

Financial Section

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FINANCIAL SUMMARY

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

	1994	1995	1996	1997
Sales, income, and dividends				
Net sales and other operating revenue	¥3,862,716	¥3,966,164	¥4,252,250	¥5,293,302
Operating income	75,834	106,936	138,741	397,238
Income before income taxes and equity in income of affiliates	46,890	94,287	115,134	390,722
Income taxes	33,719	44,904	58,281	189,044
Equity in income of affiliates	10,528	12,142	13,948	19,490
Net income	23,699	61,525	70,801	221,168
As percentage of sales	0.6%	1.6%	1.7%	4.2%
Cash dividends paid during the period	13,631	13,635	13,638	13,640
Research and development	188,815	203,004	220,573	251,128
Interest expense	35,379	34,382	30,601	27,514
Assets, long-term debt, and stockholders' equity				
Total assets	¥2,921,084	¥3,014,410	¥3,516,113	¥4,191,294
Long-term debt	612,511	589,537	656,461	734,255
Total stockholders' equity	967,345	1,017,462	1,144,540	1,388,430
Depreciation				
	143,229	125,115	125,007	141,351
Capital expenditures				
	121,838	128,644	150,489	217,782
Per common share				
Net income:				
Basic	¥ 24.34	¥ 63.16	¥ 72.68	¥ 227.00
Diluted	24.28	63.00	72.63	226.97
Cash dividends paid during the period	14	14	14	14
Stockholders' equity	993.47	1,044.44	1,174.73	1,425.04
Per American share				
Net income:				
Basic	12.17	31.58	36.34	113.50
Diluted	12.14	31.50	36.31	113.48
Cash dividends paid during the period	7.0	7.0	7.0	7.0
Stockholders' equity	496.73	522.22	587.36	712.52
Sales progress				
Sales amounts:*				
Japan	¥1,282,771	¥1,326,487	¥1,540,463	¥1,826,284
	33%	33%	36%	35%
Overseas	2,579,945	2,639,677	2,711,787	3,467,018
	67%	67%	64%	65%
Total	¥3,862,716	¥3,966,164	¥4,252,250	¥5,293,302
	100%	100%	100%	100%
Unit sales:				
Motorcycles	4,251	4,910	5,488	5,325
Automobiles	1,753	1,794	1,887	2,184
Power Products	1,632	1,909	2,268	2,521
Number of employees				
	91,300	92,800	96,800	101,100
Exchange rate (yen amounts per U.S. dollar)				
Rates for the period-end	¥ 103	¥ 89	¥ 106	¥ 124
Average rates for the period	108	99	96	113

Notes:

(1) The amounts for the fiscal year ended March 31, 2004, have been translated into U.S. dollars at the rate of ¥105.69=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004.

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

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

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

(4) 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.

