | |
| Motorcycle Business | ¥ 19,106 | ¥ 19,275 |
| Automobile Business | 144,898 | 143,884 |
| Financial Services | 389 | 492 |
| Other Businesses | 7,746 | 6,691 |
| Consolidated | ¥ 172,139 | ¥ 170,342 |
| Capital expenditures: | | |
| Motorcycle Business | ¥ 24,761 | ¥ 34,012 |
| Automobile Business | 190,311 | 239,609 |
| Financial Services | 1,014 | 1,320 |
| Other Businesses | 6,805 | 10,746 |
| Consolidated | ¥ 222,891 | ¥ 285,687 |

Geographical Segment Information

| Years ended March 31 | Yen (millions) | |
|---|-------------------|-------------|
| | 2000 | 2001 |
| Net sales and other operating revenue: | | |
| Japan | | |
| Sales to unaffiliated customers.... | ¥1,806,876 | ¥1,950,985 |
| Transfers between geographical segments | 1,641,347 | 1,643,591 |
| Total | 3,448,223 | 3,594,576 |
| North America | | |
| Sales to unaffiliated customers.... | 3,197,391 | 3,488,287 |
| Transfers between geographical segments | 134,139 | 120,123 |
| Total | 3,331,530 | 3,608,410 |
| Europe | | |
| Sales to unaffiliated customers ... | 664,460 | 526,923 |
| Transfers between geographical segments | 14,061 | 20,365 |
| Total | 678,521 | 547,288 |
| Others | | |
| Sales to unaffiliated customers ... | 430,113 | 497,635 |
| Transfers between geographical segments | 8,550 | 12,921 |
| Total | 438,663 | 510,556 |
| Eliminations | (1,798,097) | (1,797,000) |
| Consolidated | ¥6,098,840 | ¥6,463,830 |
| Operating income: | | |
| Japan | ¥ 116,338 | ¥ 146,071 |
| North America | 273,083 | 276,540 |
| Europe | (14,460) | (55,527) |
| Others | 33,671 | 35,920 |
| Eliminations | 17,598 | 3,956 |
| Consolidated | ¥ 426,230 | ¥ 406,960 |
| Assets: | | |
| Japan | ¥1,843,040 | ¥2,022,021 |
| North America | 2,061,874 | 2,713,508 |
| Europe | 418,523 | 457,647 |
| Others | 234,596 | 286,776 |
| Corporate assets and eliminations ... | 340,395 | 187,457 |
| Consolidated | ¥4,898,428 | ¥5,667,409 |

CONSOLIDATED BALANCE SHEETS

Honda Motor Co., Ltd. and Subsidiaries
March 31, 2000 and 2001

| Assets | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|--|-------------------|------------|---|
| | 2000 | 2001 | 2001 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 430,587 | ¥ 417,519 | \$ 3,369,806 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥7,077 million in 2000 and ¥7,899 million (\$63,753 thousand) in 2001 | 390,659 | 440,802 | 3,557,724 |
| Finance subsidiaries–receivables, net (note 3) | 731,580 | 762,368 | 6,153,091 |
| Inventories (note 4) | 567,705 | 620,754 | 5,010,121 |
| Deferred income taxes (note 9) | 154,277 | 151,722 | 1,224,552 |
| Other current assets (note 7) | 180,903 | 205,771 | 1,660,783 |
| Total current assets | 2,455,711 | 2,598,936 | 20,976,077 |
| Finance subsidiaries–receivables, net (note 3) | 878,242 | 1,304,994 | 10,532,639 |
| Investments and advances: | | | |
| Investments in and advances to affiliates (note 5) | 175,389 | 200,625 | 1,619,250 |
| Other, including marketable equity securities (note 6) | 213,705 | 175,562 | 1,416,965 |
| Total investments and advances | 389,094 | 376,187 | 3,036,215 |
| Property, plant and equipment, at cost (note 7): | | | |
| Land | 296,591 | 299,984 | 2,421,178 |
| Buildings | 783,055 | 831,868 | 6,714,027 |
| Machinery and equipment | 1,731,589 | 1,887,630 | 15,235,109 |
| Construction in progress | 63,408 | 99,552 | 803,487 |
| | 2,874,643 | 3,119,034 | 25,173,801 |
| Less accumulated depreciation | 1,753,603 | 1,864,411 | 15,047,707 |
| Net property, plant and equipment | 1,121,040 | 1,254,623 | 10,126,094 |
| Other assets (notes 7 and 9) | 54,341 | 132,669 | 1,070,775 |
| Total assets | ¥4,898,428 | ¥5,667,409 | \$45,741,800 |

See accompanying notes to consolidated financial statements.

| Liabilities and Stockholders' Equity | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|---|-------------------|-------------------|---|
| | 2000 | 2001 | 2001 |
| Current liabilities: | | | |
| Short-term debt (note 7)..... | ¥ 495,953 | ¥ 910,417 | \$ 7,347,998 |
| Current portion of long-term debt (note 7) | 343,576 | 274,481 | 2,215,343 |
| Trade payables: | | | |
| Notes..... | 19,332 | 24,372 | 196,707 |
| Accounts | 677,544 | 795,882 | 6,423,584 |
| Accrued expenses..... | 483,917 | 539,348 | 4,353,091 |
| Income taxes payable (note 9) | 53,319 | 38,633 | 311,808 |
| Other current liabilities (notes 7 and 9) | 128,670 | 178,124 | 1,437,643 |
| Total current liabilities..... | <u>2,202,311</u> | <u>2,761,257</u> | <u>22,286,174</u> |
| | | | |
| Long-term debt (note 7) | 574,566 | 368,173 | 2,971,533 |
| | | | |
| Other liabilities (notes 7, 8, 9 and 11) | 191,178 | 307,688 | 2,483,358 |
| Total liabilities..... | <u>2,968,055</u> | <u>3,437,118</u> | <u>27,741,065</u> |
| | | | |
| Stockholders' equity: | | | |
| Common stock, authorized 3,600,000,000 shares, par value ¥50 (\$0.40); issued 974,414,215 shares | | | |
| at March 31, 2000 and 2001 | 86,067 | 86,067 | 694,649 |
| Capital surplus | 172,529 | 172,529 | 1,392,486 |
| Legal reserves (note 10)..... | 27,545 | 27,929 | 225,416 |
| Retained earnings (note 10) | 2,218,848 | 2,428,293 | 19,598,814 |
| Accumulated other comprehensive income (loss) (notes 6, 9, 11 and 13) | (574,616) | (484,527) | (3,910,630) |
| Total stockholders' equity | <u>1,930,373</u> | <u>2,230,291</u> | <u>18,000,735</u> |
| | | | |
| Commitments and contingent liabilities (notes 16 and 17) | | | |
| Total liabilities and stockholders' equity | <u>¥4,898,428</u> | <u>¥5,667,409</u> | <u>\$45,741,800</u> |

