

FINANCIAL SECTION

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FINANCIAL SUMMARY

Honda Motor Co.,Ltd. and Subsidiaries

Years ended or at March 31				
	1993	1994	1995	1996
Sales, income, and dividends				
Net sales and other operating revenue	¥4,132,435	¥3,862,716	¥3,966,164	¥4,252,250
Operating income	108,756	78,328	107,916	143,633
Income before income taxes and equity in income of affiliates	88,564	46,890	94,287	115,134
Income taxes	53,208	33,719	44,904	58,281
Equity in income of affiliates	1,801	10,528	12,142	13,948
Net income	37,157	23,699	61,525	70,801
As percentage of sales	0.9%	0.6%	1.6%	1.7%
Cash dividends paid during the period	13,620	13,631	13,635	13,638
Research and development	199,233	188,815	203,004	220,573
Interest expense	43,426	35,379	34,382	30,601
Assets, long-term debt, and stockholders' equity				
Total assets	¥3,012,896	¥2,921,084	¥3,014,410	¥3,516,113
Long-term debt	569,479	612,511	589,537	656,461
Stockholders' equity	1,030,867	967,345	1,017,462	1,144,540
Depreciation	173,733	143,229	125,115	125,007
Capital expenditures	168,205	121,838	128,644	150,489
Per common share				
Net income:				
Basic	¥ 38.19	¥ 24.34	¥ 63.16	¥ 72.68
Diluted	37.94	24.28	63.00	72.63
Cash dividends paid during the period	14	14	14	14
Stockholders' equity	1,058.80	993.47	1,044.44	1,174.73
Per American depositary share				
Net income:				
Basic	19.09	12.17	31.58	36.34
Diluted	18.97	12.14	31.50	36.31
Cash dividends paid during the period	7.0	7.0	7.0	7.0
Stockholders' equity	529.40	496.73	522.22	587.36
Sales progress				
Sales amounts:*				
Japan	¥1,379,748	¥1,282,771	¥1,326,487	¥1,540,463
	33%	33%	33%	36%
Overseas	2,752,687	2,579,945	2,639,677	2,711,787
	67%	67%	67%	64%
Total	¥4,132,435	¥3,862,716	¥3,966,164	¥4,252,250
	100%	100%	100%	100%
Unit sales:				
Motorcycles	4,035	4,251	4,910	5,488
Automobiles	1,793	1,753	1,794	1,887
Power Products	1,450	1,632	1,909	2,268
Number of employees	90,900	91,300	92,800	96,800
Exchange rate (yen amounts per U.S.dollar)				
Rates for the period-end	¥ 116	¥ 103	¥ 89	¥ 106
Average rates for the period	125	108	99	96

*The geographic breakdown of sales amounts is based on the location of customers.

Notes: 1. The amounts for the fiscal year ended March 31, 2003, have been translated into U.S. dollars at the rate of ¥120.20=US\$1, the mean of the telegraphic transfer selling exchange rate and the telegraphic transfer buying exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003.

2. Net income per common (or American depositary) share amounts are computed based on Statement of Financial Accounting Standards (SFAS) No.128, "Earnings per Share." All net income per common (or American depositary) share

data presented prior to fiscal 1998 has been restated to conform with the provisions of SFAS No.128.

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

4. Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No.115, "Accounting for Certain Investments in Debt and

						Yen (millions)	U.S. dollars (millions)
1997	1998	1999	2000	2001	2002	2003	2003
¥5,293,302	¥5,999,738	¥6,231,041	¥6,098,840	¥6,463,830	¥7,362,438	¥7,971,499	\$66,319
401,447	462,313	548,698	426,230	406,960	639,296	689,449	5,736
390,722	443,351	520,511	416,063	384,976	551,342	609,755	5,073
189,044	201,278	229,624	170,434	178,439	231,150	245,065	2,039
19,490	18,552	14,158	16,786	25,704	42,515	61,972	516
221,168	260,625	305,045	262,415	232,241	362,707	426,662	3,550
4.2%	4.3%	4.9%	4.3%	3.6%	4.9%	5.4%	
13,640	16,563	20,463	20,463	22,412	24,360	30,176	251
251,128	285,863	311,632	334,036	352,829	395,176	436,863	3,635
27,514	27,655	27,890	18,920	21,400	16,769	12,207	102
¥4,191,294	¥4,815,265	¥5,034,247	¥4,898,428	¥5,667,409	¥6,940,795	¥7,681,291	\$63,904
734,255	677,750	673,084	574,566	368,173	716,614	1,140,182	9,486
1,388,430	1,607,914	1,763,855	1,930,373	2,230,291	2,573,941	2,629,720	21,878
141,351	153,337	177,666	172,139	170,342	194,944	220,874	1,838
217,782	309,517	237,080	222,891	285,687	303,424	316,991	2,637
						Yen	U.S. dollars
¥ 227.00	¥ 267.49	¥ 313.05	¥ 269.31	¥ 238.34	¥ 372.23	¥ 439.43	\$ 3.66
226.97	267.45	313.05	269.31	238.34	372.23	439.43	3.66
14	17	21	21	23	25	31	0.26
1,425.04	1,650.14	1,810.20	1,981.07	2,288.87	2,641.55	2,734.69	22.75
113.50	133.74	156.52	134.65	119.17	186.11	219.71	1.83
113.48	133.72	156.52	134.65	119.17	186.11	219.71	1.83
7.0	8.5	10.5	10.5	11.5	12.5	15.5	0.13
712.52	825.07	905.10	990.53	1,144.43	1,320.77	1,367.34	11.37
						Yen (millions)	U.S. dollars (millions)
¥1,826,284	¥1,710,813	¥1,556,333	¥1,612,191	¥1,740,340	¥1,868,746	¥1,748,706	\$14,548
35%	29%	25%	26%	27%	25%	22%	
3,467,018	4,288,925	4,674,708	4,486,649	4,723,490	5,493,692	6,222,793	51,771
65%	71%	75%	74%	73%	75%	78%	
¥5,293,302	¥5,999,738	¥6,231,041	¥6,098,840	¥6,463,830	¥7,362,438	¥7,971,499	\$66,319
100%	100%	100%	100%	100%	100%	100%	
						Thousands	
5,325	5,257	4,295	4,436	5,118	6,095	8,080	
2,184	2,343	2,333	2,473	2,580	2,666	2,888	
2,521	2,857	3,412	4,057	3,884	3,926	4,584	
101,100	109,400	112,200	112,400	114,300	120,600	126,900	
¥ 124	¥ 132	¥ 121	¥ 106	¥ 124	¥ 133	¥ 120	
113	123	128	112	111	125	122	

Equity Securities." Net unrealized gains on marketable equity securities, less related income taxes, are included in accumulated other comprehensive income (loss) in the statements of stockholders' equity, and net income for the fiscal year ended March 31, 1995, was not affected by the adoption of this Statement.

- Effective fiscal 2000, due to the change in method of business segment categorization, all prior years' unit sales under Sales progress have been restated to reflect the change: i.e., unit sales of all-terrain vehicles (ATVs) are now included in Motorcycles, but were previously included in Power Products.
- Previously, revenue from domestic sales of general-purpose engines to cus-

tomers who install them in products that are subsequently exported were recorded as overseas sales. However, due to various factors including changes in transaction formats and contract terms, as of fiscal 2002, such sales are now recorded as domestic sales.

- Honda's common stock-to-ADR exchange ratio was changed from two shares of common stock to one ADR, to one share of common stock to two ADRs, effective January 10, 2002. Per American depositary share information has been restated for all periods presented to reflect this four-for-one ADR split.

FINANCIAL REVIEW

Net Sales and Other Operating Revenue

Honda's consolidated net sales and other operating revenue (hereafter "net sales") for fiscal 2003, ended March 31, 2003, amounted to ¥7,971.4 billion, up 8.3% from the previous fiscal year.

Of the amount, domestic net sales decreased by ¥120 billion or 6.4%, to ¥1,748.7 billion, while overseas net sales increased by ¥729.1 billion, or 13.3% to ¥6,222.7 billion.

Net sales included currency translation effects due to the appreciation of the yen to the U.S. dollar, which had a negative impact on foreign currency-denominated revenue from Honda's overseas subsidiaries when translated into yen. Honda estimates net sales excluding the effects of currency translation to have risen approximately by 9.1%.

Operating Income

Operating income amounted to ¥689.4 billion, which was an increase by 7.8% from the previous fiscal year. Increased net sales, predominantly in Europe and Asia, and the Company's cost-cutting strategies have more than offset deterioration of the model mix as well as increases in selling, general and administrative (SG&A) expenses and research and development (R&D) expenses.

Selling, General and Administrative (SG&A) Expenses/ Research and Development (R&D) Expenses

SG&A expenses for fiscal 2003 increased by ¥143.2 billion or 11.1%, to ¥1,434.9 billion, reflecting increases in product warranty-related expenses and labor expenses. R&D expenses increased by ¥41.6 billion or 10.5%, to ¥436.8 billion.

Income before Income Taxes and Equity in Income of Affiliates

Income before Income Taxes and Equity in Income of Affiliates was up 10.6%, to ¥609.7 billion.

Other income & expenses, net improved by ¥8.2 billion from the previous fiscal year, due mainly to a decline in losses on currency exchanges, which offset increases in losses on securities sold, impairment losses on available for sale marketable equity securities, and losses on derivative instruments.

Equity in Income of Affiliates

Equity in income of affiliates climbed 45.8%, to ¥61.9 billion. This increase was due mainly to boosted gains posted by affiliates in Asia, representing around 80% of Honda's overall equity in income of affiliates.

Net Income

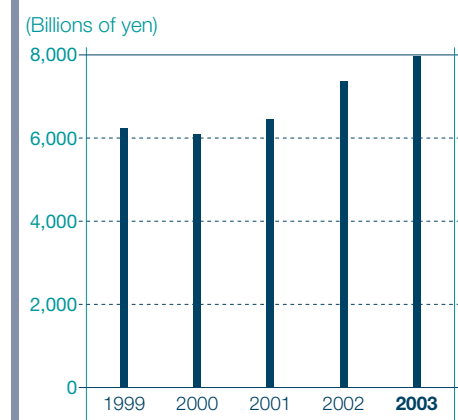
Net income amounted to ¥426.6 billion, an increase of 17.6%. The effective tax rate was 40.2%, a decline by 1.7 percentage points from the previous fiscal year.

Basic net income per common share amounted to ¥439.43, compared with ¥372.23 in fiscal 2002.

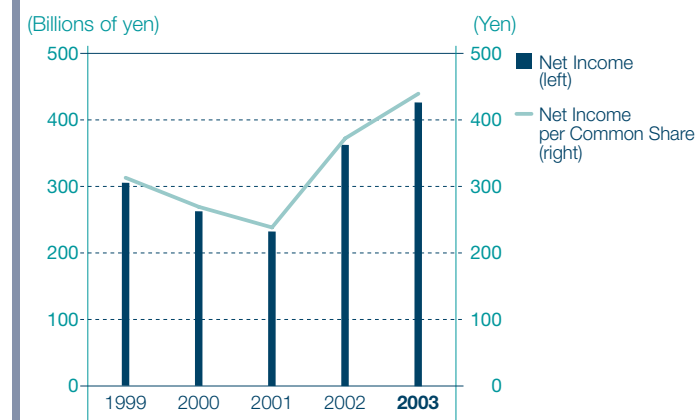
Liquidity and Capital Resources

Honda's policy is to maintain sufficient capital resources, a sufficient level of liquidity and a sound balance sheet for purposes of its business activities.

Net Sales and Other Operating Revenue



Net Income and Net Income per Common Share



Honda funds its capital expenditures primarily through cash generated by operations. Honda funds its financial programs for customers and dealers primarily from medium-term notes and commercial paper, as well as asset-backed securities issued in securitizations of finance receivables.