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

							Yen (millions)	U.S. dollars (millions)
1998	1999	2000	2001	2002	2003	2004	2004	
¥5,999,738	¥6,231,041	¥6,098,840	¥6,463,830	¥7,362,438	¥7,971,499	¥8,162,600	\$77,232	
456,852	540,978	418,639	401,438	661,202	724,527	600,144	5,678	
443,351	520,511	416,063	384,976	551,342	609,755	641,927	6,073	
201,278	229,624	170,434	178,439	231,150	245,065	252,740	2,391	
18,552	14,158	16,786	25,704	42,515	61,972	75,151	711	
260,625	305,045	262,415	232,241	362,707	426,662	464,338	4,393	
4.3%	4.9%	4.3%	3.6%	4.9%	5.4%	5.7%		
16,563	20,463	20,463	22,412	24,360	30,176	33,541	317	
285,863	311,632	334,036	352,829	395,176	436,863	448,967	4,248	
27,655	27,890	18,920	21,400	16,769	12,207	10,194	96	
¥4,815,265	¥5,034,247	¥4,898,428	¥5,667,409	¥6,940,795	¥7,681,291	¥8,328,768	\$78,804	
677,750	673,084	574,566	368,173	716,614	1,140,182	1,394,612	13,195	
1,607,914	1,763,855	1,930,373	2,230,291	2,573,941	2,629,720	2,874,400	27,197	
153,337	177,666	172,139	170,342	194,944	220,874	213,445	2,020	
309,517	237,080	222,891	285,687	303,424	316,991	287,741	2,722	
							Yen	U.S. dollars
¥ 267.49	¥ 313.05	¥ 269.31	¥ 238.34	¥ 372.23	¥ 439.43	¥ 486.91	\$ 4.61	
267.45	313.05	269.31	238.34	372.23	439.43	486.91	4.61	
17	21	21	23	25	31	35	0.33	
1,650.14	1,810.20	1,981.07	2,288.87	2,641.55	2,734.69	3,054.90	28.90	
133.74	156.52	134.65	119.17	186.11	219.71	243.45	2.30	
133.72	156.52	134.65	119.17	186.11	219.71	243.45	2.30	
8.5	10.5	10.5	11.5	12.5	15.5	17.5	0.16	
825.07	905.10	990.53	1,144.43	1,320.77	1,367.34	1,527.45	14.45	
							Yen (millions)	U.S. dollars (millions)
¥1,710,813	¥1,556,333	¥1,612,191	¥1,740,340	¥1,868,746	¥1,748,706	¥1,628,493	\$15,408	
29%	25%	26%	27%	25%	22%	20%		
4,288,925	4,674,708	4,486,649	4,723,490	5,493,692	6,222,793	6,534,107	61,824	
71%	75%	74%	73%	75%	78%	80%		
¥5,999,738	¥6,231,041	¥6,098,840	¥6,463,830	¥7,362,438	¥7,971,499	8,162,600	77,232	
100%	100%	100%	100%	100%	100%	100%		
							Thousands	
5,257	4,295	4,436	5,118	6,095	8,080	9,206		
2,343	2,333	2,473	2,580	2,666	2,888	2,983		
2,857	3,412	4,057	3,884	3,926	4,584	5,407		
109,400	112,200	112,400	114,300	120,600	126,900	131,600		
¥ 132	¥ 121	¥ 106	¥ 124	¥ 133	¥ 120	¥ 106		
123	128	112	111	125	122	113		

(5) Previously, revenue from domestic sales of general-purpose engines to customers who install them in products that are subsequently exported were recorded as overseas sales. However, owing to various factors including changes in transaction formats and contract terms, as of fiscal 2002, such sales are now recorded as domestic sales. The sales amount from such sales for fiscal 2002 amounted to ¥5,468 million.
(6) 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 share information has been restated for all periods presented to reflect this four-for-one ADR split.

(7) Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2004. Certain gains and losses on sale and disposal of property, plant and equipment, which were previously recorded in other income (expenses), have been reclassified to selling, general and administrative expenses in the year ended March 31, 2004. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries, which were previously recorded in cost of sales, have been reclassified to and included in other income (expenses)—other.

FINANCIAL REVIEW

Net Sales and Other Operating Revenue

Honda's consolidated net sales and other operating revenue (hereafter "net sales") for fiscal 2004, ended March 31, 2004, amounted to ¥8,162.6 billion, up 2.4% from the previous fiscal year.

Of this amount, domestic net sales decreased by ¥120.2 billion, or 6.9%, to ¥1,628.4 billion, while overseas net sales increased by ¥311.3 billion, or 5.0% to ¥6,534.1 billion.

Operating Income

Operating income amounted to ¥600.1 billion, which was a decrease of 17.2% from the previous fiscal year.

This decrease was primarily due to negative impacts of the depreciation of the U.S. dollar against the yen and an increase in selling, general and administrative expenses, which offset positive impacts of increased revenue from increased unit sales and ongoing cost reduction effects.