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1999, 2000 and 2001

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|---|-------------------|-------------------|-------------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Common stock: | | | | |
| Balance at beginning of year | ¥ 86,067 | ¥ 86,067 | ¥ 86,067 | \$ 694,649 |
| Balance at end of year | <u>86,067</u> | <u>86,067</u> | <u>86,067</u> | <u>694,649</u> |
| Capital surplus: | | | | |
| Balance at beginning of year | 171,914 | 172,529 | 172,529 | 1,392,486 |
| Transfer from retained earnings | 615 | — | — | — |
| Balance at end of year | <u>172,529</u> | <u>172,529</u> | <u>172,529</u> | <u>1,392,486</u> |
| Legal reserves: | | | | |
| Balance at beginning of year | 26,404 | 26,828 | 27,545 | 222,317 |
| Transfer from retained earnings (note 10) | 424 | 717 | 384 | 3,099 |
| Balance at end of year | <u>26,828</u> | <u>27,545</u> | <u>27,929</u> | <u>225,416</u> |
| Retained earnings: | | | | |
| Balance at beginning of year | 1,694,070 | 1,977,613 | 2,218,848 | 17,908,378 |
| Net income for the year | 305,045 | 262,415 | 232,241 | 1,874,423 |
| Cash dividends (note 10) | (20,463) | (20,463) | (22,412) | (180,888) |
| Transfer to capital surplus | (615) | — | — | — |
| Transfer to legal reserves (note 10) | (424) | (717) | (384) | (3,099) |
| Balance at end of year | <u>1,977,613</u> | <u>2,218,848</u> | <u>2,428,293</u> | <u>19,598,814</u> |
| Accumulated other comprehensive income (loss): | | | | |
| (notes 6, 9, 11 and 13) | | | | |
| Balance at beginning of year | (370,541) | (499,182) | (574,616) | (4,637,740) |
| Other comprehensive income (loss) for the year, net of tax | (128,641) | (75,434) | 90,089 | 727,110 |
| Balance at end of year | <u>(499,182)</u> | <u>(574,616)</u> | <u>(484,527)</u> | <u>(3,910,630)</u> |
| Total stockholders' equity | <u>¥1,763,855</u> | <u>¥1,930,373</u> | <u>¥2,230,291</u> | <u>\$18,000,735</u> |
| Disclosure of comprehensive income: | | | | |
| Net income for the year | ¥ 305,045 | ¥ 262,415 | ¥ 232,241 | \$ 1,874,423 |
| Other comprehensive income (loss) for the year, net of tax (notes 6, 9, 11 and 13) | (128,641) | (75,434) | 90,089 | 727,110 |
| Total comprehensive income for the year | <u>¥ 176,404</u> | <u>¥ 186,981</u> | <u>¥ 322,330</u> | <u>\$ 2,601,533</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Honda Motor Co., Ltd. and Subsidiaries
March 31, 1999, 2000 and 2001

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|---|-------------------|------------------|------------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Cash flows from operating activities (note 12): | | | | |
| Net income | ¥ 305,045 | ¥ 262,415 | ¥ 232,241 | \$ 1,874,423 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | 177,666 | 172,139 | 170,342 | 1,374,835 |
| Deferred income taxes | (3,674) | (42,544) | (18,424) | (148,700) |
| Equity in income of affiliates | (14,158) | (16,786) | (25,704) | (207,458) |
| Provision for credit and lease residual losses on finance subsidiaries–receivables | 19,855 | 15,777 | 15,584 | 125,779 |
| Decrease (increase) in assets: | | | | |
| Trade accounts and notes receivable | (9,069) | (43,732) | (35,460) | (286,199) |
| Inventories | (43,327) | (42,376) | (8,372) | (67,571) |
| Other current assets | (50,610) | (19,071) | (843) | (6,804) |
| Other assets | (10,018) | (11,437) | 18,508 | 149,379 |
| Increase (decrease) in liabilities: | | | | |
| Trade payables | 29,807 | 62,506 | 83,566 | 674,463 |
| Accrued expenses | 1,240 | 52,400 | 31,477 | 254,052 |
| Income taxes payable | (20,130) | (13,988) | (15,180) | (122,518) |
| Other current liabilities | (42,692) | 3,459 | 39,791 | 321,154 |
| Other liabilities | (2,952) | 19,647 | 19,176 | 154,770 |
| Other, net | 8,038 | 8,821 | 1,608 | 12,978 |
| Net cash provided by operating activities | <u>345,021</u> | <u>407,230</u> | <u>508,310</u> | <u>4,102,583</u> |
| Cash flows from investing activities: | | | | |
| Decrease (increase) in investments and advances | 1,400 | 14,102 | (8,658) | (69,879) |
| Capital expenditures | (237,080) | (222,891) | (285,687) | (2,305,787) |
| Proceeds from sales of property, plant and equipment | 21,148 | 18,573 | 19,218 | 155,109 |
| Acquisitions of finance subsidiaries–receivables | (1,751,694) | (1,809,817) | (2,083,375) | (16,814,972) |
| Collections of finance subsidiaries–receivables | 1,074,553 | 1,299,862 | 1,516,094 | 12,236,433 |
| Proceeds from sales of finance subsidiaries–receivables | 395,374 | 398,580 | 325,364 | 2,626,021 |
| Net cash used in investing activities | <u>(496,299)</u> | <u>(301,591)</u> | <u>(517,044)</u> | <u>(4,173,075)</u> |
| Cash flows from financing activities: | | | | |
| Increase (decrease) in short-term debt | 198,946 | (42,096) | 333,541 | 2,692,018 |
| Proceeds from long-term debt | 266,375 | 290,822 | 149,108 | 1,203,454 |
| Repayment of long-term debt | (293,264) | (265,392) | (475,744) | (3,839,741) |
| Cash dividends paid (note 10) | (20,463) | (20,463) | (22,412) | (180,888) |
| Increase in commercial paper classified as long-term debt | 52,163 | 7,187 | 711 | 5,738 |
| Net cash provided by (used in) financing activities | <u>203,757</u> | <u>(29,942)</u> | <u>(14,796)</u> | <u>(119,419)</u> |
| Effect of exchange rate changes on cash and cash equivalents | (12,149) | (22,734) | 10,462 | 84,439 |
| Net change in cash and cash equivalents | 40,330 | 52,963 | (13,068) | (105,472) |
| Cash and cash equivalents at beginning of year | <u>337,294</u> | <u>377,624</u> | <u>430,587</u> | <u>3,475,278</u> |
| Cash and cash equivalents at end of year | <u>¥ 377,624</u> | <u>¥ 430,587</u> | <u>¥ 417,519</u> | <u>\$ 3,369,806</u> |

See accompanying notes to consolidated financial statements.