Net cash provided by operating activities amounted to ¥688.1 billion for fiscal 2003, decreasing ¥61.8 billion over fiscal 2002. Notwithstanding an increase in net income of ¥426.6 billion, this decrease was mainly due to an increase in inventories.

Net cash used by investing activities amounted to ¥1,073.5 billion for fiscal 2003, increasing ¥186.9 billion over fiscal 2002. This increase was mainly due to an increase in purchase of finance subsidiaries' receivables.

Net cash provided by financing activities amounted to ¥346.9 billion for fiscal 2003, increasing ¥39.3 billion over fiscal 2002. Notwithstanding a decrease in short-term debt, this increase was due to an increase in proceeds from long-term debt.

As a result of the foregoing, Honda's consolidated cash and cash equivalents amounted to ¥547.4 billion as of March 31, 2003, a net decrease of ¥62.0 billion from a year ago.

Honda's total debt increased in fiscal 2003 by ¥262.7 billion to ¥2,322.4 billion. Short-term debt decreased in fiscal 2003 by ¥157.1 billion to ¥877.9 billion. The current portion of long-term debt decreased in fiscal 2003 by ¥3.6 billion to ¥304.3 billion. Long-term debt increased in fiscal 2003 by ¥423.5 billion to ¥1,140.1 billion.

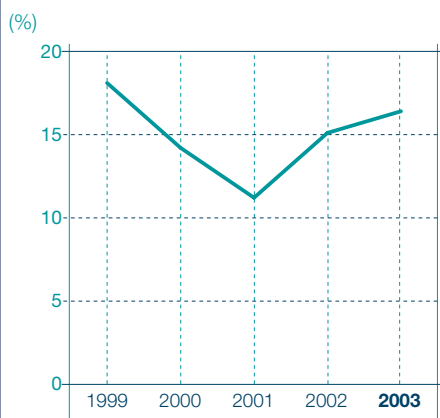
Honda's general policy is to provide amounts necessary for future capital expenditures from funds generated from operations. With the current levels of cash and cash equivalents and other liquid assets, as well as credit lines with banks, Honda

believes that it maintains a sufficient level of liquidity.

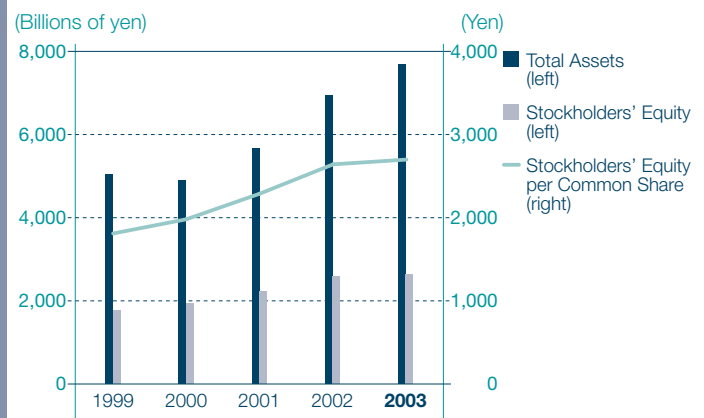
Notwithstanding Honda's current financial condition, it is possible that circumstances such as a decrease in operating revenues due to a decrease in market size as a result of a recession, or instability in the financial markets, such as rapid changes in exchange rates between the yen and other major currencies, may adversely affect Honda's liquidity. In such a situation, Honda may undertake future financings through debt and/or equity related offerings to supplement funds generated by operations. Honda has good relationships with banks with global operations.

The cost and availability of unsecured funding to Honda and its finance subsidiaries generally depend on credit ratings received with respect to Honda. Some of Honda's short- and long-term debt securities are rated by two U.S. nationally recognized rating agencies: Moody's Investors Service, Inc. and Standard & Poor's Rating Services. In addition, short-term and long-term unsecured debt securities issued by Honda or its financial subsidiaries are also rated in several local markets by locally recognized rating agencies. These ratings are not, however, recommendations to buy, sell or hold securities. These rating agencies issue their ratings based on their assessment of the credit risk associated with particular securities Honda or its finance subsidiaries issue, which assessment is based on information Honda provides to the rating agencies or other sources they consider reliable. Each rating agency may have different criteria in evaluating the risk associated with a company, and thus different rating agencies' ratings should be evaluated independently from one another. These ratings are subject to revision or withdrawal at any time by the assigning rating agency.

Return on Equity (ROE)



Total Assets, Stockholders' Equity and Stockholders' Equity per Common Share



Honda and its finance subsidiaries are currently given investment-grade ratings on their short-term and long-term unsecured debt securities from credit rating agencies. Accordingly, Honda believes that it is in a position to be able to obtain sufficient funding necessary for its growth.

The following table shows the ratings of short-term and long-term unsecured debt securities issued by Honda or its finance subsidiaries by Moody's and Standard & Poor's as of the date of this annual report.

	Credit ratings for	
	Short-term unsecured debt securities	Long-term unsecured debt securities
Moody's Investors Service	P-1	A1
Standard & Poor's Rating Services	A-1	A+

For the purpose of accelerating the receipt of cash related to its finance receivables, Honda periodically securitizes and sells pools of these receivables. In these securitizations, Honda sells a portfolio of finance receivables to a special purpose entity, which is established for the limited purpose of buying and reselling finance receivables. Honda remains as a servicer and is paid a servicing fee for its services. The special purpose entity transfers the receivables to a trust or bank conduit, which issues interest-bearing asset-backed securities or commercial paper, respectively, to investors. Honda retains certain subordinated interests in the sold receivables in the form of subordinated certificates, servicing assets and residual interest in certain

cash reserves provided as credit enhancements for investors. Honda applies significant assumptions regarding prepayments, credit losses and average interest rates in estimating expected cash flows from the trust or bank conduit, which affects the recoverability of Honda's retained interests in the sold receivables. Honda periodically evaluates these assumptions and adjusts them, if appropriate, to reflect the performance of the receivables.

The following table shows Honda's contractual obligations at March 31, 2003:

CONTRACTUAL OBLIGATIONS

At March 31, 2003	Yen (millions)				
	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt including current installments	¥1,444,524	¥304,342	¥955,597	¥179,693	¥ 4,892
Operating leases	104,543	27,144	31,027	16,477	29,895

At March 31, 2003, Honda had commitments for purchases of property, plant and equipment of approximately ¥24.3 billion.

Also at March 31, 2003, Honda has guaranteed approximately ¥88.2 billion of bank loan of employees for their housing costs. If an employee defaults on his/her loan payments, Honda is required to perform under the guarantee. The undiscounted

maximum amount of Honda's obligation to make future payments in the event of defaults is approximately ¥88.2 billion. As of March 31, 2003, no amount has been accrued for any estimated losses under the obligations, as it is probable that the employees will be able to make all scheduled payments.

Capital Expenditures

Manufacturing-related expenditures in fiscal 2003 were applied to the expansion of manufacturing facilities, streamlining efforts, and the replacement of older equipment. Other expenditures

included funds used to augment sales and R&D facilities.

Total consolidated capital expenditures were ¥316.9 billion, or ¥13.5 billion higher than the previous fiscal year.

Capital expenditures by business segment were as follows:

	Yen (millions)	
	2002	2003
Motorcycle Business	¥ 29,929	¥ 37,496
Automobile Business	264,657	270,263
Financial Services	676	646
Other Businesses	8,162	8,586
Total	¥303,424	¥316,991

Honda invested ¥37.4 billion in its motorcycle business, mainly for the introduction of new models and improvement of manufacturing operations. Capital expenditures in the automobile business amounted to ¥270.2 billion.

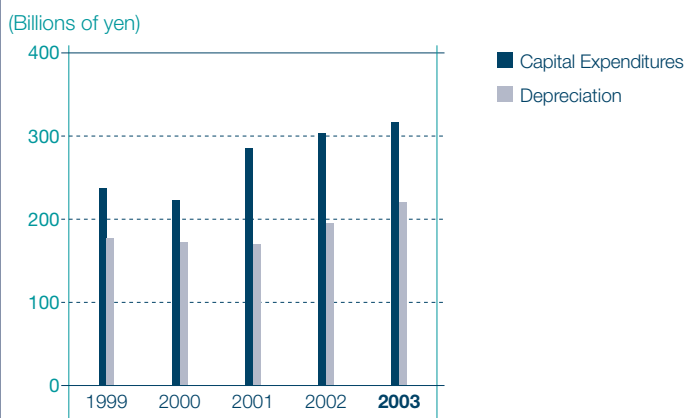
Honda invested mainly to launch new models and a new manufacturing system both for itself and for Honda of America Mfg., Inc.

Funds were also applied to start construction of a second assembly line at Honda Manufacturing of Alabama, LLC to produce finished vehicles and engines.

Expenditures in the financial services business totaled ¥0.6 billion, while investment in other businesses, mainly to fund the expansion and renewal of power product manufacturing equipment and the renovation of motor sports facilities, came to ¥8.5 billion.

Disposal and sales of manufacturing facilities during the period had no material impact.

Capital Expenditures and Depreciation



R&D Expenses and R&D Expenses as a Percentage of Net Sales



Research and Development (R&D) Expenses

The aim of Honda's R&D activities is to create, through application of the latest technologies, products that are both distinctive and internationally competitive. To this end, the company has set up as independent corporate entities to perform R&D activities, thereby enabling engineers to engage in R&D with greater independence. 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 in the area of production technology is carried out principally by Honda Engineering Co., Ltd., and Honda Engineering North America, Inc. Each company cooperates closely with the communities in which it operates.

R&D expenses in fiscal 2003 totaled ¥436.8 billion.

R&D Activities

MOTORCYCLES

Honda seeks to meet the diverse needs of its motorcycle customers by providing products that offer value-added features and enable swift and effective development in overseas markets. At the same time, the Company is stepping up efforts to develop leading motorcycle technologies that contribute resolution of various environmental and safety issues.

As a result of these efforts, in Japan and Europe, Honda introduced a completely remodeled CB1300 Super Four motorcycle that incorporates a built-in air injection system and PGM-FI to realize much lower gas emissions. In Japan, Honda also introduced the newly developed Today scooter with a powerful air-cooled four-stroke engine and a combination brake system (linked front and rear brakes), as well as the Solo leisure bike, which has a unique design. In North America, the Company launched the TRX650 FA ATV, which realizes enhanced driving performance and handling capabilities, as well as the ST1300 sports bike, which is designed for high-speed, long-distance touring. In North America and Europe, Honda introduced its new CBR600RR super sports bike, using an ultra-rigid aluminum frame incorporating a new die cast structure and a new Unit Pro-Link rear suspension system to improve cornering capability. In India, Honda launched the sporty scooter Dio,

which is equipped with an air-cooled four-stroke engine providing improved fuel economy, durability and quietness. In Latin America, Honda introduced its new concept design NXR125 and NXR150 onroad/offroad sports bikes for long-distance touring with their larger-sized fuel tanks. Honda continues to promote local development in overseas markets and launched the Wave scooter in China, which was co-developed with Sundiro Honda Motorcycle Co., Ltd.

Motorcycle-related R&D expenses in fiscal 2003 were ¥73.4 billion.

AUTOMOBILES

In addition to meeting customer needs by developing products with innovative technologies and new features, Honda is also actively engaged in the development of new solutions to environmental and safety issues.

In fiscal 2003, Honda globally launched a fully remodeled Accord that realized higher engine performance, improved fuel efficiency and lower emissions. The new Accord features several new systems, which include newly developed side curtain air bags for the Japanese and North American markets, as well as the Honda intelligent Driver Support System for the Japanese market, which helps maintain driving lanes and control speed and distances between other cars when traveling on highways. The new Accord received the 2002-2003 Japan Car of the Year award. In Japan, Honda introduced the Fit 1.5T, with a newly developed 1.5-liter VTEC engine, and the Fit Aria (named the City in Thailand), an advanced small sedan with a compact body but a large trunk space, as well as various seat arrangements. In North America, Honda introduced the Pilot, equipped with a 3.5-liter V-6 VTEC engine and lightweight, and highly efficient state-of-the-art Honda VTM-4 4WD system, and the Element, a new concept SUV.