Selling, General and Administrative Expenses/Research and Development Expenses

SG&A expenses for fiscal 2004 increased by ¥57.7 billion, or 4.0%, to ¥1,503.6 billion, reflecting increases in labor expenses, product warranty-related expenses and reserves with respect to our finance business in connection with growing unit sales in North America.

R&D expenses increased by ¥12.1 billion or 2.8%, to ¥448.9 billion.

Income before Income Taxes and Equity in Income of Affiliates

Income before Income Taxes and Equity in Income of Affiliates was up 5.3%, to ¥641.9 billion.

Other income & expenses, net improved by ¥156.5 billion from the previous fiscal year, due mainly to a decline in losses on derivative instruments and a decline in losses on impairment losses on available for sale marketable equity securities.

Equity in Income of Affiliates

Equity in income of affiliates increased 21.3%, to ¥75.1 billion, over the prior fiscal year. This increase was due mainly to increases in the results of affiliates in Asia.

Net Income

Net income amounted to ¥464.3 billion, an increase of 8.8%. The effective tax rate was 39.4%, a decline by 0.8 percentage points from the previous fiscal year.

Basic net income per common share amounted to ¥486.91, compared with ¥439.43 in fiscal 2003.

Liquidity and Capital Resources

The policy of Honda is to support its business activities by maintaining sufficient capital resources, an ample level of liquidity and a sound balance sheet.

Honda's main business is the manufacture and sale of motorcycles, automobiles and power products. To support this business, it also provides retail financing and automobile leasing services for customers, as well as wholesale financing for dealers.

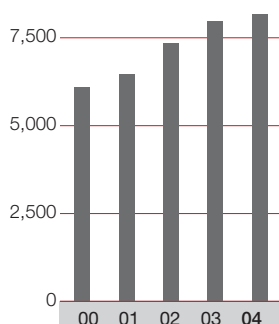
In its manufacturing and sales business, Honda requires operating capital mainly to purchase parts and materials required for production, as well as to control inventory of finished products and cover receivables from dealers. Honda also requires funds for capital expenditures, mainly to upgrade, rationalize and renew production facilities, as well as to expand and reinforce research and development and sales facilities.

Honda meets its operating capital requirements mainly through cash generated by operations. Honda funds its financial programs for customers and dealers primarily from corporate bonds, medium-term notes and commercial paper, as well as securitization of finance receivables.

Net Sales and Other Operating Revenue

Years ended March 31

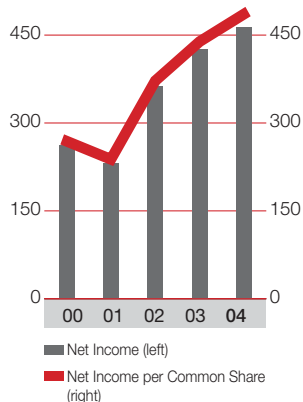
(Billions of yen)
10,000



Net Income and Net Income per Common Share

Years ended March 31

(Billions of yen) (Yen)
600 600



Cash Flows

Consolidated cash and cash equivalents at end of year amounted to ¥724.4 billion as of March 31, 2004, up ¥177.0 billion from a year earlier.

Year-end cash and cash equivalents of business subsidiaries increased as net income, depreciation and other items sufficiently compensated for purchases of production-related property and equipment, as well as funds required for investments in Asian affiliates. Year-end cash and cash equivalents of finance subsidiaries, however, remained largely unchanged.

Net cash provided by operating activities amounted to ¥712.9 billion. Factors increasing cash flows included ¥464.3 billion in net income, ¥213.4 billion in depreciation and a ¥132.5 billion increase in trade payables related to Japanese and North American operations. By contrast, there was a ¥84.7 billion devaluation loss on derivative instruments and related others, which have no relation to cash flows.