Honda Motor Co., Ltd. and Subsidiaries

(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, 2001 were derived from: motorcycle business 12.5%, automobile business 80.9%, financial services 2.6%, and other businesses 4.0%. Operating income by category of activity for the year ended March 31, 2001 was derived from: motorcycle business 13.9%, automobile business 78.6%, financial services 7.6%, and other businesses (0.1%). The total assets at March 31, 2001 were attributed to: motorcycle business 10.6%, automobile business 49.9%, financial services 39.1%, other businesses 3.4%, and corporate assets (net of company-wide accounts eliminated in consolidation) (3.0%).

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 2001, 69.8% of net sales and other operating revenue (¥4,512,845 million (\$36,423,285 thousand)) were derived from subsidiaries operating outside Japan (2000: ¥4,291,964 million, 1999: ¥4,475,083 million). Net sales and other operating revenue for the year ended March 31, 2001 were geographically broken down based on the location of customers as follows: Japan 26.9%, North America 53.9%, Europe 8.1%, and others 11.1%. For the year ended March 31, 2001, 63.1% of operating income (¥256,933 million (\$2,073,713 thousand)) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (2000: ¥292,294 million, 1999: ¥335,745 million). Also, 61.0% of Honda's assets at March 31, 2001 (¥3,457,931 million (\$27,909,048 thousand)) were identified with foreign operations (2000: ¥2,714,993 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 generally 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. Honda determines the value of the retained interests by discounting the future cash flows. Those cash flows are net of estimated credit losses and are discounted at a rate which Honda believes is commensurate with the risks

involved. 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, 2000 and 2001 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, 2000 and 2001, 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, 2000 and 2001.

(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, 2001 were ¥210,032 million, ¥189,774 million and ¥197,593 million (\$1,594,778 thousand), respectively. Provisions for estimated costs related to product warranty are made at the time of sale.

(m) Basic 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. Number of average common shares outstanding is 974,414,215 at March 31, 1999, 2000 and 2001.

(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, 2001 were as follows:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|--|-------------------|--------|---|
| | 1999 | 2000 | 2001 |
| | ¥(886) | ¥1,305 | ¥(8,195) |
| | | | \$(66,142) |

(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.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the Financial Accounting Standards Board also issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB statement No. 133." Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require 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.

SFAS No. 133, as amended, and 138 are effective for fiscal years beginning after June 15, 2000. Honda adopted SFAS No. 133 and 138 on April 1, 2001. The cumulative effect adjustment upon the adoption of SFAS No. 133 and 138, net of the related income tax effect, resulted in a decrease to net income of approximately ¥89 million (\$718 thousand) and a decrease to other comprehensive income of approximately ¥5,998 million (\$48,410 thousand). The adoption of SFAS No. 133 and 138 will not alter Honda's hedging strategies.

(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, 2001 have been translated into United States dollars at the rate of ¥123.90=US\$1, the approximate

(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.

(r) New Accounting Pronouncements

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of SFAS No. 125." This statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain financial statement disclosures. This statement is effective for transactions occurring after March 31, 2001 and is effective for the recognition and reclassification of collateral and disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The adoption of this replacement standard is not anticipated to have a material effect on Honda's 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, 2001.

exchange rate prevailing on the Tokyo Foreign Exchange Market on March 30, 2001. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

(3) Finance Subsidiaries–Receivables and Securitizations

Finance subsidiaries–receivables represent finance receivables generated by finance subsidiaries. Finance receivables include wholesale financing to dealers and retail financing and direct financing leases to consumers.

The allowance for credit losses is maintained at an amount management deems adequate to cover estimated losses on finance receivables. The allowance is based on management's evaluation of many factors, including current economic trends, industry experience, inherent risks in the portfolio and the borrower's ability to pay.

Finance subsidiaries 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, 2000 and 2001:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|---|-------------------|------------|---|
| | 2000 | 2001 | 2001 |
| Direct financing leases | ¥ 671,860 | ¥ 892,589 | \$ 7,204,108 |
| Retail | 769,573 | 980,215 | 7,911,340 |
| Wholesale..... | 169,988 | 220,259 | 1,777,716 |
| Term loans to dealers..... | 32,346 | 26,611 | 214,778 |
| Total finance receivables | 1,643,767 | 2,119,674 | 17,107,942 |
| Retained interests in the sold pools of finance receivables | 67,560 | 88,898 | 717,498 |
| | 1,711,327 | 2,208,572 | 17,825,440 |
| Less: | | | |
| Allowance for credit losses | 8,898 | 8,296 | 66,958 |
| Allowance for losses on lease residual values | 9,489 | 8,563 | 69,112 |
| Unearned interest income and fees | 83,118 | 124,351 | 1,003,640 |
| Finance subsidiaries–receivables, net | 1,609,822 | 2,067,362 | 16,685,730 |
| Less current portion | 731,580 | 762,368 | 6,153,091 |
| Noncurrent finance subsidiaries–receivables, net | ¥ 878,242 | ¥1,304,994 | \$10,532,639 |

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2001 and thereafter:

| Years ending March 31 | Yen (millions) | U.S. dollars (thousands) (note 2) |
|-----------------------|-------------------|---|
| 2002 | ¥ 741,717 | \$ 5,986,417 |
| 2003 | 521,963 | 4,212,776 |
| 2004 | 476,591 | 3,846,578 |
| 2005 | 271,750 | 2,193,301 |
| 2006 | 84,272 | 680,161 |
| After five years..... | 23,381 | 188,709 |
| | 1,377,957 | 11,121,525 |
| Total | ¥2,119,674 | \$17,107,942 |

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, 2001 as follows:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) | |
|---------------------|-------------------|---------------|---|-----------------------|
| | 1999 | 2000 | 2001 | 2001 |
| Finance income..... | ¥169,965 | ¥144,729 | ¥176,074 | \$1,421,098 |
| Finance cost..... | <u>78,853</u> | <u>68,638</u> | <u>89,896</u> | <u>725,553</u> |

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, 2001, which are included in finance income in the table above, are ¥7,741 million net gains, ¥617 million net losses and ¥3,170 million (\$25,585 thousand) net gains, respectively.