In the area of fuel cell vehicles, Honda has developed the FCX and started lease-sales in Japan and the United States in early December 2002. The FCX, compared with the FCX-V4 test vehicle, has improved engine torque and output at medium and high speeds, resulting in better acceleration and higher maximum speed. In addition, an improved high-pressure hydrogen fuel tank has extended the cruising distance. In July 2002, the FCX became the first fuel-cell vehicle in the world to be certified by the U.S. Environmental Protection Agency (EPA) and

the California Air Resources Board. Honda also developed a 2.2-liter diesel engine “i-CTDi” with aims to provide environmentally friendliness of being high efficient, cleaner, and less noisy. This engine employs a lightweight, compact and highly rigid all-aluminum block manufactured using Honda’s proprietary engineering technologies.

Automobile-related R&D expenses amounted to ¥351.5 billion in fiscal 2003.

OTHERS

In the area of power products, Honda’s R&D efforts are directed toward new products that respond to customer needs, as well as the evolution of technologies that enhance the environmental performance of its products.

New products launched globally during fiscal 2003 include the GX25 four-stroke general-purpose engine, which can operate in any position thanks to its unique oil lubrication system, and the BF15 and BF20 four-stroke outboard engines, which meet the new environmental emission regulations of the California Air Resources Board that will come into effect in 2008. Honda also introduced the HS980i and HS1180i hybrid snow blowers in Japan and Europe. These snow blowers feature the Company’s hybrid technology that combines a gasoline engine to power the apparatus and generate electricity for an electric motor for forward locomotion. Honda launched the locally developed HRZ216 push-type lawnmower in North America. In India Honda also introduced the EXK1200 and EXK2000 electric generators, which meet the strictest noise regulations in the world.

R&D expenditures in this area amounted to ¥11.8 billion.

Honda continued its research into promising technologies for the future. One such project is a joint-venture project with Nagoya University to identify and clarify the mechanism of a gene that reduces the height of rice plant. The purpose of this research is to develop technologies to increase crop yield. In the field of small jet aircrafts, Honda developed a prototype aircraft body and its engine. In addition, Honda developed a prototype of a lightweight, high performance, fuel efficient and cleaner piston-engine for next generation airplanes. Honda also successfully developed a new generation of thin-film photovoltaic cells mainly using non-silicon compounds that will make it

possible to significantly lower the per unit cost of electricity generated through solar energy. The solar cells are installed in Honda’s Hosoe plant at the Hamamatsu factory and Tochigi Technical Center of Honda Engineering Co., Ltd., with aims to bring the research of solar energy into development stage. The Company also continued development of ASIMO, an advanced humanoid robot developed with the aim of creating a walking robot. Development during the year focused on improving ASIMO’s environmental awareness functions, which allow it to assess the position of obstacles and to turn to avoid collisions, as well as spatial awareness of sound.

Expenses stemming from fundamental research are borne by the Company’s business segments to which the research most closely relates and are included in the figures above.

Segment Information

The following segment information has been prepared in accordance with 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 Segments

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 fiscal 2003, brisk sales of the Today scooter model pushed domestic unit sales up 6.9%, to 432,000 units. Overseas unit sales rose by 34.4%, to 7,648,000 units, due mainly to solid gains in Asia. As a result, total unit sales of motorcycles were 8,080,000 units, an increase of 32.6%. Net sales from the motorcycle segment increased by 3.2% to ¥978 billion, due mainly to increased unit sales combined with positive currency translation effects through depreciation of the yen against the euro. Operating income decreased by 15.6% from the previous fiscal year, amounting to ¥58.7 billion.

AUTOMOBILES

Unit sales in Japan decreased by 3.3%, to 849,000 units, mainly due to a decline in sales of minivans like the Step Wagon and Stream, although small cars such as the Fit and Mobilio showed favorable sales. Overseas unit sales rose by 14.0%, to 2,039,000 units, due mainly to favorable sales in North America led by the introduction of new models such as the Pilot and Element, together with increased sales of the CR-V and Odyssey. In addition, expanded sales in Europe also contributed to the increase in unit sales.

As a result, total unit sales of automobiles were 2,888,000 units, an increase of 8.3%. Net sales from automobile segment advanced 8.6%, amounting to ¥6,440 billion, due mainly to growth in overseas unit sales which offset the negative impact of currency translation through the appreciation of the yen against the U.S. dollar. Operating income grew 7.6%, to ¥560.1 billion.

FINANCIAL SERVICES

Net sales from Honda's financial services business climbed 15.1%, to ¥240.9 billion. Operating income surged 37.5%, to ¥61.9 billion.

OTHER BUSINESSES

Unit sales of power products in Japan rose 15.4%, to 472,000 units. Overseas unit sales grew 16.9%, to 4,112,000 units, mainly due to brisk sales in North America and Europe. Total unit sales of power products rose 16.8%, to 4,584,000 units, which increased net sales of other businesses by 11.0%, to ¥326.3 billion. Operating income grew 112.3%, to ¥8.5 billion.

Geographical Segments

Geographical segments are based on the location of the Company and its subsidiaries.

JAPAN

Increased export sales of automobiles contributed to a 2.8% increase in net sales in Japan in fiscal 2003, amounting to ¥3,918.9 billion. Operating income decreased by 20.2% from the previous fiscal year, amounting to ¥202.3 billion.

NORTH AMERICA

Net sales in North America increased by 9.4%, to ¥4,711.9 billion. This increase is attributed to increased unit sales of automobiles and power products, which offset negative effects of currency translation caused by the appreciation of the yen against the U.S. dollar. Operating income decreased by 0.9%, to ¥398.7 billion.

EUROPE

Increased unit sales of automobiles and power products, together with positive effects of currency translation contributed to a 36.6% increase in net sales in Europe, which amounted to ¥824.5 billion. Operating income improved by ¥49.5 billion, to ¥14.1 billion.

OTHER REGIONS

Increased unit sales of motorcycles, automobiles and power products contributed to a 42.1% increase in net sales in other regions, to ¥788.4 billion. Operating income increased by 49.9%, to ¥61 billion.

Application of Critical Accounting Policies

Critical accounting policies are those that require the application of managements' most difficult, subjective or complex judgments often as a need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following is not intended to be a comprehensive list of all our accounting policies. Our significant accounting policies are more fully described in note 1 to the consolidated financial statements.

Honda has identified the following critical accounting policies with respect to its financial presentation.

PRODUCT WARRANTY

Honda warrants its vehicles for specific periods of time. Product warranties vary depending upon the nature of the product, the geographic location of its sale and other factors. Accordingly, the Company provides for estimated warranty expenses at the time the vehicles are sold to customers. Estimated warranty expenses are provided based on historical warranty claim experi-

ence with consideration given to the expected level of future warranty costs as well as current information on repair costs. Included in our warranty expense accruals are costs for general warranties on vehicles Honda sells, product recalls and service actions outside the general warranties. Management believes that the accounting estimate related to warranty reserves is a “critical accounting estimate” because changes in it can materially affect net income, and it requires management to estimate the frequency and amounts of future claims, which are inherently uncertain. Management’s policy is to continuously monitor the warranty liabilities to determine their adequacy, therefore, the warranty reserve is maintained at an amount management deems adequate to cover estimated warranty expense. Actual claims incurred in the future may differ from the original estimates, which may result in material revisions to the warranty reserve.

ALLOWANCE FOR CREDIT LOSSES

Finance subsidiaries of the Company provide wholesale financing to dealers and retail lending and direct financing leases to consumers mainly in order to support sales of the products principally in North America. The Company recognizes the receivables derived from those services as finance subsidiaries-receivables. The allowance for credit losses on the finance subsidiaries-receivables is based on a review and evaluation of historical loss experience, the size and composition of the receivables, the credit quality of the portfolio, current economic events and conditions and other pertinent factors. Management believes that the accounting estimate related to allowance for credit losses is a “critical accounting estimate” because it requires management to make assumptions about inherently uncertain items including future economic trends, credit risks and other factors. The allowance for credit losses is maintained at an amount management deems adequate to cover estimated losses on finance receivables. However, actual losses incurred may differ from the original estimates if economic conditions change or if different assumptions are used.

ALLOWANCE FOR LOSSES ON LEASE RESIDUAL VALUES

Finance subsidiaries of the Company purchase insurance to cover a substantial amount of the estimated value of all vehicles leased to customers at the end of leasing period for direct financing leases. The Company initially determines the residual value

based on appraisals and estimates. The allowance for losses on lease residual values is recognized to cover estimated losses on the uninsured portion of the vehicles’ lease residual values. The lease residual values are estimated based on historical experience including residual value losses and forward-looking information including our new product plans. Management believes that the accounting estimate related to allowance for losses on lease residual values is a “critical accounting estimate” because it is highly susceptible to change from period to period as it requires management to make assumptions about future economic trends and the lease residual value. The allowance is maintained at an amount management deems adequate to cover estimated losses on the uninsured portion of the vehicles’ lease residual values. However, changes in economic factors or in the estimated lease residual value may result in adjustments to the allowance.

PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company has various pension plans covering substantially all of their employees in Japan and in certain foreign countries. Benefit obligations and pension costs are based on assumptions of many factors, including discount rate, rate of salary increase and expected long-term rate of return. The discount rate and expected long-term rate of return are determined based on management’s evaluation of current market conditions including changes in interest rates. The salary increase assumptions reflect our actual experience as well as near-term outlook. The discount rate and rate of salary increase at March 31, 2003 are 2.0% and 2.3%, respectively, expected long-term rate of return for the year ended March 31, 2003 is 4.0% for Japanese plans. The discount rate and rate of salary increase at March 31, 2003 are 5.5-7.0% and 4.0-6.7%, respectively, and the expected long-term rate of return for the year ended March 31, 2003 is 6.8-8.5% for foreign plans. Management believes that the accounting estimates related to pensions are “critical accounting estimates” because changes in them can materially affect the Company’s financial condition and results of operations. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods and can affect the recorded obligation immediately. Management believes that the assumptions used are appropriate. However, differences in actual experience or changes in assumptions could affect our pension costs and obligations.