Net cash used in investing activities totaled ¥967.4 billion. This was mainly due to a ¥749.4 billion increase in finance subsidiaries' receivables associated with higher sales of automobiles in North America and elsewhere, as well as ¥287.7 billion in purchases of property, plant and equipment to upgrade, streamline and renew production facilities in North America and Asia. These factors outweighed ¥50.6 billion, including dividends from affiliates.

Net cash provided by financing activities was ¥459.5 billion. During the year, Honda raised ¥885.1 billion in long-term debt through the issue of bonds and medium-term notes, to meet capital requirements associated with an increase in liabilities of finance subsidiaries, as well as to repay ¥289.1 billion in long-term debt. By contrast, Honda also made ¥95.3 billion in payments for purchase of treasury stock and ¥33.5 billion in cash dividends paid.

The ¥724.4 billion in cash and cash equivalents at end of year corresponds to approximately one month of net sales, and Honda believes it has sufficient liquidity for its business operations. At the same time, Honda is aware of the possibility that various factors, such as recession-induced market contraction and financial and foreign exchange market volatility, may adversely affect liquidity.

For this reason, financial subsidiaries carry total short-term borrowings of ¥1,170.5 billion in the form of commercial paper issued regularly to replace debt. This serves as alternative liquidity for a back-up credit line equivalent to ¥674.4 billion. In addition, Honda currently has ample credit limits, extended by prominent international banks, that are not subject to contracts.

Honda's short- and long-term debt securities are rated by credit rating agencies, such as Moody's Investors Service, Inc., and Standard & Poor's Rating Services. Major current ratings, which are shown below, indicate that Honda will be able to raise funds even if it requires more capital than its present level of liquidity would allow.

The following table shows the ratings of Honda's unsecured debt securities by Moody's and Standard & Poor's at the date of filing of this annual report.

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

The above ratings are based on information provided by Honda and other information deemed credible by the rating agencies. They are also based on the agencies' assessment of credit risk associated with designated securities issued by Honda. Each rating agency uses different standards for calculating Honda's credit rating, and also makes its own assessments. Ratings can be revised or nullified by agencies at any time. These ratings are not meant to serve as a recommendation for trading in or holding debt.

Off-Balance Sheet Arrangements

Special Purpose Entity

For the purpose of accelerating the receipt of cash related to our finance receivables, we periodically securitize and sell pools of these receivables. In these securitizations, we sell a portfolio of finance receivables to a special purpose entity, which is established for the limited purpose of buying and reselling finance receivables. We remain as a servicer of the finance receivables and are paid a servicing fee for our 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. We retain certain subordinated interests in the sold receivables in the form of subordinated certificates, servicing assets and residual interests in certain cash reserves provided as credit enhancements for investors. We apply significant assumptions regarding prepayments, credit losses and average interest rates in estimating expected cash flows from the trust or bank conduit, which affect the recoverability of our retained interests in the sold finance receivables. We periodically evaluate these assumptions and adjust them, if appropriate, to reflect the performance of the finance receivables.

Guarantee

At March 31, 2004, we had guarantees of approximately ¥77.4 billion of bank loans of employees for their housing costs. If an employee defaults on his/her loan payments, we are required to perform under the guarantee. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is approximately ¥77.4 billion. As of March 31, 2004, no amount was accrued for any estimated losses under the obligations, as it was probable that the employees would be able to make all scheduled payments.

Tabular Disclosure of Contractual Obligations

The following table shows our contractual obligations at March 31, 2004:

	(Millions of yen)				
	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	5 years
Long-term debt	1,881,737	487,125	1,010,203	377,142	7,267
Operating leases	94,911	24,350	27,549	12,341	30,671
Purchase commitments	29,707	29,707	—	—	—

(*) Honda had commitments for purchases of property, plant and equipment at March 31, 2004.

At March 31, 2004, we had no material capital lease obligations or long-term liabilities reflected on our balance sheet under U.S. GAAP other than those set forth in the table above.

Capital Expenditures

Manufacturing-related expenditures in fiscal 2004 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 capital expenditures for the year amounted to ¥287,741 million, down ¥29,250 million from the previous year. Spending by business segment is shown below.