Key economic assumptions used in initially estimating the fair values at the date of the securitizations during the year ended March 31, 2001 were as follows:

| | |
|--|-----------------|
| Weighted average life (years) | 2.92 to 3.75 |
| Prepayment speed (monthly) | 0.85% to 2.55% |
| Expected credit losses (annual) | 0.00% to 0.35% |
| Residual cash flows discount rate (annual) | 1.73% to 12.00% |

At March 31, 2001, the significant assumptions used in estimating the residual cash flows from sold receivables are as follows:

| | Assumption (%) |
|---|----------------|
| Retail receivables: | |
| Prepayment speed (monthly) | 1.39 |
| Expected credit losses (annual) | 0.32 |
| Residual cash flows discount rate (annual)..... | 9.41 |
| Lease receivables: | |
| Prepayment speed (monthly) | 1.38 |
| Expected credit losses (annual) | 0.52 |
| Residual cash flows discount rate (annual)..... | 9.26 |

The outstanding balance of securitized financial assets at March 31, 2001 is summarized as follows:

| | Yen | U.S. dollars |
|-------------------------------|-----------------|------------------------|
| | (millions) | (thousand) (note 2) |
| | 2001 | 2001 |
| Receivables sold: | | |
| Retail | ¥456,389 | \$3,683,527 |
| Direct financing leases | 349,493 | 2,820,767 |
| Total receivables sold | ¥805,882 | \$6,504,294 |

(4) Inventories

Inventories at March 31, 2000 and 2001 are summarized as follows:

| | Yen | | U.S. dollars |
|-----------------------|-----------------|------------------------|---------------------------|
| | (millions) | | (thousands) (note 2) |
| | 2000 | 2001 | 2001 |
| Finished goods | ¥393,091 | ¥387,714 | \$3,129,249 |
| Work in process | 26,431 | 22,482 | 181,453 |
| Raw materials..... | 148,183 | 210,558 | 1,699,419 |
| | <u>¥567,705</u> | <u>¥620,754</u> | <u>\$5,010,121</u> |

(5) Investments and Advances–Affiliates

Certain financial information in respect of affiliates at March 31, 2000 and 2001, and for each of the years in the three-year period ended March 31, 2001 is shown below:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|--|-------------------|-----------|---|
| | 2000 | 2001 | 2001 |
| Current assets | ¥ 515,628 | ¥ 540,145 | \$4,359,524 |
| Other assets, principally property, plant and equipment..... | 584,722 | 631,190 | 5,094,350 |
| | 1,100,350 | 1,171,335 | 9,453,874 |
| Current liabilities..... | 464,586 | 494,459 | 3,990,791 |
| Other liabilities..... | 131,981 | 150,895 | 1,217,877 |
| Net assets | ¥ 503,783 | ¥ 525,981 | \$4,245,206 |

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|--|-------------------|------------|------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Net sales | ¥1,804,313 | ¥1,866,464 | ¥2,011,217 | \$16,232,583 |
| Net income..... | 41,659 | 42,764 | 60,894 | 491,477 |
| Cash dividends received by Honda during the year | 2,684 | 4,843 | 6,264 | 50,557 |

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, 2000 and 2001 included in retained earnings was ¥91,857 million and ¥106,198 million (\$857,127 thousand), respectively.

Honda's intercompany balances and transactions with affiliates at March 31, 2000 and 2001, and for each of the years in the three-year period ended March 31, 2001 were as follows:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|----------------|-------------------|---------|---|
| | 2000 | 2001 | 2001 |
| Due from | ¥ 9,923 | ¥ 9,968 | \$ 80,452 |
| Due to | 92,880 | 89,782 | 724,633 |

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|---------------------|-------------------|----------|----------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Purchases from..... | ¥498,556 | ¥509,969 | ¥529,317 | \$4,272,131 |
| Sales to | 62,528 | 75,172 | 101,743 | 821,170 |

(6) Investments and Advances—Other

Investments and advances—other at March 31, 2000 and 2001 consist of the following:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|---|-------------------|-----------------|---|
| | 2000 | 2001 | 2001 |
| Marketable equity securities | ¥146,465 | ¥108,080 | \$ 872,316 |
| Nonmarketable preferred stock—The Bank of Tokyo-Mitsubishi, Ltd. | 10,200 | 10,200 | 82,324 |
| Guaranty deposits | 33,477 | 32,528 | 262,534 |
| Life insurance contracts | 10,965 | 7,697 | 62,123 |
| Advances | 3,734 | 3,150 | 25,424 |
| Other | 8,864 | 13,907 | 112,244 |
| | <u>¥213,705</u> | <u>¥175,562</u> | <u>\$1,416,965</u> |

Certain information with respect to available-for-sale securities, all of which are marketable equity securities at March 31, 2000 and 2001, is summarized below:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|-------------------------------|-------------------|----------|---|
| | 2000 | 2001 | 2001 |
| Cost | ¥ 67,694 | ¥ 70,641 | \$570,145 |
| Fair value | 146,465 | 108,080 | 872,316 |
| Gross unrealized gains | 86,441 | 50,780 | 409,847 |
| Gross unrealized losses | 7,670 | 13,341 | 107,676 |

(7) Short-Term and Long-Term Debt

Short-term debt at March 31, 2000 and 2001 were as follows:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|-----------------------------|-------------------|-----------------|---|
| | 2000 | 2001 | 2001 |
| Short-term bank loans | ¥408,265 | ¥344,566 | \$2,781,001 |
| Medium-term notes | 35,360 | 370,805 | 2,992,776 |
| Commercial paper | 52,328 | 195,046 | 1,574,221 |
| | <u>¥495,953</u> | <u>¥910,417</u> | <u>\$7,347,998</u> |

The weighted average interest rates on short-term debt outstanding at March 31, 2000 and 2001 were 5.0% and 5.5%, respectively.