Business Segment Information

Years ended or at March 31	Yen (millions)	
	2002	2003
Net sales and other operating revenue:		
Motorcycle Business		
Sales to unaffiliated customers	¥ 947,900	¥ 978,095
Automobile Business		
Sales to unaffiliated customers	5,929,742	6,440,094
Financial Services		
Sales to unaffiliated customers	201,906	237,958
Intersegment sales	7,409	3,037
Total	209,315	240,995
Other Businesses		
Sales to unaffiliated customers	282,890	315,352
Intersegment sales	10,968	10,971
Total	293,858	326,323
Eliminations	(18,377)	(14,008)
Consolidated	¥7,362,438	¥7,971,499
Operating income:		
Motorcycle Business	¥ 69,656	¥ 58,766
Automobile Business	520,510	560,103
Financial Services	45,084	61,989
Other Businesses	4,046	8,591
Consolidated	¥ 639,296	¥ 689,449
Assets:		
Motorcycle Business	¥ 754,512	¥ 798,530
Automobile Business	3,377,470	3,624,639
Financial Services	2,917,170	3,505,017
Other Businesses	240,735	241,085
Corporate assets and eliminations	(349,092)	(487,980)
Consolidated	¥6,940,795	¥7,681,291
Depreciation:		
Motorcycle Business	¥ 22,129	¥ 25,311
Automobile Business	165,508	187,839
Financial Services	786	804
Other Businesses	6,521	6,920
Consolidated	¥ 194,944	¥ 220,874
Capital expenditures:		
Motorcycle Business	¥ 29,929	¥ 37,496
Automobile Business	264,657	270,263
Financial Services	676	646
Other Businesses	8,162	8,586
Consolidated	¥ 303,424	¥ 316,991

Geographical Segment Information

Years ended or at March 31	Yen (millions)	
	2002	2003
Net sales and other operating revenue:		
Japan		
Sales to unaffiliated customers	¥2,087,765	¥1,975,518
Transfers between geographical segments	1,723,269	1,943,465
Total	3,811,034	3,918,983
North America		
Sales to unaffiliated customers	4,163,951	4,580,004
Transfers between geographical segments	143,987	131,906
Total	4,307,938	4,711,910
Europe		
Sales to unaffiliated customers	570,170	663,032
Transfers between geographical segments	33,335	161,551
Total	603,505	824,583
Others		
Sales to unaffiliated customers	540,552	752,945
Transfers between geographical segments	14,259	35,515
Total	554,811	788,460
Eliminations	(1,914,850)	(2,272,437)
Consolidated	¥7,362,438	¥7,971,499
Operating income:		
Japan	¥ 253,431	¥ 202,329
North America	402,395	398,708
Europe	(35,338)	14,185
Others	40,711	61,020
Eliminations	(21,903)	13,207
Consolidated	¥ 639,296	¥ 689,449
Assets:		
Japan	¥2,177,095	¥2,392,252
North America	3,679,762	4,182,861
Europe	514,535	535,507
Others	374,801	472,259
Corporate assets and eliminations	194,602	98,412
Consolidated	¥6,940,795	¥7,681,291

Unaudited Consolidated Balance Sheets Divided into Non-Financial Services Businesses and Finance Subsidiaries

At March 31, 2002 and 2003	Yen (millions)	
	2002	2003
ASSETS		
Non-financial services businesses		
Current Assets:	¥2,745,407	¥2,987,609
Cash and cash equivalents	590,798	530,343
Trade accounts and notes receivable	455,019	450,241
Inventories	645,218	751,980
Other current assets	1,054,372	1,255,045
Investments and advances	529,763	557,971
Property, plant and equipment, at cost	1,368,405	1,376,137
Other assets	221,104	325,398
Total assets	4,864,679	5,247,115
Finance subsidiaries		
Cash and cash equivalents	18,643	17,061
Finance subsidiaries — short-term receivables, net	995,547	1,106,917
Finance subsidiaries — long-term receivables, net	1,811,502	2,231,804
Other assets	91,478	149,235
Total assets	2,917,170	3,505,017
Eliminations	(841,054)	(1,070,841)
Total assets	¥6,940,795	¥7,681,291
Liabilities and Stockholders' Equity		
Non-financial services businesses		
Current liabilities:	¥1,869,129	¥1,950,980
Short-term debt	302,732	241,039
Current portion of long-term debt	8,052	9,753
Trade payables	845,990	835,302
Accrued expenses	544,144	653,570
Other current liabilities	168,211	211,316
Long-term debt	34,565	32,805
Other liabilities	539,909	789,031
Total liabilities	2,443,603	2,772,816
Finance subsidiaries		
Short-term debt	1,361,807	1,400,962
Current portion of long-term debt	299,962	294,596
Accrued expenses	137,844	128,870
Long-term debt	684,907	1,111,069
Other liabilities	145,811	269,252
Total liabilities	2,630,331	3,204,749
Eliminations	(707,080)	(925,994)
Total liabilities	4,366,854	5,051,571
Common stock	86,067	86,067
Capital surplus	172,529	172,529
Legal reserves	28,969	29,391
Retained earnings	2,765,600	3,161,664
Accumulated other comprehensive income (loss)	(479,175)	(763,165)
Treasury stock	(49)	(56,766)
Total stockholders' equity	2,573,941	2,629,720
Total liabilities and stockholders' equity	¥6,940,795	¥7,681,291

Unaudited Consolidated Statements of Cash Flows Divided into Non-Financial Services Businesses and Finance Subsidiaries

Years ended March 31, 2002 and 2003	Yen (millions)			
	2002		2003	
	Non-financial services businesses	Finance subsidiaries	Non-financial services businesses	Finance subsidiaries
Cash flows from operating activities:				
Net income	¥ 339,392	¥ 23,735	¥ 412,636	¥ 14,265
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	194,158	786	220,070	804
Deferred income taxes	(33,301)	41,387	(18,139)	86,572
Equity in income of affiliates	(43,162)	—	(62,638)	—
Loss on derivative instruments and related others	6,931	14,809	(1,956)	38,939
Decrease (increase) in trade accounts and notes receivable	5,438	—	(19,774)	—
Decrease (increase) in inventories	10,191	—	(146,574)	—
Increase (decrease) in trade payables	(13,828)	—	28,273	—
Other, net	204,088	(1,309)	131,705	163
Net cash provided by operating activities	669,907	79,408	543,603	140,743
Cash flows from investing activities:				
Decrease (increase) in investments and advances	(89,633)	(1,349)	(122,255)	(551)
Capital expenditures	(302,748)	(676)	(316,345)	(646)
Proceeds from sales of property, plant and equipment	7,162	254	16,273	165
Decrease (increase) in finance subsidiaries—receivables	—	(588,875)	—	(796,314)
Net cash used in investing activities	(385,219)	(590,646)	(422,327)	(797,346)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(47,430)	141,266	(70,207)	156,825
Proceeds from long-term debt	13,503	610,567	8,240	767,749
Repayment of long-term debt	(45,295)	(270,791)	(9,886)	(283,589)
Proceeds from issuance of common stock	—	19,878	—	16,967
Cash dividends paid	(24,391)	(389)	(30,221)	(194)
Increase (decrease) in commercial paper classified as long-term debt	—	649	—	(2,131)
Payment for purchase of treasury stock	—	—	(56,717)	—
Net cash provided by (used in) financing activities	(103,613)	501,180	(158,791)	655,627
Effect of exchange rate changes on cash and cash equivalents	20,776	129	(22,940)	(606)
Net change in cash and cash equivalents	201,851	(9,929)	(60,455)	(1,582)
Cash and cash equivalents at beginning of year	388,947	28,572	590,798	18,643
Cash and cash equivalents at end of year	¥ 590,798	¥ 18,643	¥ 530,343	¥ 17,061

- Notes: 1. Subsidiaries engaged in financial services are referred to as finance subsidiaries. Other subsidiaries are referred to as non-financial services businesses.
2. Free cash flow (the net of cash flows from operating activities and cash flows from investing activities) for non-financial services businesses was ¥284,688 million, while finance subsidiaries generated a negative free cash flow of ¥511,238 million in fiscal 2002. Non-financial services businesses lend to finance subsidiaries. These cash flows are included in the decrease (increase) in investments and advances, increase (decrease) in short-term debt, proceeds from long-term debt and repayment of long-term debt. Excluding the increase in loans to finance subsidiaries (¥70,471 million), free cash flow for non-financial services businesses in fiscal 2002 was ¥355,159 million.
3. Free cash flow (the net of cash flows from operating activities and cash flows from investing activities) for non-financial services businesses was ¥121,276 million, while finance subsidiaries generated a negative free cash flow of ¥656,603 million in fiscal 2003. Non-financial services businesses lend to finance subsidiaries. These cash flows are included in the decrease (increase) in investments and advances, increase (decrease) in short-term debt, proceeds from long-term debt and repayment of long-term debt. Excluding the increase in loans to finance subsidiaries (¥124,908 million), free cash flow for non-financial services businesses in fiscal 2003 was ¥246,184 million.
4. For each cash flow item shown above, the sum of the amounts for the non-financial services businesses and the finance subsidiaries do not necessarily equal the consolidated amounts reflected in the Company's audited consolidated statements of cash flows appearing elsewhere in this annual report due to the existence of intercompany transactions such as loans from the non-financial services businesses to the finance subsidiaries described in Notes 2 and 3 which have not been eliminated in the unaudited consolidated statements of cash flows presented above.

CONSOLIDATED BALANCE SHEETS

Honda Motor Co.,Ltd. and Subsidiaries

At March 31, 2002 and 2003	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 609,441	¥ 547,404	\$ 4,554
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥8,662 million in 2002 and ¥8,343 million (\$69 million) in 2003	452,208	444,498	3,698
Finance subsidiaries–receivables, net (note 3)	995,087	1,097,541	9,131
Inventories (note 4)	644,282	751,980	6,256
Deferred income taxes (note 9)	182,788	202,376	1,684
Other current assets (note 7)	204,538	248,561	2,068
Total current assets	3,088,344	3,292,360	27,391
Finance subsidiaries–receivables, net (note 3)	1,808,861	2,230,020	18,552
Investments and advances:			
Investments in and advances to affiliates (note 5)	249,959	272,753	2,269
Other, including marketable equity securities (note 6)	145,536	140,218	1,167
Total investments and advances	395,495	412,971	3,436
Property, plant and equipment, at cost (note 7):			
Land	318,208	342,991	2,854
Buildings	920,106	942,747	7,843
Machinery and equipment	2,048,244	2,023,724	16,836
Construction in progress	82,610	72,112	600
	3,369,168	3,381,574	28,133
Less accumulated depreciation	1,979,455	1,987,231	16,533
Net property, plant and equipment	1,389,713	1,394,343	11,600
Other assets (notes 7 and 9)	258,382	351,597	2,925
Total assets	¥ 6,940,795	¥ 7,681,291	\$ 63,904

See accompanying notes to consolidated financial statements.

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term debt (note 7)	¥ 1,035,069	¥ 877,954	\$ 7,304
Current portion of long-term debt (note 7)	308,014	304,342	2,532
Trade payables:			
Notes	26,009	26,076	217
Accounts	814,948	804,595	6,694
Accrued expenses	678,118	777,492	6,468
Income taxes payable (note 9)	61,244	64,179	534
Other current liabilities (notes 7 and 9)	186,657	267,752	2,227
Total current liabilities	3,110,059	3,122,390	25,976
Long-term debt (note 7)	716,614	1,140,182	9,486
Other liabilities (notes 7, 8, 9 and 11)	540,181	788,999	6,564
Total liabilities	4,366,854	5,051,571	42,026
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares; issued 974,414,215 shares in 2002 and 2003	86,067	86,067	716
Capital surplus	172,529	172,529	1,435
Legal reserves (note 10)	28,969	29,391	245
Retained earnings (note 10)	2,765,600	3,161,664	26,303
Accumulated other comprehensive income (loss) (notes 6, 9, 11 and 13)	(479,175)	(763,165)	(6,349)
Treasury stock, at cost 10,036 shares in 2002 and 12,797,465 shares in 2003	(49)	(56,766)	(472)
Total stockholders' equity	2,573,941	2,629,720	21,878
Commitments and contingent liabilities (notes 16 and 17)			
Total liabilities and stockholders' equity	¥ 6,940,795	¥ 7,681,291	\$ 63,904

CONSOLIDATED STATEMENTS OF INCOME

Honda Motor Co.,Ltd. and Subsidiaries

Years ended March 31, 2001, 2002 and 2003	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Net sales and other operating revenue (note 3)	¥6,463,830	¥ 7,362,438	¥ 7,971,499	\$ 66,319
Operating costs and expenses:				
Cost of sales (note 3)	4,557,382	5,036,188	5,410,192	45,010
Selling, general and administrative	1,146,659	1,291,778	1,434,995	11,938
Research and development	352,829	395,176	436,863	3,635
	6,056,870	6,723,142	7,282,050	60,583
Operating income	406,960	639,296	689,449	5,736
Other income:				
Interest	11,833	7,445	7,445	62
Other	8,873	1,898	5,741	48
	20,706	9,343	13,186	110
Other expenses (note 1 (p)):				
Interest	21,400	16,769	12,207	102
Other	21,290	80,528	80,673	671
	42,690	97,297	92,880	773
Income before income taxes and equity in income of affiliates	384,976	551,342	609,755	5,073
Income taxes (note 9):				
Current	196,863	223,064	176,632	1,470
Deferred	(18,424)	8,086	68,433	569
	178,439	231,150	245,065	2,039
Income before equity in income of affiliates	206,537	320,192	364,690	3,034
Equity in income of affiliates (note 5)	25,704	42,515	61,972	516
Net income	¥ 232,241	¥ 362,707	¥ 426,662	\$ 3,550