Fiscal year ended March 31	(Millions of yen)	
	2003	2004
Motorcycle Business	¥ 37,496	¥ 35,041
Automobile Business	270,263	240,416
Financial Services	646	430
Power Products and Other Businesses	8,586	11,854
Total	¥316,991	¥287,741

In the motorcycle business, we invested ¥35,041 million to upgrade, modernize and rationalize various facilities in the fiscal year ended March 31, 2004. This included investments in reforming our production organization.

In the automobile business, we made capital investments associated with introducing new models and reforming our production organization. We also constructed a second production line at Honda Manufacturing of Alabama, LLC, where we manufacture finished vehicles and engines. Capital investments in this segment totaled ¥240,416 million in the fiscal year ended March 31, 2004.

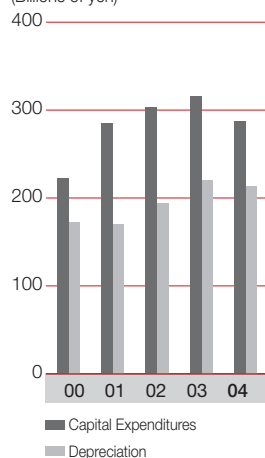
In the financial services segment, capital expenditures amounted to ¥430 million in the fiscal year ended March 31, 2004. Capital investments in power products and other businesses, totaling ¥11,854 million in the fiscal year ended March 31, 2004 were deployed to upgrade and modernize manufacturing facilities for power products and renovate facilities related to motor sports.

The Company did not sell or dispose of any major facilities in the fiscal year ended March 31, 2004.

Capital Expenditures and Depreciation

Years ended March 31

(Billions of yen)

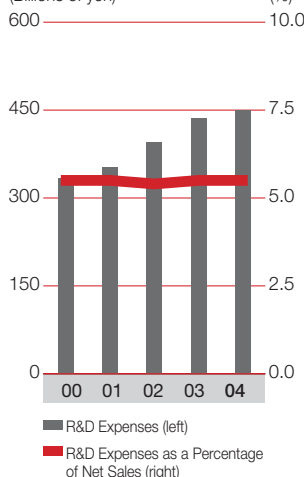


R&D Expenses and R&D Expenses as a Percentage of Net Sales

Years ended March 31

(Billions of yen)

(%)



Research and Development

The aim of the Honda Group's research and development activities is to create original and internationally competitive products using advanced technologies. To this end, research and development activities is mainly conducted by subsidiaries managed with a high degree of independence, in which engineers can approach their tasks with greater independence.

Product-related research and development is spearheaded by the Honda Research Institute in Japan, Honda R&D Americas, Inc., in the United States and Honda R&D Europe (Deutschland) GmbH in Germany. All three entities work in close association with customers and business operations of their respective regions. Similarly, research and development with respect to production technologies, carried out mainly at Honda Engineering Co., Ltd., in Japan and Honda Engineering North America, Inc., is also working in close association with customers and business operations at local levels.

Total research and development expenditures for fiscal year ended March 31, 2004 amounted to ¥448,967 million. Research and development activities for each business segment are outlined below.

R&D Activities

Motorcycle Business

Honda is committed to developing motorcycles with new value-added features that meet the individual needs of customers around the world, and to implementing timely local development of regional products at its overseas locations. At the same time, we focus on developing technologies that lead the industry in addressing safety and environmental issues.

Major fiscal 2004 achievements in research and development activities in Japan include the release of the *Smart Dio Z4*. This scooter is equipped with the world's first electronically controlled programmed fuel injection (PGM-FI) system for use in a four-stroke 50cc engine and features enhanced start-up performance and response, as well as improved fuel economy and cleaner exhaust emissions. Also released in Japan was the *Spacy 100*, a scooter manufactured in China with a highly reliable four-stroke 100cc engine and air injection (secondary air supply) system that reduces pollutant gases in emissions.