Long-term debt at March 31, 2000 and 2001 were as follows:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|--|-------------------|----------|---|
| | 2000 | 2001 | 2001 |
| Honda Motor Co., Ltd.: | | | |
| Loans, maturing 2000–2002: | | | |
| Unsecured, principally from banks | ¥ 30,000 | ¥ 30,255 | \$ 244,189 |
| 3.8% Japanese yen unsecured bonds due 2001 | 50,000 | — | — |
| | 80,000 | 30,255 | 244,189 |
| Subsidiaries: | | | |
| Commercial paper | 177,801 | 207,533 | 1,675,004 |
| Loans, maturing 2000–2018: | | | |
| Secured, principally from banks | 6,546 | 5,736 | 46,295 |
| Unsecured, principally from banks | 216,470 | 154,095 | 1,243,705 |
| 1.31% Japanese yen unsecured bond due 2005 | 30,000 | 30,000 | 242,131 |
| Medium-term notes, maturing 2000–2010 | 408,765 | 215,944 | 1,742,889 |
| Other | 21 | — | — |
| Less unamortized discount, net | 1,461 | 909 | 7,337 |
| | 838,142 | 612,399 | 4,942,687 |
| | | | |
| Total long-term debt | 918,142 | 642,654 | 5,186,876 |
| Less current portion | 343,576 | 274,481 | 2,215,343 |
| | ¥574,566 | ¥368,173 | \$2,971,533 |

The loans are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.54% to 15.4% per annum at March 31, 2001. Property, plant and equipment with a net book value of approximately ¥13,025 million and ¥12,240 million (\$98,789 thousand) at March 31, 2000 and 2001, respectively, were subject to specific mortgages securing indebtedness.

At March 31, 2000 and 2001, U.S. dollar 1,675,000 thousand 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 5.15% at March 31, 2001.

Medium-term notes are unsecured, and their interest rates range from 0.83% to 6.36% at March 31, 2001.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2001 and thereafter:

| Years ending March 31 | Yen (millions) | U.S. dollars (thousands) (note 2) |
|------------------------|-------------------|---|
| 2002 | ¥274,481 | \$2,215,343 |
| 2003 | 247,750 | 1,999,596 |
| 2004 | 6,526 | 52,672 |
| 2005 | 31,964 | 257,982 |
| 2006 | 6,021 | 48,596 |
| After five years | 75,912 | 612,687 |
| | 368,173 | 2,971,533 |
| Total | ¥642,654 | \$5,186,876 |

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 14). Unless a right of setoff exists, the offsetting of assets and liabilities is not made in the consolidated balance sheet.

At March 31, 2001, Honda had unused line of credit facilities amounting to ¥595,649 million (\$4,807,498 thousand) of which ¥314,180 million (\$2,535,755 thousand) related to commercial paper programs and ¥281,469 million (\$2,271,743 thousand) related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2001, Honda also had committed lines of credit amounting to ¥526,196 million (\$4,246,941 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, 2000 and 2001 are summarized as follows:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|--|-------------------|-----------------|---|
| | 2000 | 2001 | 2001 |
| Allowance for dealers and customers..... | ¥ 39,781 | ¥ 56,074 | \$ 452,575 |
| Minority interest | 30,278 | 32,058 | 258,741 |
| Additional minimum pension liabilities (note 11) | 95,685 | 174,871 | 1,411,388 |
| Deferred income taxes | 2,533 | — | — |
| Other | 22,901 | 44,685 | 360,654 |
| | <u>¥191,178</u> | <u>¥307,688</u> | <u>\$2,483,358</u> |

(9) Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2001 were allocated as follows:

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|--|-------------------|-----------------|-----------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Income | ¥229,624 | ¥170,434 | ¥178,439 | \$1,440,186 |
| Stockholders' equity—accumulated other comprehensive income (loss) (note 13)..... | (27,405) | 55,051 | 46,950 | 378,935 |
| | <u>¥202,219</u> | <u>¥225,485</u> | <u>¥225,389</u> | <u>\$1,819,121</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, 2001 consist of the following:

| | Income before income taxes | Yen (millions) | | Total |
|------------------|-------------------------------|------------------------|-------------------------|------------------------|
| | | Current | Deferred | |
| 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> |
| 2001: | | | | |
| Japanese | ¥133,166 | ¥ 65,444 | ¥ (4,697) | ¥ 60,747 |
| Foreign (a)..... | 251,810 | 131,419 | (13,727) | 117,692 |
| | <u>¥384,976</u> | <u>¥196,863</u> | <u>¥(18,424)</u> | <u>¥178,439</u> |

| | Income before income taxes | U.S. dollars (thousands) (note 2) | | Total |
|-------------------|-------------------------------|--------------------------------------|---------------------------|---------------------------|
| | | Current | Deferred | |
| 2001: | | | | |
| Japanese..... | \$1,074,786 | \$ 528,200 | \$ (37,909) | \$ 490,291 |
| Foreign (a) | 2,032,365 | 1,060,686 | (110,791) | 949,895 |
| | <u>\$3,107,151</u> | <u>\$1,588,886</u> | <u>\$(148,700)</u> | <u>\$1,440,186</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, 2001 are as follows:

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|---|-------------------|------------------|-------------------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Deferred tax expense (exclusive of the effects of other components listed below) ... | ¥ 18,478 | ¥(41,699) | ¥(16,803) | \$(135,617) |
| Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates | (21,942) | — | — | — |
| Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets | (210) | (845) | (1,621) | (13,083) |
| | <u>¥ (3,674)</u> | <u>¥(42,544)</u> | <u>¥(18,424)</u> | <u>\$(148,700)</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, 2001 of approximately 48%, 41% 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, 2001 differs from the normal Japanese income tax rate for the following reasons:

| | 1999 | 2000 | 2001 |
|--|--------------|--------------|---------------------|
| Normal income tax rate | 48.0% | 41.0% | 41.0% |
| Valuation allowance provided for current year operating losses of subsidiaries | 1.2 | 2.8 | 5.2 |
| Difference in normal tax rates of foreign subsidiaries | (3.0) | (1.3) | (1.0) |
| Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates | (4.2) | — | — |
| Reversal of valuation allowance due to utilization of operating loss carryforwards | (0.1) | (0.1) | (0.1) |
| Other | 2.2 | (1.4) | 1.3 |
| Effective tax rate | <u>44.1%</u> | <u>41.0%</u> | <u>46.4%</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, 2000 and 2001 are presented below:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|---|-------------------|-------------------------|---|
| | 2000 | 2001 | 2001 |
| Deferred tax assets: | | | |
| Inventory valuation | ¥ 64,660 | ¥ 62,535 | \$ 504,722 |
| Allowance for dealers and customers | 68,257 | 87,014 | 702,292 |
| Foreign tax credit | 23,936 | 31,450 | 253,834 |
| Operating loss carryforwards | 24,523 | 36,295 | 292,938 |
| Minimum pension liabilities adjustment | 39,231 | 71,697 | 578,668 |
| Accrued other pension liabilities | 50,847 | 59,254 | 478,241 |
| Other | 90,863 | 90,174 | 727,796 |
| Total gross deferred tax assets | 362,317 | 438,419 | 3,538,491 |
| Less valuation allowance | 26,514 | 46,225 | 373,083 |
| Net deferred tax assets | <u>335,803</u> | <u>392,194</u> | <u>3,165,408</u> |
| Deferred tax liabilities: | | | |
| Inventory valuation | (11,323) | (10,878) | (87,797) |
| Depreciation and amortization, excluding lease transactions | (12,957) | (7,301) | (58,927) |
| Lease transactions | (89,389) | (110,079) | (888,450) |
| Undistributed earnings of subsidiaries and affiliates | (32,224) | (41,914) | (338,289) |
| Net unrealized gains on marketable equity securities | (32,296) | (15,349) | (123,882) |
| Other | (26,740) | (10,425) | (84,140) |
| Total gross deferred tax liabilities | <u>(204,929)</u> | <u>(195,946)</u> | <u>(1,581,485)</u> |
| Net deferred tax asset | <u>¥130,874</u> | <u>¥196,248</u> | <u>\$1,583,923</u> |

The valuation allowance for deferred tax assets at March 31, 1999 was ¥18,436 million. The net change in the total valuation allowance for the years ended March 31, 2000 and 2001 was an increase of ¥8,078 million and ¥19,711 million (\$159,088 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, 2000 and 2001.

At March 31, 2001, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of approximately ¥112,857 million (\$910,872 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..... | ¥ 510 | \$ 4,116 |
| 1 to 5 years..... | 11,528 | 93,043 |
| 5 to 15 years..... | 4,147 | 33,471 |
| Indefinite periods..... | 96,672 | 780,242 |
| | <u>¥112,857</u> | <u>\$910,872</u> |

At March 31, 2000 and 2001, Honda did not recognize deferred tax liabilities of ¥5,131 million and ¥5,987 million (\$48,321 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, 2000 and 2001, the undistributed earnings not subject to deferred tax liabilities were ¥649,929 million and ¥663,540 million (\$5,355,448 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, 2000 and 2001 are reflected in the consolidated balance sheets under the following captions:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) |
|---|-------------------|------------------------|---|
| | 2000 | 2001 | 2001 |
| Current assets—Deferred income taxes..... | ¥154,277 | ¥151,722 | \$1,224,552 |
| Other assets..... | 10,345 | 71,087 | 573,745 |
| Other current liabilities..... | (31,215) | (26,561) | (214,374) |
| Other liabilities..... | (2,533) | — | — |
| Net deferred tax asset..... | <u>¥130,874</u> | <u>¥196,248</u> | <u>\$1,583,923</u> |

(10) 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, 2001 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, 2001 were ¥21, ¥21 and ¥23 (\$0.19), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥12 (\$0.10) per share aggregating ¥11,693 million (\$94,374 thousand) to be proposed in June 2001.

(11) 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 provided in accordance with management policy. 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 | |
| | 2000 | 2001 | 2000 | 2001 |
| Change in benefit obligations: | | | | |
| Benefit obligations at beginning of year | ¥(1,235,634) | ¥(1,240,448) | ¥(93,228) | ¥ (94,578) |
| Service cost | (48,254) | (44,311) | (8,725) | (9,034) |
| Interest cost | (37,068) | (37,213) | (6,206) | (7,293) |
| Plan participants' contributions | (6,257) | (8,778) | (469) | (429) |
| Actuarial gain | 42,133 | 85,054 | 2,939 | 7,280 |
| Benefits paid | 11,573 | 16,617 | 1,046 | 704 |
| Amendment | 33,059 | 54,410 | (912) | — |
| Foreign exchange translation | — | — | 11,569 | (13,905) |
| Other | — | — | (592) | — |
| Benefit obligations at end of year | <u>(1,240,448)</u> | <u>(1,174,669)</u> | <u>(94,578)</u> | <u>(117,255)</u> |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 632,742 | 762,928 | 87,414 | 110,749 |
| Actual return on plan assets | 91,206 | (103,357) | 23,987 | (3,332) |
| Employer contributions | 44,296 | 46,994 | 11,853 | 7,647 |
| Plan participants' contributions | 6,257 | 8,778 | 469 | 429 |
| Benefits paid | (11,573) | (16,617) | (1,046) | (704) |
| Foreign exchange translation | — | — | (11,928) | 16,280 |
| Fair value of plan assets at end of year | <u>762,928</u> | <u>698,726</u> | <u>110,749</u> | <u>131,069</u> |
| Funded status | (477,520) | (475,943) | 16,171 | 13,814 |
| Unrecognized actuarial loss (gain) | 373,595 | 401,547 | (18,825) | (16,904) |
| Unrecognized net transition obligations | 10,900 | 9,772 | 169 | 148 |
| Unrecognized prior service cost (benefit) | (30,993) | (79,844) | 5,105 | 5,506 |
| Net amount recognized | <u>(124,018)</u> | <u>(144,468)</u> | <u>2,620</u> | <u>2,564</u> |
| Adjustments to recognize additional minimum liabilities (note 8): | | | | |
| Amount included in accumulated other comprehensive income (loss) | (95,685) | (174,871) | — | — |
| | <u>(95,685)</u> | <u>(174,871)</u> | <u>—</u> | <u>—</u> |
| Prepaid (accrued) pension cost recognized in the consolidated balance sheets | <u>¥ (219,703)</u> | <u>¥ (319,339)</u> | <u>¥ 2,620</u> | <u>¥ 2,564</u> |
| Pension plans with accumulated benefit obligations in excess of plan assets: | | | | |
| Projected benefit obligations | ¥(1,236,579) | ¥(1,171,212) | ¥ — | ¥ (15,272) |
| Accumulated benefit obligations | (978,752) | (1,014,820) | — | (13,479) |
| Fair value of plan assets | <u>759,805</u> | <u>695,835</u> | <u>—</u> | <u>12,727</u> |