	Yen			U.S. dollars (note 2)
	2001	2002	2003	2003
Basic net income per common share (note 1 (n))	¥ 238.34	¥ 372.23	¥ 439.43	\$ 3.66

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Honda Motor Co.,Ltd. and Subsidiaries

Years ended March 31, 2001, 2002 and 2003	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Common stock:				
Balance at beginning of year	¥ 86,067	¥ 86,067	¥ 86,067	\$ 716
Balance at end of year	86,067	86,067	86,067	716
Capital surplus:				
Balance at beginning of year	172,529	172,529	172,529	1,435
Balance at end of year	172,529	172,529	172,529	1,435
Legal reserves:				
Balance at beginning of year	27,545	27,929	28,969	241
Transfer from retained earnings (note 10)	384	1,040	422	4
Balance at end of year	27,929	28,969	29,391	245
Retained earnings:				
Balance at beginning of year	2,218,848	2,428,293	2,765,600	23,008
Net income for the year	232,241	362,707	426,662	3,550
Cash dividends (note 10)	(22,412)	(24,360)	(30,176)	(251)
Transfer to legal reserves (note 10)	(384)	(1,040)	(422)	(4)
Balance at end of year	2,428,293	2,765,600	3,161,664	26,303
Accumulated other comprehensive income (loss) (notes 6,9,11 and 13):				
Balance at beginning of year	(574,616)	(484,527)	(479,175)	(3,986)
Other comprehensive income (loss) for the year, net of tax	90,089	5,352	(283,990)	(2,363)
Balance at end of year	(484,527)	(479,175)	(763,165)	(6,349)
Treasury stock:				
Balance at beginning of year	—	—	(49)	(0)
Purchase of treasury stock	—	(49)	(56,717)	(472)
Balance at end of year	—	(49)	(56,766)	(472)
Total stockholders' equity	¥2,230,291	¥ 2,573,941	¥ 2,629,720	\$ 21,878
Disclosure of comprehensive income:				
Net income for the year	¥ 232,241	¥ 362,707	¥ 426,662	\$ 3,550
Other comprehensive income (loss) for the year, net of tax (notes 6,9,11 and 13)	90,089	5,352	(283,990)	(2,363)
Total comprehensive income for the year	¥ 322,330	¥ 368,059	¥ 142,672	\$ 1,187

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Honda Motor Co.,Ltd. and Subsidiaries

Years ended March 31, 2001, 2002 and 2003	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Cash flows from operating activities (note 12):				
Net income	¥ 232,241	¥ 362,707	¥ 426,662	\$ 3,550
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	170,342	194,944	220,874	1,838
Deferred income taxes	(18,424)	8,086	68,433	569
Equity in income of affiliates	(25,704)	(42,515)	(61,972)	(516)
Provision for credit and lease residual losses on finance subsidiaries—receivables	15,584	22,139	39,377	327
Loss on derivative instruments and related others	—	21,740	36,983	308
Decrease (increase) in assets:				
Trade accounts and notes receivable	(35,460)	5,539	(16,842)	(140)
Inventories	(8,372)	10,191	(146,574)	(1,219)
Other current assets	(843)	69,243	(104,583)	(870)
Other assets	18,508	(28,577)	(44,820)	(373)
Increase (decrease) in liabilities:				
Trade accounts and notes payable	83,566	(14,101)	28,675	238
Accrued expenses	31,477	75,772	130,615	1,087
Income taxes payable	(15,180)	20,551	3,964	33
Other current liabilities	39,791	(41,717)	17,708	147
Other liabilities	19,176	59,762	30,412	253
Other, net	1,608	26,186	59,215	493
Net cash provided by operating activities	508,310	749,950	688,127	5,725
Cash flows from investing activities:				
Decrease (increase) in investments and advances	(8,658)	476	20,737	173
Capital expenditures	(285,687)	(303,424)	(316,991)	(2,637)
Proceeds from sales of property, plant and equipment	19,218	7,416	16,438	137
Acquisitions of finance subsidiaries—receivables	(2,083,375)	(2,900,128)	(3,265,076)	(27,164)
Collections of finance subsidiaries—receivables	1,516,094	1,615,182	1,710,833	14,233
Proceeds from sales of finance subsidiaries—receivables	325,364	693,907	760,500	6,327
Net cash used in investing activities	(517,044)	(886,571)	(1,073,559)	(8,931)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	333,541	5,997	(47,959)	(399)
Proceeds from long-term debt	149,108	624,070	775,987	6,456
Repayment of long-term debt	(475,744)	(298,718)	(292,063)	(2,430)
Cash dividends paid (note 10)	(22,412)	(24,360)	(30,176)	(251)
Increase (decrease) in commercial paper classified as long-term debt	711	649	(2,131)	(18)
Payment for purchase of treasury stock	—	—	(56,717)	(472)
Net cash provided by (used in) financing activities	(14,796)	307,638	346,941	2,886
Effect of exchange rate changes on cash and cash equivalents	10,462	20,905	(23,546)	(196)
Net change in cash and cash equivalents	(13,068)	191,922	(62,037)	(516)
Cash and cash equivalents at beginning of year	430,587	417,519	609,441	5,070
Cash and cash equivalents at end of year	¥ 417,519	¥ 609,441	¥ 547,404	\$ 4,554

See accompanying notes to consolidated financial statements.

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, 5 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, 2003 were derived from: motorcycle business 12.3%, automobile business 80.8%, financial services 3.0%, and other businesses 3.9%.

Operating income by category of activity for the year ended March 31, 2003 was derived from: motorcycle business 8.5%, automobile business 81.2%, financial services 9.0%, and other businesses 1.3%. The total assets at March 31, 2003 were attributable to: motorcycle business 10.4%, automobile business 47.2%, financial services 45.6%, other businesses 3.1%, and corporate assets (net of company-wide accounts eliminated in consolidation) (6.3%).

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 2003, 75.2% of net sales and other operating revenue (¥5,995,981 million; \$49,883 million) was derived from subsidiaries operating outside Japan (2002: ¥5,274,673 million, 2001: ¥4,512,845 million). Net sales and other operating revenue for the year ended March 31, 2003 was geographically broken down based on the location of customers as follows: Japan 21.9%, North America 57.3%, Europe 8.3%, and others 12.5%. For the year ended March 31, 2003, 68.7% of operating income (¥473,913 million; \$3,943 million) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (2002: ¥407,768 million, 2001: ¥256,933 million). Also, 67.6% of Honda's assets at March 31, 2003 (¥5,190,627 million; \$43,183 million) was identified with foreign operations (2002: ¥4,569,098 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. Investments in 20% to 50% owned affiliates in which the Company has the ability to exercise significant influence over their operating and financial policies 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. Significant items subject to such estimates and assumptions include allowance for credit losses, allowance for losses on lease residual values, valuation allowance for inventories and deferred tax assets, impairment of long-lived assets, product warranty, and assets and obligations related to employee benefits. Actual results could differ from those estimates.

(e) Revenue Recognition

Sales of manufactured products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, title and risk of loss have passed to the customers, the sales price is fixed or determinable, and collectibility is probable. Revenues are recognized net of discounts, cash sales incentives and rebates granted.

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, 2002 and 2003 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 accumulated other comprehensive income (loss) in the stockholders’ equity section of the consolidated balance sheets. Honda did not hold any “trading” securities at March 31, 2002 and 2003, 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, 2002 and 2003.

(i) Goodwill

On April 1, 2002, Honda adopted Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Intangible Assets” and ceased amortizing its goodwill at that time. Prior to adopting SFAS No. 142, Honda amortized goodwill on a straight-line basis over the expected periods to be benefited, generally five years. The adoption of SFAS No. 142 did not have a material effect on Honda’s consolidated financial position and results of operations. Honda completed its transitional impairment test of goodwill effective April 1, 2002 and its annual test effective March 31, 2003 as prescribed by SFAS No. 142 and concluded no impairment needed to be recognized. The carrying amount of goodwill at March 31, 2002 and 2003 was ¥9,054 million and ¥15,566 million (\$130 million), respectively.

Net income exclusive of goodwill amortization expense recognized under previous accounting standards on a after-tax basis in the three-year period ended March 31, 2003 is as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Reported net income	¥ 232,241	¥ 362,707	¥ 426,662	\$ 3,550
Add back: Goodwill amortization	2,335	2,056	—	—
Adjusted net income	¥ 234,576	¥ 364,763	¥ 426,662	\$ 3,550

	Yen			U.S. dollars (note 2)
Basic net income per common share				
Reported net income	¥ 238.34	¥ 372.23	¥ 439.43	\$ 3.66
Goodwill amortization	2.40	2.11	—	—
Adjusted net income	¥ 240.74	¥ 374.34	¥ 439.43	\$ 3.66

(j) Depreciation

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

The estimated useful lives used in computing depreciation of property, plant and equipment are as follows:

Asset	Life
Buildings	Up to 50 years
Machinery and equipment	2 to 20 years

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

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which retains the fundamental provisions in SFAS No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No.121. Honda adopted the provisions of SFAS No.144 on April 1, 2002. The adoption of SFAS No.144 did not have a material effect on Honda's consolidated financial position and results of operations.

Honda's long-lived assets and certain identifiable intangibles having finite useful lives 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 by sale are reported at the lower of the carrying amount or fair value less costs to sell.

(l) 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.

(m) 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, 2003 were ¥197,593 million, ¥213,836 million and ¥234,670 million (\$1,952 million), respectively. Provisions for estimated costs related to product warranty are made at the time of sale. Estimated warranty expenses are provided based on historical warranty claim experience with consideration given to the expected level of future warranty

costs as well as current information on repair costs. Included in warranty expenses accruals are costs for general warranties on vehicles Honda sells, product recalls and service actions outside the general warranties.

(n) 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. The weighted average number of common shares outstanding for the years ended March 31, 2001, 2002 and 2003 was 974,414,215, 974,408,513 and 970,952,677, respectively. There were no potentially dilutive shares outstanding for the years ended March 31, 2001, 2002 and 2003.

(o) 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 accumulated other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheets.

Foreign currency transaction gains (losses) included in other income (expenses) – other for each of the years in the three-year period ended March 31, 2003 are as follows:

Yen (millions)			U.S. dollars (millions) (note 2)
2001	2002	2003	2003
¥ (8,195)	¥ (46,678)	¥ 520	\$ 4

(p) 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. Prior to the adoption of Statement of Financial Accounting Standards (SFAS) No.133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No.133" on April 1, 2001, gains and losses on foreign exchange instruments that qualify for hedge accounting treatment were recognized in the same period in which gains or losses from the transaction being hedged were recognized. The differential paid or received on interest rate swap agreements was 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 was deferred until the hedged item was realized. Derivative financial instruments that did not meet the criteria for hedge accounting were marked to market.

The Financial Accounting Standards Board issued SFAS No.133 in June 1998 and SFAS No.138 in June 2000. 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 is immediately recognized in earnings.

Honda adopted SFAS No.133 and SFAS No.138 on April 1, 2001. The cumulative effect adjustment upon the adoption of SFAS No.133 and SFAS No.138, net of the related income tax effect, resulted in a decrease to net income of ¥89 million and a decrease to other comprehensive income of ¥5,998 million. Due to the immateriality of the amount, the cumulative effect adjustment to net income of ¥89 million and the cumulative effect adjustment to other comprehensive income of ¥5,998 million were recognized in other expenses in the consolidated statements of income for the year ended March 31, 2002. The adoption of SFAS No.133 and SFAS No.138 has not altered Honda's hedging strategies. However, all derivatives are now recognized as either assets or liabilities in the consolidated balance sheets and measured at fair value. In addition, because Honda has not elected to apply hedge accounting subsequent to the adoption of SFAS No.133 and SFAS No.138, changes in the fair value of its derivative instruments are recognized in earnings in the period of the change. The amount recognized in earnings (included in other expenses—other) during the year ended March 31, 2002 and 2003, excluding the cumulative effect adjustment, was ¥14,039 million and ¥19,910 million (\$166 million), respectively.