In North America, we released the *FourTrax Rancher AT*, a 400cc four-wheel-drive ATV equipped with Honda's proprietary automatic transmission. In Europe, we began sales of the *CBF600*, a sports bike fitted with an antilock braking system, as well as the *CBR1000RR*, which incorporates advanced technology and new styling developed originally for Honda's racing motorcycles. The *CBR1000RR* is a super sports model featuring an electronically controlled steering damper that optimizes dampening characteristics in accordance with riding speed and acceleration. In India, we began sales of the *Etemo*, a scooter with a wheel-side engine combining the engine and drive system in one unit, providing a compact design and excellent fuel economy.

Research and development expenses in the Motorcycle Business Segment in fiscal 2004 totaled ¥73,094 million.

Automobile Business

In our Automobile Business Segment, we strive to develop innovative technologies and products by creativity-oriented development in response to customer needs. We also actively develop technologies that address environmental issues and provide enhanced safety performance.

Major achievements in Japan in fiscal 2004 include the development of the world's first Collision Mitigation Brake System (CMS). This innovative system determines the likelihood of a collision based on distance to the vehicle ahead and relative speeds, warns the driver to take preventive action and initiates braking to reduce the vehicle's speed. We also developed the E-Pretensioner, a seatbelt retraction mechanism that gently tightens seatbelts when a collision is likely, and also increases seatbelt tension to hold the driver more securely in place when a collision is deemed unavoidable. The E-Pretensioner and the CMS were installed in the *Inspire* and the *Odyssey*, both of which underwent a full model change. The new *Inspire* is also equipped with Honda's new V6 3.0-liter engine with a variable cylinder system that improves fuel economy by varying the number of cylinders employed depending on driving conditions. Another development was a crash-compatibility body frame structure, designed to provide both improved self-protection and reduced aggressivity toward other vehicles during a vehicle-to-vehicle collision; this technology was also installed in the newly remodeled *Life* and *Odyssey* models. The new *Odyssey* also features a low floor platform, providing a more spacious interior than the previous model while reducing the vehicle's roofline and offering powerful and sporty performance.

In North America, Honda released the all-new *Acura TSX* sports sedan, featuring a six-speed manual transmission. The *Acura TL*, newly remodeled luxury performance sedan is equipped with a new V6 3.2-liter engine that provides high performance yet meets California's strict LEV-2 ULEV exhaust emission regulations. In Europe, we began sales of the diesel-powered *Accord* with a lightweight and compact engine that meets Euro 4 emissions gas regulations thanks to highly intelligent combustion control technology and Honda's proprietary aluminum block manufacturing technology.

With respect to fuel cell vehicles, public road tests of the Honda *FCX* were held in Hokkaido, where the vehicle's driving performance and ability to start in sub-zero temperatures were proved. The *FCX* is equipped with the Honda FC STACK, a next-generation fuel cell stack that is considerably smaller than earlier Honda prototype units, but with greatly increased output and possessing the ability to start at 20 degrees below freezing.

Research and development expenses in the Automobile Business Segment in fiscal 2004 totaled ¥364,334 million.

Power Products and Other Businesses

In the Power Products Business, we seek to develop products that meet customers' lifestyles and needs while strengthening our lineup of products that address environmental issues.

We began sales of two new four-stroke outboard engines, the *BF150* and the *BF135*, around the world. Both engines provide outstanding performance and meet emission regulations for 2008 set by the California Air Resources Board owing to Honda's first ever lean-burn control system. We also began sales of the new *GX35*, a four-stroke engine with Honda's original oil lubrication system that allows operation in any position. The *GX35* was installed in the new *UMK435* brushcutter, which began sales in the Japanese and European markets after undergoing a full model change. In India, we began sales of two low-noise generators, the *EXK2800* and the *EXK2800S*. These generators meet the most stringent noise regulations in the world as a result of a noise dampening design with a three-chamber structure for the alternator (generator) and engine.