| | U.S. dollars (thousands) (note 2) | |
|--|--------------------------------------|------------------|
| | Japanese plans | Foreign plans |
| | 2001 | 2001 |
| Change in benefit obligations: | | |
| Benefit obligations at beginning of year | \$(10,011,687) | \$ (763,341) |
| Service cost | (357,635) | (72,914) |
| Interest cost | (300,347) | (58,862) |
| Plan participants' contributions..... | (70,847) | (3,462) |
| Actuarial gain | 686,473 | 58,757 |
| Benefits paid..... | 134,116 | 5,682 |
| Amendment..... | 439,144 | — |
| Foreign exchange translation..... | — | (112,228) |
| Benefit obligations at end of year | <u>(9,480,783)</u> | <u>(946,368)</u> |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year..... | 6,157,611 | 893,858 |
| Actual return on plan assets | (834,197) | (26,893) |
| Employer contributions..... | 379,290 | 61,719 |
| Plan participants' contributions..... | 70,847 | 3,462 |
| Benefits paid..... | (134,116) | (5,682) |
| Foreign exchange translation..... | — | 131,397 |
| Fair value of plan assets at end of year | <u>5,639,435</u> | <u>1,057,861</u> |
| Funded status..... | (3,841,348) | 111,493 |
| Unrecognized actuarial loss (gain) | 3,240,896 | (136,433) |
| Unrecognized net transition obligations | 78,870 | 1,195 |
| Unrecognized prior service cost (benefit) | (644,423) | 44,439 |
| Net amount recognized | <u>(1,166,005)</u> | <u>20,694</u> |
| Adjustments to recognize additional minimum liabilities (note 8): | | |
| Amount included in accumulated other comprehensive income (loss) | (1,411,388) | — |
| | <u>(1,411,388)</u> | <u>—</u> |
| Prepaid (accrued) pension cost recognized in the consolidated balance sheets | <u>\$ (2,577,393)</u> | <u>\$ 20,694</u> |
| Pension plans with accumulated benefit obligations in excess of plan assets: | | |
| Projected benefit obligations | \$ (9,452,881) | \$(123,261) |
| Accumulated benefit obligations | (8,190,638) | (108,789) |
| Fair value of plan assets | <u>5,616,102</u> | <u>102,720</u> |

Pension expense for each of the years in the three-year period ended March 31, 2001 includes the following:

| | Yen (millions) | | U.S. dollars (thousands) (note 2) | |
|--|-------------------|----------------|---|-------------------------|
| | 1999 | 2000 | 2001 | 2001 |
| Japanese plans: | | | | |
| Service cost-benefits earned during the year | ¥40,897 | ¥48,254 | ¥44,311 | \$357,635 |
| Interest cost on projected benefit obligations | 36,200 | 37,068 | 37,213 | 300,347 |
| Expected return on plan assets | (21,735) | (24,423) | (27,808) | (224,439) |
| Net amortization and deferral | 18,973 | 23,073 | 11,171 | 90,162 |
| | <u>¥74,335</u> | <u>¥83,972</u> | <u>¥64,887</u> | <u>\$523,705</u> |
| Foreign plans: | | | | |
| Service cost-benefits earned during the year | ¥ 9,314 | ¥ 8,725 | ¥ 9,034 | \$ 72,914 |
| Interest cost on projected benefit obligations | 6,284 | 6,206 | 7,293 | 58,862 |
| Expected return on plan assets | (6,186) | (6,657) | (6,410) | (51,735) |
| Net amortization and deferral | 315 | 501 | (1,898) | (15,319) |
| | <u>¥ 9,727</u> | <u>¥ 8,775</u> | <u>¥ 8,019</u> | <u>\$ 64,722</u> |

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

| | 1999 | 2000 | 2001 |
|---|----------|----------|-----------------|
| Japanese plans: | | | |
| At March 31: | | | |
| Discount rate | 3.0% | 3.0% | 3.0% |
| Rate of salary increase | 3.0% | 2.7% | 2.8% |
| Year ended March 31: | | | |
| Expected long-term rate of return | 4.0% | 4.0% | 4.0% |
| Foreign plans: | | | |
| At March 31: | | | |
| Discount rate | 5.5–7.5% | 5.5–8.0% | 5.5–8.0% |
| Rate of salary increase | 3.5–6.0% | 3.8–6.0% | 4.0–6.0% |
| Year ended March 31: | | | |
| Expected long-term rate of return | 6.0–9.0% | 6.3–9.0% | 6.5–9.0% |

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.

(12) Supplemental Disclosures of Cash Flow Information

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|--------------------------------|-------------------|----------------|-----------------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Cash paid during the year for: | | | | |
| Interest..... | ¥108,694 | ¥ 78,512 | ¥106,446 | \$ 859,128 |
| Income taxes..... | <u>254,973</u> | <u>231,277</u> | <u>211,549</u> | <u>1,707,417</u> |

(13) 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, 2001 are as follows:

| | Yen (millions) | | | U.S. dollars (thousands) (note 2) |
|--|-------------------|-------------------|--------------------------|---|
| | 1999 | 2000 | 2001 | 2001 |
| Adjustments from foreign currency translation: | | | | |
| Balance at beginning of year..... | ¥(314,885) | ¥(419,134) | ¥(580,676) | \$(4,686,651) |
| Adjustments for the year..... | <u>(104,249)</u> | <u>(161,542)</u> | <u>161,194</u> | <u>1,301,000</u> |
| Balance at end of year..... | <u>(419,134)</u> | <u>(580,676)</u> | <u>(419,482)</u> | <u>(3,385,651)</u> |
| Net unrealized gains on marketable equity securities: | | | | |
| Balance at beginning of year..... | 21,135 | 25,672 | 41,022 | 331,090 |
| Realized (gain) loss on marketable equity securities..... | 389 | (1,577) | (5,398) | (43,567) |
| Increase (decrease) in net unrealized gains on marketable equity securities..... | <u>4,148</u> | <u>16,927</u> | <u>(18,987)</u> | <u>(153,245)</u> |
| Balance at end of year..... | <u>25,672</u> | <u>41,022</u> | <u>16,637</u> | <u>134,278</u> |
| Minimum pension liabilities adjustment: | | | | |
| Balance at beginning of year..... | (76,791) | (105,720) | (34,962) | (282,179) |
| Adjustments for the year..... | <u>(28,929)</u> | <u>70,758</u> | <u>(46,720)</u> | <u>(377,078)</u> |
| Balance at end of year..... | <u>(105,720)</u> | <u>(34,962)</u> | <u>(81,682)</u> | <u>(659,257)</u> |
| Total accumulated other comprehensive income (loss): | | | | |
| Balance at beginning of year..... | (370,541) | (499,182) | (574,616) | (4,637,740) |
| Adjustments for the year..... | <u>(128,641)</u> | <u>(75,434)</u> | <u>90,089</u> | <u>727,110</u> |
| Balance at end of year..... | <u>¥(499,182)</u> | <u>¥(574,616)</u> | <u>¥(484,527)</u> | <u>\$(3,910,630)</u> |