(q) Shipping and Handling Costs

Shipping and handling costs included in selling, general and administrative expenses for each of the years in the three-year period ended March 31, 2003 are as follows:

Yen (millions)			U.S. dollars (millions) (note 2)
2001	2002	2003	2003
¥131,053	¥134,358	¥144,791	\$1,205

(r) New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No.143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. SFAS No.143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, Honda will recognize a gain or loss on settlement. Honda adopted the provisions of SFAS No.143 for the fiscal year beginning April 1, 2003. The adoption of SFAS No.143 did not have a material effect on Honda's consolidated financial position and results of operations.

In June 2002, the Financial Accounting Standards Board issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No.94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exist an Activity (including Certain Costs Incurred in a Restructuring)." This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under this Statement, a liability is incurred when the definition of a liability under FASB Concepts Statement 6 is met. This Statement also requires that a liability for a cost associated with an exit or disposal activity be measured at fair value. The fair value of a liability is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No.146 did not have a material effect on Honda's consolidated financial position and results of operations.

In November 2002, the Financial Accounting Standards Board issued Interpretation No.45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No.5, 57 and 107 and a rescission of FASB Interpretation No.34."

This Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under guarantees issued. This Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The Interpretation has not had a material effect on Honda's consolidated financial position and results of operations.

In January 2003, the Financial Accounting Standards Board issued Interpretation No.46, "Consolidation of Variable Interest Entities, an interpretation of ARB No.51." This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. This interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Company will apply the interpretation to variable interest entities created before February 1, 2003 by September 30, 2003. Although the impact of this Interpretation is still being assessed and there is a possibility that variable interests entities may require consolidation, the effect on Honda's consolidated financial statements is expected to be immaterial.

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue No.03-2 "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of

Employee Pension Fund Liabilities" ("EITF 03-2"). EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund ("EPF") plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the separation process of the substitutional portion from the entire EPF plan (which includes a corporation portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets. The separation process is considered the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. The Company has not decided whether it will transfer the substitutional portion to the government. Accordingly, the effect on Honda's consolidated financial statements, if any, cannot be determined until a decision is made and the substitutional portion of the benefit obligation and plan assets are transferred to the government.

(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, 2003.

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, 2003 have been translated into United States dollars at the rate of ¥120.20 = U.S.\$1, the approximate

exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003. 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, 2002 and 2003:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Direct financing leases	¥ 1,410,324	¥ 1,701,447	\$ 14,155
Retail	1,230,479	1,550,787	12,902
Wholesale	236,396	241,039	2,005
Term loans to dealers	22,288	28,001	233
Total finance receivables	2,899,487	3,521,274	29,295
Retained interests in the sold pools of finance receivables	106,879	67,024	558
	3,006,366	3,588,298	29,853
Less:			
Allowance for credit losses	12,965	18,628	155
Allowance for losses on lease residual values	12,560	22,355	186
Unearned interest income and fees	176,893	219,754	1,829
Finance subsidiaries-receivables, net	2,803,948	3,327,561	27,683
Less current portion	995,087	1,097,541	9,131
Noncurrent finance subsidiaries-receivables, net	¥ 1,808,861	¥ 2,230,020	\$ 18,552

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2003 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2004	¥ 1,159,632	\$ 9,647
2005	898,442	7,475
2006	746,945	6,214
2007	545,013	4,534
2008	149,464	1,244
After five years	21,778	181
	2,361,642	19,648
Total	¥ 3,521,274	\$ 29,295

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, 2003 as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Finance income	¥ 176,074	¥ 209,315	¥ 240,995	\$ 2,005
Finance cost	89,896	93,868	88,495	736

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, 2003,

which are included in finance income in the table above, are ¥3,170 million net gains, ¥13,060 million net gains and ¥10,144 million (\$84 million) net gains, respectively.

Key economic assumptions used in initially estimating the fair values at the date of the securitizations during each of the years in the three-year period ended March 31, 2003 are as follows:

	2001	2002	2003
Weighted average life (years)	2.92 to 3.75	2.40 to 3.92	3.84 to 4.24
Prepayment speed	0.85% to 2.55%	0.75% to 1.30%	1.00% to 1.50%
Expected credit losses	0.00% to 0.35%	0.20% to 0.35%	0.21% to 0.35%
Residual cash flows discount rate	1.73% to 12.00%	5.96% to 12.00%	6.67% to 12.00%

At March 31, 2003, the significant assumptions used in estimating the retained interests in the sold pools of finance receivables are as follows:

	Assumption (%)
Retail receivables:	
Prepayment speed	1.39
Expected credit losses	0.31
Residual cash flows discount rate	9.71
Lease receivables:	
Prepayment speed	0.83
Expected credit losses	0.20
Residual cash flows discount rate	3.18

The sensitivity of the current fair value to immediate 10% and 20% adverse changes from expected levels for each significant assumption above mentioned were immaterial.

The outstanding balance of securitized financial assets at March 31, 2003 is summarized as follows:

	Yen (millions)	U.S. dollars (millions) (note 2)
	2003	2003
Receivables sold:		
Retail	¥ 957,854	\$ 7,969
Direct financing leases	27,044	225
Total receivables sold	¥ 984,898	\$ 8,194

4. Inventories

Inventories at March 31, 2002 and 2003 are summarized as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Finished goods	¥ 408,703	¥ 504,548	\$ 4,198
Work in process	21,521	23,728	197
Raw materials	214,058	223,704	1,861
	¥ 644,282	¥ 751,980	\$ 6,256

5. Investments and Advances—Affiliates

Certain financial information in respect of affiliates accounted for on the equity method at March 31, 2002 and 2003, and for each of the years in the three-year period ended March 31, 2003 is shown below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Current assets	¥ 654,709	¥ 693,288	\$ 5,768
Other assets, principally property, plant and equipment	726,335	739,974	6,156
	1,381,044	1,433,262	11,924
Current liabilities	545,093	543,836	4,525
Other liabilities	144,718	136,951	1,139
Net assets	¥ 691,233	¥ 752,475	\$ 6,260

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Net sales	¥ 2,011,217	¥ 2,299,994	¥ 2,527,293	\$ 21,026
Net income	60,894	103,632	153,422	1,276
Cash dividends received by Honda during the year	6,264	11,580	26,741	222

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, 2002 and 2003 included in retained earnings was ¥129,444 million and ¥166,907 million (\$1,389 million), respectively.

Trade receivables and trade payables include the following balances with affiliates at March 31, 2002 and 2003, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2003:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Trade receivables from	¥ 15,895	¥ 24,085	\$ 200
Trade payables to	95,600	90,035	749

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Purchases from	¥ 529,317	¥ 536,404	¥ 555,257	\$ 4,619
Sales to	101,743	131,389	107,985	898

6. Investments and Advances—Other

Investments and advances-other at March 31, 2002 and 2003 consisted of the following:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Marketable equity securities	¥ 79,804	¥ 66,841	\$ 556
Nonmarketable preferred stocks	14,200	16,200	135
Guaranty deposits	30,679	32,162	268
Life insurance contracts	4,524	4,385	36
Advances	2,503	1,786	15
Other	13,826	18,844	157
	¥ 145,536	¥ 140,218	\$ 1,167

Certain information with respect to available-for-sale securities, all of which are marketable equity securities at March 31, 2002 and 2003, is summarized below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Cost	¥ 56,884	¥ 34,063	\$ 283
Fair value	79,804	66,841	556
Gross unrealized gains	36,637	34,207	285
Gross unrealized losses	¥ 13,717	¥ 1,429	\$ 12

Realized gains and losses from available-for-sale securities for each of the years in the three-year period ended March 31, 2003, were ¥4,298 million net gains, ¥11,356 million net losses and ¥21,797 million (\$181 million) net losses, respectively.

7. Short-Term and Long-Term Debt

Short-term debt at March 31, 2002 and 2003 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Short-term bank loans	¥ 313,635	¥ 220,499	\$ 1,834
Medium-term notes	391,756	325,737	2,710
Commercial paper	329,678	331,718	2,760
	¥ 1,035,069	¥ 877,954	\$ 7,304

The weighted average interest rates on short-term debt outstanding at March 31, 2002 and 2003 were 3.78% and 1.99%, respectively.

Long-term debt at March 31, 2002 and 2003 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Honda Motor Co., Ltd.:			
Loans, maturing 2002 - 2027:			
Unsecured, principally from banks	¥ 314	¥ 278	\$ 2
	314	278	2
Subsidiaries:			
Commercial paper	223,194	210,350	1,750
Loans, maturing 2002 -2024:			
Secured, principally from banks	5,832	22,059	184
Unsecured, principally from banks	76,279	59,597	496
1.31% Japanese yen unsecured bond due 2005	30,000	30,000	250
0.69% Japanese yen unsecured bond due 2006	60,000	60,000	499
0.81% Japanese yen unsecured bond due 2006	1,000	1,000	8
0.47% Japanese yen unsecured bond due 2007	—	50,000	416
Medium-term notes, maturing 2002 - 2010	628,335	1,011,367	8,414
Less unamortized discount, net	326	127	1
	1,024,314	1,444,246	12,016
Total long-term debt	1,024,628	1,444,524	12,018
Less current portion	308,014	304,342	2,532
	¥ 716,614	¥ 1,140,182	\$ 9,486

The loans maturing 2002-2027 and 2002-2024 are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.70% to 27.61% per annum at March 31, 2003 and the weighted average interest rate on total outstanding loans at March 31, 2003 is 3.23%. Property, plant and equipment with a net book value of approximately ¥11,477 million and ¥12,240 million (\$102 million) at March 31, 2002 and 2003, respectively, were subject to specific mortgages securing indebtedness.

At March 31, 2002 and 2003, ¥223,194 million and ¥210,350 million (\$1,750 million), respectively, of commercial paper bor-

rowings 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 weighted average interest rate on commercial paper at March 31, 2002 and 2003 was approximately 3.26% and 1.88%, respectively.

Medium-term notes are unsecured, and their interest rates range from 0.05% to 2.50% at March 31, 2002 and from 1.23% to 3.43% at March 31, 2003.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2003 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2004	¥ 304,342	\$ 2,532
2005	745,085	6,199
2006	210,512	1,751
2007	88,051	733
2008	91,642	762
After five years	4,892	41
	1,140,182	9,486
Total	¥ 1,444,524	\$ 12,018

The Company and certain of its subsidiaries have entered into currency swap and interest rate swap agreements for hedging currency and interest rate exposures resulting from the issuance of long-term debt. Fair value of contracts related to currency swap and interest rate swap are included in other assets/liabilities and/or other current assets/liabilities in the consolidated balance sheets, as appropriate (see note 14). Unless a right of set-off exists, the offsetting of assets and liabilities is not made in the consolidated balance sheets.