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 |
| 1999: | | | |
| Adjustments from foreign currency translation | ¥(109,137) | ¥ 4,888 | ¥(104,249) |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | 7,977 | (3,829) | 4,148 |
| Reclassification adjustments for losses realized in net income | 747 | (358) | 389 |
| Net unrealized gains (losses) | <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 (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) 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 (losses) | <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> |
| 2001: | | | |
| Adjustments from foreign currency translation | ¥ 257,557 | ¥(96,363) | ¥ 161,194 |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | (32,182) | 13,195 | (18,987) |
| Reclassification adjustments for gains realized in net income | (9,150) | 3,752 | (5,398) |
| Net unrealized gains (losses) | <u>(41,332)</u> | <u>16,947</u> | <u>(24,385)</u> |
| Minimum pension liabilities adjustment | (79,186) | 32,466 | (46,720) |
| Other comprehensive income (loss) | <u>¥ 137,039</u> | <u>¥(46,950)</u> | <u>¥ 90,089</u> |

| | U.S. dollars (thousands) (note 2) | | |
|---|--------------------------------------|---|--------------------------|
| | Before-tax amount | Tax (expense) or benefit (note 9) | Net-of-tax amount |
| 2001: | | | |
| Adjustments from foreign currency translation | \$2,078,749 | \$(777,749) | \$1,301,000 |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | (259,742) | 106,497 | (153,245) |
| Reclassification adjustments for gains realized in net income | (73,850) | 30,283 | (43,567) |
| Net unrealized gains (losses) | <u>(333,592)</u> | <u>136,780</u> | <u>(196,812)</u> |
| Minimum pension liabilities adjustment | (639,112) | 262,034 | (377,078) |
| Other comprehensive income (loss) | <u>\$1,106,045</u> | <u>\$(378,935)</u> | <u>\$ 727,110</u> |

(14) Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 2000 and 2001 were as follows:

| | Yen (millions) | | | | U.S. dollars (thousands) (note 2) | |
|--|--------------------|-------------------------|--------------------|-------------------------|---|-------------------------|
| | 2000 | | 2001 | | 2001 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Finance subsidiaries–receivables (a) | ¥1,002,546 | ¥ 975,419 | ¥1,286,935 | ¥1,277,795 | \$10,386,884 | \$10,313,115 |
| Investments and advances–marketable equity securities | 146,465 | 146,465 | 108,080 | 108,080 | 872,316 | 872,316 |
| Debt | (1,414,095) | (1,417,669) | (1,553,071) | (1,568,921) | (12,534,874) | (12,662,801) |
| Foreign exchange instruments (b) | | | | | | |
| Asset position | ¥ 10,811 | ¥ 20,230 | ¥ 767 | ¥ 1,384 | \$ 6,190 | \$ 11,170 |
| Liability position..... | (300) | (1,086) | (17,542) | (25,460) | (141,581) | (205,488) |
| Net | ¥ 10,511 | ¥ 19,144 | ¥ (16,775) | ¥ (24,076) | \$ (135,391) | \$ (194,318) |
| Interest rate instruments: | | | | | | |
| Asset position | ¥ — | ¥ 11,374 | ¥ — | ¥ 23 | \$ — | \$ 185 |
| Liability position..... | — | (510) | — | (24,265) | — | (195,843) |
| Net | ¥ — | ¥ 10,864 | ¥ — | ¥ (24,242) | \$ — | \$ (195,658) |

(a) The carrying amounts of Finance subsidiaries–receivables at March 31, 2000 and 2001 in the table exclude ¥607,276 million and ¥780,427 million (\$6,298,846 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) |
|---------------------------------|-------------------|-----------|---|
| | 2000 | 2001 | 2001 |
| Other current assets | ¥ 7,603 | ¥ 758 | \$ 6,118 |
| Other assets | 3,208 | 9 | 72 |
| Other current liabilities | (287) | (9,757) | (78,749) |
| Other liabilities | (13) | (7,785) | (62,832) |
| | ¥10,511 | ¥(16,775) | \$(135,391) |

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.

(15) 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 sheets.

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, 2000 and 2001, the total amounts of foreign currency forward contracts, currency swap agreements and foreign currency option contracts outstanding were ¥656,700 million and ¥543,623 million (\$4,387,595 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, 2000 and 2001, the notional principal amounts of interest rate swap agreements were ¥1,149,563 million and ¥1,443,742 million (\$11,652,478 thousand), respectively.

(16) Commitments and Contingent Liabilities

At March 31, 2001, Honda had commitments for purchases of property, plant and equipment of approximately ¥8,551 million (\$69,015 thousand). Contingent liabilities for guarantees and similar activities of bank loans of employees, affiliates and other companies amounted to approximately ¥99,780 million (\$805,327 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, 2001 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.

(17) Leases

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, 2001 are as follows:

| Year ending March 31 | Yen (millions) | U.S. dollars (thousands) (note 2) |
|------------------------------------|-------------------|---|
| 2002 | ¥25,090 | \$202,502 |
| 2003 | 18,049 | 145,674 |
| 2004 | 11,831 | 95,488 |
| 2005 | 7,158 | 57,773 |
| 2006 | 5,321 | 42,946 |
| After five years | 24,910 | 201,049 |
| Total minimum lease payments | <u>¥92,359</u> | <u>\$745,432</u> |

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2001 were ¥48,939 million, ¥49,014 million and ¥49,400 million (\$398,709 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, 2000 and 2001, 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, 2001. 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, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2001 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, 2001 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 handwritten signature of the KPMG firm, written in a stylized, cursive script.

Tokyo, Japan

April 27, 2001