At March 31, 2003, Honda had unused line of credit facilities amounting to ¥830,251 million (\$6,907 million), of which ¥363,420 million (\$3,023 million) related to commercial paper programs and ¥466,831 million (\$3,884 million) related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2003, Honda also had committed lines of credit amounting to ¥696,297 million (\$5,793 million), 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, 2002 and 2003 are summarized as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Allowance for product warranty	¥ 115,789	¥ 130,307	\$ 1,084
Minority interest	35,978	52,546	437
Additional minimum pension liabilities (note 11)	354,772	555,206	4,619
Deferred income taxes	1,561	8,740	73
Other	32,081	42,200	351
	¥ 540,181	¥ 788,999	\$ 6,564

9. Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2003 were allocated as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Income	¥178,439	¥ 231,150	¥ 245,065	\$ 2,039
Stockholders' equity—Accumulated other comprehensive income (loss) (note 13)	46,950	(80,772)	(85,643)	(713)
	¥225,389	¥ 150,378	¥ 159,422	\$ 1,326

Income before income taxes and equity in income of affiliates by domestic and foreign source and income tax expense (benefit) for each of the years in the three-year period ended March 31, 2003 consisted of the following:

	Yen (millions)			
	Income before income taxes	Income taxes		
		Current	Deferred	Total
2001:				
Japanese	¥ 133,166	¥ 65,444	¥ (3,008)	¥ 62,436
Foreign	251,810	131,419	(15,416)	116,003
	¥ 384,976	¥ 196,863	¥ (18,424)	¥ 178,439
2002:				
Japanese	¥ 161,330	¥ 92,672	¥ (19,970)	¥ 72,702
Foreign	390,012	130,392	28,056	158,448
	¥ 551,342	¥ 223,064	¥ 8,086	¥ 231,150
2003:				
Japanese	¥ 176,515	¥ 114,809	¥ (33,664)	¥ 81,145
Foreign	433,240	61,823	102,097	163,920
	¥ 609,755	¥ 176,632	¥ 68,433	¥ 245,065

	U.S. dollars (millions) (note 2)			
	Income before income taxes	Income taxes		
		Current	Deferred	Total
2003:				
Japanese	\$ 1,469	\$ 955	\$ (280)	\$ 675
Foreign	3,604	515	849	1,364
	\$ 5,073	\$ 1,470	\$ 569	\$ 2,039

The significant components of deferred income tax expense (benefit) for each of the years in the three-year period ended March 31, 2003 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
	Deferred tax expense (exclusive of the effects of the other components listed below)	¥ (16,803)	¥ 8,375	¥ 73,783
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	—	(2,298)	(19)
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(1,621)	(289)	(3,052)	(26)
	¥ (18,424)	¥ 8,086	¥ 68,433	\$ 569

The Company is subject to a national corporate tax of 30%, an inhabitant tax of between 5.19% and 6.21% and a deductible business tax between 9.60% and 10.08%, which in the aggregate resulted in a statutory income tax rate of approximately 41% for each of the years in the three-year period ended March 31, 2003. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, which reduce standard business tax rates from

9.60% to 7.68% as well as additionally levying business tax based on corporate size. It will be effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate will be lowered to approximately 40% for deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2004. The foreign subsidiaries are subject to taxes based on income at rates ranging from 25% to 41%.

The effective tax rate for Honda for each of the years in the three-year period ended March 31, 2003 differs from the Japanese statutory income tax rate for the following reasons:

	2001	2002	2003
Statutory income tax rate	41.0%	41.0%	41.0%
Valuation allowance provided for current year operating losses of subsidiaries	5.2	2.9	0.8
Difference in statutory tax rates of foreign subsidiaries	(1.0)	(1.0)	(2.1)
Reversal of valuation allowance due to utilization of operating loss carryforwards	(0.1)	(0.2)	(0.6)
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates ..	—	—	(0.4)
Other	1.3	(0.8)	1.5
Effective tax rate	46.4%	41.9%	40.2%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2002 and 2003 are presented below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Deferred tax assets:			
Inventory valuation	¥ 63,190	¥ 63,142	\$ 525
Allowance for dealers and customers	104,624	109,500	911
Foreign tax credit	33,905	32,735	272
Operating loss carryforwards	68,440	73,839	614
Minimum pension liabilities adjustment	145,456	221,481	1,843
Other accrued pension liabilities	66,045	78,544	654
Other	119,805	129,502	1,077
Total gross deferred tax assets	601,465	708,743	5,896
Less valuation allowance	61,129	65,040	541
Net deferred tax assets	540,336	643,703	5,355
Deferred tax liabilities:			
Inventory valuation	(10,757)	(12,191)	(101)
Depreciation and amortization, excluding lease transactions	(23,639)	(35,590)	(296)
Lease transactions	(149,859)	(231,557)	(1,926)
Undistributed earnings of subsidiaries and affiliates	(52,857)	(43,493)	(362)
Net unrealized gains on marketable equity securities	(9,396)	(13,111)	(109)
Other	(24,894)	(21,617)	(180)
Total gross deferred tax liabilities	(271,402)	(357,559)	(2,974)
Net deferred tax asset	¥ 268,934	¥ 286,144	\$ 2,381

Deferred income taxes at March 31, 2002 and 2003 are reflected in the consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Current assets—Deferred income taxes	¥ 182,788	¥ 202,376	\$ 1,684
Other assets	154,344	224,105	1,865
Other current liabilities	(66,637)	(131,597)	(1,095)
Other liabilities	(1,561)	(8,740)	(73)
Net deferred tax asset	¥ 268,934	¥ 286,144	\$ 2,381

The valuation allowance for deferred tax assets at March 31, 2001 was ¥46,225 million. The net change in the total valuation allowance for the years ended March 31, 2002 and 2003 was an increase of ¥14,904 million and ¥3,911 million (\$33 million), 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, 2002 and 2003.

At March 31, 2003, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of ¥190,177 million (\$1,582 million), 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 (millions) (note 2)
Within 1 year	¥ 457	\$ 4
1 to 5 years	19,317	160
5 to 15 years	25,590	213
Indefinite periods	144,813	1,205
	¥ 190,177	\$ 1,582

At March 31, 2002 and 2003, Honda did not recognize deferred tax liabilities of ¥16,786 million and ¥16,710 million (\$139 million), respectively, for certain portions of the undistributed earnings of the Company's foreign subsidiaries because such por-

tions were permanently reinvested. At March 31, 2002 and 2003, the undistributed earnings not subject to deferred tax liabilities were ¥686,434 million and ¥725,263 million (\$6,034 million), respectively.

10. Dividends and Legal Reserves

The Japanese Commercial Code provides that earnings in an amount equal to at least 10% of appropriations of retained earnings that are paid in cash shall be appropriated as a legal reserve until an aggregated amount of capital surplus and the legal reserve equals 25% of 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, 2003 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, 2003 were ¥23, ¥25 and ¥31 (\$0.26), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥16 (\$0.13) per share aggregating ¥15,386 million (\$128 million) determined by the Company's board of directors in April 2003 subject to approval by shareholders in June 2003.

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	
	2002	2003	2002	2003
Change in benefit obligations:				
Benefit obligations at beginning of year	¥(1,174,669)	¥(1,365,694)	¥ (117,255)	¥ (161,172)
Service cost	(39,506)	(44,733)	(10,434)	(12,663)
Interest cost	(35,240)	(34,142)	(9,149)	(10,944)
Plan participants' contributions	(6,212)	(6,669)	(612)	(684)
Actuarial gain (loss)	(131,523)	(136,938)	(14,235)	(14,128)
Benefits paid	21,456	29,205	1,310	1,523
Amendment	—	21,916	(143)	(30)
Foreign exchange translation	—	—	(10,654)	12,453
Benefit obligations at end of year	(1,365,694)	(1,537,055)	(161,172)	(185,645)
Change in plan assets:				
Fair value of plan assets at beginning of year	698,726	692,926	131,069	146,063
Actual return on plan assets	(35,919)	(89,316)	(7,592)	(19,816)
Employer contributions	45,363	44,166	13,377	26,447
Plan participants' contributions	6,212	6,669	612	684
Benefits paid	(21,456)	(29,205)	(1,310)	(1,523)
Foreign exchange translation	—	—	9,907	(11,373)
Fair value of plan assets at end of year	692,926	625,240	146,063	140,482
Funded status	(672,768)	(911,815)	(15,109)	(45,163)
Unrecognized actuarial loss	577,375	801,885	16,464	60,725
Unrecognized net transition obligations	8,831	7,796	551	454
Unrecognized prior service cost (benefit)	(74,469)	(89,438)	5,653	4,824
Net amount recognized	(161,031)	(191,572)	7,559	20,840
Adjustments to recognize additional minimum liabilities (note 8):				
Amount included in accumulated other comprehensive income (loss)	(354,772)	(549,236)	—	(5,970)
Prepaid (accrued) pension cost recognized in the consolidated balance sheets	¥ (515,803)	¥ (740,808)	¥ 7,559	¥ 14,870
Pension plans with accumulated benefit obligations in excess of plan assets:				
Projected benefit obligations	¥(1,361,801)	¥(1,537,055)	¥ (19,620)	¥ (72,844)
Accumulated benefit obligations	(1,205,883)	(1,366,048)	(17,322)	(56,673)
Fair value of plan assets	689,933	625,240	15,065	42,723

	U.S. dollars (millions) (note 2)	
	Japanese plans	Foreign plans
	2003	2003
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ (11,362)	\$ (1,341)
Service cost	(372)	(106)
Interest cost	(284)	(91)
Plan participants' contributions	(55)	(6)
Actuarial gain (loss)	(1,140)	(117)
Benefits paid	243	13
Amendment	182	(0)
Foreign exchange translation	—	104
Benefit obligations at end of year	(12,788)	(1,544)
Change in plan assets:		
Fair value of plan assets at beginning of year	5,765	1,215
Actual return on plan assets	(743)	(165)
Employer contributions	368	220
Plan participants' contributions	55	6
Benefits paid	(243)	(13)
Foreign exchange translation	—	(94)
Fair value of plan assets at end of year	5,202	1,169
Funded status	(7,586)	(375)
Unrecognized actuarial loss	6,671	505
Unrecognized net transition obligations	65	4
Unrecognized prior service cost (benefit)	(744)	40
Net amount recognized	(1,594)	174
Adjustments to recognize additional minimum liabilities (note 8):		
Amount included in accumulated other comprehensive income (loss)	(4,569)	(50)
Prepaid (accrued) pension cost recognized in the consolidated balance sheets	\$ (6,163)	\$ 124
Pension plans with accumulated benefit obligations in excess of plan assets:		
Projected benefit obligations	\$ (12,788)	\$ (606)
Accumulated benefit obligations	(11,365)	(471)
Fair value of plan assets	5,202	355

Pension expense for each of the years in the three-year period ended March 31, 2003 included the following:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Japanese plans:				
Service cost-benefits earned during the year	¥ 44,311	¥ 39,506	¥ 44,733	\$ 372
Interest cost on projected benefit obligations	37,213	35,240	34,142	284
Expected return on plan assets	(27,808)	(30,083)	(31,711)	(264)
Net amortization and deferral	11,171	13,349	23,223	194
	¥ 64,887	¥ 58,012	¥ 70,387	\$ 586
Foreign plans:				
Service cost-benefits earned during the year	¥ 9,034	¥ 10,434	¥ 12,663	\$ 106
Interest cost on projected benefit obligations	7,293	9,149	10,944	91
Expected return on plan assets	(6,410)	(9,739)	(9,593)	(80)
Net amortization and deferral	(1,898)	(978)	(1,781)	(15)
	¥ 8,019	¥ 8,866	¥ 12,233	\$ 102

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

	2001	2002	2003
Japanese plans:			
At March 31:			
Discount rate	3.0%	2.5%	2.0%
Rate of salary increase	2.8%	2.5%	2.3%
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 – 8.0%	5.5 – 7.5%	5.5 – 7.0%
Rate of salary increase	4.0 – 6.0%	4.0 – 6.0%	4.0 – 6.7%
Year ended March 31:			
Expected long-term rate of return	6.5 – 9.0%	6.5 – 9.0%	6.8 – 8.5%

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 (millions) (note 2)
	2001	2002	2003	2003
Cash paid during the year for:				
Interest	¥ 106,446	¥ 105,614	¥ 100,368	\$ 835
Income taxes	211,549	200,453	173,697	1,445

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, 2003 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2001	2002	2003	2003
Adjustments from foreign currency translation:				
Balance at beginning of year	¥ (580,676)	¥ (419,482)	¥ (300,081)	\$ (2,496)
Adjustments for the year	161,194	119,401	(169,391)	(1,410)
Balance at end of year	(419,482)	(300,081)	(469,472)	(3,906)
Net unrealized gains on marketable equity securities:				
Balance at beginning of year	41,022	16,637	8,730	72
Realized (gain) loss on marketable equity securities	(5,398)	2,975	7,137	59
Decrease in net unrealized gains on marketable equity securities	(18,987)	(10,882)	(1,047)	(8)
Balance at end of year	16,637	8,730	14,820	123
Minimum pension liabilities adjustment:				
Balance at beginning of year	(34,962)	(81,682)	(187,824)	(1,562)
Adjustments for the year	(46,720)	(106,142)	(120,689)	(1,004)
Balance at end of year	(81,682)	(187,824)	(308,513)	(2,566)
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(574,616)	(484,527)	(479,175)	(3,986)
Adjustments for the year	90,089	5,352	(283,990)	(2,363)
Balance at end of year	¥ (484,527)	¥ (479,175)	¥ (763,165)	\$ (6,349)

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
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)	(41,332)	16,947	(24,385)
Minimum pension liabilities adjustment	(79,186)	32,466	(46,720)
Other comprehensive income (loss)	¥ 137,039	¥ (46,950)	¥ 90,089
2002:			
Adjustments from foreign currency translation	¥ 118,341	¥ 1,060	¥ 119,401
Unrealized gains (losses) on marketable equity securities:			
Unrealized holding gains (losses) arising during the year	(18,994)	8,112	(10,882)
Reclassification adjustments for losses realized in net income	5,134	(2,159)	2,975
Net unrealized gains (losses)	(13,860)	5,953	(7,907)
Minimum pension liabilities adjustment	(179,901)	73,759	(106,142)
Other comprehensive income (loss)	¥ (75,420)	¥ 80,772	¥ 5,352
2003:			
Adjustments from foreign currency translation	¥ (179,332)	¥ 9,941	¥ (169,391)
Unrealized gains (losses) on marketable equity securities:			
Unrealized holding gains (losses) arising during the year	(2,002)	955	(1,047)
Reclassification adjustments for losses realized in net income	12,135	(4,998)	7,137
Net unrealized gains (losses)	10,133	(4,043)	6,090
Minimum pension liabilities adjustment	(200,434)	79,745	(120,689)
Other comprehensive income (loss)	¥ (369,633)	¥ 85,643	¥ (283,990)
	U.S. dollars (millions) (note 2)		
	Before-tax amount	Tax (expense) or benefit (note 9)	Net-of-tax amount
2003:			
Adjustments from foreign currency translation	\$ (1,493)	\$ 83	\$ (1,410)
Unrealized gains (losses) on marketable equity securities:			
Unrealized holding gains (losses) arising during the year	(16)	8	(8)
Reclassification adjustments for losses realized in net income	100	(41)	59
Net unrealized gains (losses)	84	(33)	51
Minimum pension liabilities adjustment	(1,667)	663	(1,004)
Other comprehensive income (loss)	\$ (3,076)	\$ 713	\$ (2,363)

14. Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 2002 and 2003 are as follows:

	Yen (millions)				U.S. dollars (millions) (note 2)	
	2002		2003		2003	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries—receivables (a)	¥ 1,567,614	¥ 1,566,851	¥ 1,835,085	¥ 1,868,749	\$ 15,267	\$ 15,547
Investments and advances—marketable equity securities	79,804	79,804	66,841	66,841	556	556
Debt	(2,059,697)	(2,064,112)	(2,322,478)	(2,329,535)	(19,322)	(19,380)
Foreign exchange instruments (b)						
Asset position	¥ 1,617	¥ 1,617	¥ 9,598	¥ 9,598	\$ 80	\$ 80
Liability position	(22,107)	(22,107)	(13,523)	(13,523)	(113)	(113)
Net	¥ (20,490)	¥ (20,490)	¥ (3,925)	¥ (3,925)	\$ (33)	\$ (33)
Interest rate instruments (c)						
Asset position	¥ 5,940	¥ 5,940	¥ 572	¥ 572	\$ 5	\$ 5
Liability position	(22,835)	(22,835)	(43,498)	(43,498)	(362)	(362)
Net	¥ (16,895)	¥ (16,895)	¥ (42,926)	¥ (42,926)	\$ (357)	\$ (357)

(a) The carrying amounts of finance subsidiaries-receivables at March 31, 2002 and 2003 in the table exclude ¥1,236,334 million and ¥1,492,476 million (\$12,416 million) of direct financing leases, net, classified as finance subsidiaries-receivables in the consolidated balance sheets, respectively.

(b) The fair values of foreign currency forward contracts, foreign currency option contracts and foreign currency swap agreements are included in other assets and other current assets/liabilities in the consolidated balance sheets as follows (see note 7):

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Other current assets	¥ 1,052	¥ 4,025	\$ 34
Other assets	565	5,573	46
Other current liabilities	(22,107)	(13,523)	(113)
	¥ (20,490)	¥ (3,925)	\$ (33)

(c) The fair values of interest rate swap agreements are included in other assets/liabilities and other current liabilities in the consolidated balance sheets as follows (see note 7):

	Yen (millions)		U.S. dollars (millions) (note 2)
	2002	2003	2003
Other assets	¥ 5,940	¥ 572	\$ 5
Other current liabilities	(22,777)	(43,344)	(361)
Other liabilities	(58)	(154)	(1)
	¥ (16,895)	¥ (42,926)	\$ (357)

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 judgment 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.

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 currencies. 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 three-five 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

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.

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, 2002 and 2003, the total amounts of foreign currency forward contracts, currency swap agreements and foreign currency option contracts outstanding were ¥720,493 million and ¥1,175,166 million (\$9,777 million), 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, 2002 and 2003, the notional principal amounts of interest rate swap agreements were ¥1,845,695 million and ¥2,287,736 million (\$19,033 million), respectively.

16. Commitments and Contingent Liabilities

At March 31, 2003, Honda had commitments for purchases of property, plant and equipment of approximately ¥24,375 million (\$203 million).

Honda has entered into various guarantee and indemnification agreements. Honda has guaranteed approximately ¥88,193 million (\$734 million) of bank loan of employees for their housing costs. If an employee defaults on his/her loan payments, Honda is required to perform under the guarantee. The undis-

counted maximum amount of Honda's obligation to make future payments in the event of defaults is approximately ¥88,193 million (\$734 million). As of March 31, 2003, no amount has been accrued for any estimated losses under the obligations, as it is probable that the employees will be able to make all scheduled payments.

Honda warrants its vehicles for specific periods of time. Product warranties vary depending upon the nature of the product, the geographic location of its sale and other factors.

The changes in provisions for those product warranties are as follow:

	Yen (millions)	U.S. dollars (millions) (note 2)
	2003	2003
Balance at beginning of year	¥196,011	\$1,631
Warranty claims paid during the period	(89,757)	(747)
Liabilities accrued for warranties issued during the period	137,390	1,143
Changes in liabilities for pre-existing warranties during the period	4,579	38
Foreign currency translation	(8,425)	(70)
	¥239,798	\$1,995

With respect to product liability, personal injury claims or lawsuits, Honda believes that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by Honda's insurance and reserves. Punitive damages are claimed in certain of these lawsuits. Honda is also subject to potential liability under other various

lawsuits and claims. After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the overall results of such lawsuits and pending claims should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position and results of operations.

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, 2003 are as follows:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2004	¥ 27,144	\$ 226
2005	18,155	151
2006	12,872	107
2007	9,413	78
2008	7,064	59
After five years	29,895	249
Total minimum lease payments	¥ 104,543	\$ 870

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2003 were ¥49,400 million, ¥48,471 million and ¥46,877 million (\$390 million), respectively.

INDEPENDENT AUDITORS' REPORT



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, 2002 and 2003, 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, 2003. 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, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003 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, 2003 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 blue ink.

Tokyo, Japan
April 25, 2003

SELECTED QUARTERLY FINANCIAL DATA (Unaudited and Not Reviewed)*

	Yen (millions except per share amounts)							
	Year ended March 31, 2002				Year ended March 31, 2003			
	I	II	III	IV	I	II	III	IV
Net sales and other operating revenue	¥1,760,435	¥1,744,561	¥1,756,412	¥2,101,030	¥1,936,836	¥1,916,775	¥1,989,239	¥2,128,649
Operating income	151,445	163,792	154,782	169,277	170,823	153,046	158,978	206,602
Income before income taxes and equity in income of affiliates	135,672	134,315	120,473	160,882	163,704	109,997	158,709	177,345
Net income	89,378	84,362	82,258	106,709	107,598	87,181	115,167	116,716
Net income per common share:								
Basic	¥ 91.72	¥ 86.58	¥ 84.42	¥ 109.51	¥ 110.42	¥ 89.54	¥ 118.63	¥ 120.86
Diluted	91.72	86.58	84.42	109.51	110.42	89.54	118.63	120.86
Net income per American share:**								
Basic	45.86	43.29	42.21	54.75	55.21	44.77	59.31	60.43
Diluted	45.86	43.29	42.21	54.75	55.21	44.77	59.31	60.43
Tokyo Stock Exchange: (TSE) (in yen)								
High	¥ 5,630	¥ 5,920	¥ 5,240	¥ 5,920	¥ 5,990	¥ 5,460	¥ 5,170	¥ 4,510
Low	4,670	3,090	3,830	4,810	4,630	4,620	3,990	3,840
New York Stock Exchange:** (NYSE) (in U.S.dollars)								
High	\$ 22.84	\$ 23.09	\$ 20.56	\$ 22.83	\$ 23.85	\$ 23.10	\$ 20.99	\$ 18.80
Low	19.08	13.65	16.51	18.12	19.25	19.65	17.01	16.40

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

** Honda's common stock-to-ADR exchange ratio was changed from two shares of common stock to one ADR, to one share of common stock to two ADRs, effective January 10, 2002. Per American depositary share information has been restated for all periods presented to reflect this four-for-one ADR split.

NET SALES AND OPERATING INCOME BY BUSINESS SEGMENT*

Years ended March 31	Yen (millions)				
	1999	2000	2001	2002	2003
Motorcycle Business:					
Net sales (Sales to unaffiliated customers)	¥ 807,593	¥ 718,910	¥ 805,304	¥ 947,900	¥ 978,095
Operating income	82,350	47,264	56,478	69,656	58,766
Operating income/Net sales	10.2%	6.6%	7.0%	7.3%	6.0%
Automobile Business:					
Net sales (Sales to unaffiliated customers)	4,989,071	4,961,026	5,231,326	5,929,742	6,440,094
Operating income	427,039	348,061	320,035	520,510	560,103
Operating income/Net sales	8.6%	7.0%	6.1%	8.8%	8.7%
Financial Services:					
Net sales (Sales to unaffiliated customers)	162,007	137,128	169,293	201,906	237,958
Operating income	24,308	18,054	30,802	45,084	61,989
Operating income/Net sales	15.0%	13.2%	18.2%	22.3%	26.1%
Other Businesses:					
Net sales (Sales to unaffiliated customers)	272,370	281,776	257,907	282,890	315,352
Operating income	15,001	12,851	(355)	4,046	8,591
Operating income/Net sales	5.5%	4.6%	(0.1%)	1.4%	2.7%
Total:					
Net sales (Sales to unaffiliated customers)	¥6,231,041	¥6,098,840	¥6,463,830	¥7,362,438	¥ 7,971,499
Operating income	548,698	426,230	406,960	639,296	689,449
Operating income/Net sales	8.8%	7.0%	6.3%	8.7%	8.6%

* The business segment information has been prepared in accordance with the Ministerial Ordinance under the Securities and Exchange Law of Japan. This information is unaudited and not reviewed by its independent auditors (KPMG). Effective fiscal 2000, Honda changed its business segment categorization, whereby the all-terrain vehicle (ATV) business is now included in the Motorcycle Business, previously included in Other Businesses. All prior years' figures have been restated to reflect this change.