Research and development expenses in this segment in fiscal 2004 amounted to ¥11,539 million.

In the area of fundamental research, Honda pursues steady and varied research activities into technologies that may lead to innovative applications in the future.

Major recent research projects include the test operation of a new hydrogen supply system as part of our development of fuel cell technology. In addition to extracting hydrogen from natural gas for delivery to fuel cell vehicles, the system also supplies heat and electricity. We have installed the system at the Los Angeles research facility of Honda R&D Americas and are conducting trials for supplying electricity to the facility while providing hydrogen to the Honda *FCX*.

Another in-house development, a new electrolysis unit that generates hydrogen from water, we believe is the most efficient electrolysis unit in the world. It has been incorporated in a solar-powered water electrolyzing hydrogen station, which has undergone trial operation at the Los Angeles facility since 2001. Advanced thin-film solar panels made by Honda Engineering have also been installed at the facility. The results are enhanced hydrogen production efficiency and lower amounts of energy consumed during the manufacture of hydrogen devices. Honda plans to continue with its tests in hydrogen production adopting these two methods, and to engage in research into hydrogen supply stations.

In the area of small aircraft, Honda has developed the HF118 Turbofan Engine, which is both lightweight and fuel-efficient. The engine has been mounted on the *HondaJet*, an experimental compact business jet that commenced test flights in the United States in December 2003.

Expenses incurred in fundamental research are distributed among each of Honda's business segments.

On March 31, 2004, Honda owned more than 8,900 patents and 600 utility model registrations in Japan and more than 13,000 patents abroad. Honda also had applications pending for more than 19,600 patents in Japan and for more than 15,500 patents abroad. Under Japanese law, a utility model registration is a right granted with respect to

inventions of less originality than those which qualify for patents. While the Company considers that, in the aggregate, Honda's patents are important, it does not consider any one of such patents, or any related group of them, to be of such importance that the expiration or termination thereof would materially affect Honda's business.

Segment Information

Business segments

Motorcycles

In fiscal 2004, domestic units sales of motorcycles fell 6.7%, to 403,000 units. Overseas unit sales, by contrast, rose 15.1%, to 8,803,000 units. As a result, total unit sales of motorcycles amounted to 9,206,000 units, up 13.9%. Net sales in the motorcycle segment increased 1.9%, to ¥996.2 billion, due mainly to higher unit sales, which compensated for negative currency translation effects. Operating income, however, declined 25.9%, to ¥42.4 billion.

Automobiles

Domestic unit sales of automobiles in fiscal 2004 fell 15.7%, to 716,000 units, while overseas unit sales climbed 11.2%, to 2,267,000 units. Consequently, total unit sales of automobiles grew 3.3%, to 2,983,000 units, compared to the prior fiscal year. Net sales in this segment increased 2.4%, to ¥6,592.0 billion, thanks to increased unit sales overseas, which outweighed negative currency translation effects. Operating income fell 20.4%, to ¥438.8 billion.

Financial Services

Net sales from Honda's financial services business rose 2.0%, to ¥245.8 billion, compared to the prior fiscal year. Operating income edged up 0.6%, to ¥108.4 billion.

Power Products and Other Businesses

Domestic unit sales of power products grew 1.1%, to 477,000 units. Overseas unit sales climbed 11.1%, to 4,570,000 units. Accordingly, total unit sales of power products rose 10.1%, to 5,047,000 units, compared to the prior fiscal year.

Net sales from power products and other businesses increased 4.7%, to ¥341.6 billion, due mainly to higher unit sales of power products. Operating income increased 28.3%, to ¥10.3 billion.

Geographical segments

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

Japan

Despite a decline in domestic sales of automobiles, net sales in Japan remained largely unchanged, at ¥3,930.8 billion, owing mainly to an increase in automobile exports. Domestic operating income also remained relatively unchanged, at ¥192.4 billion.

North America

Net sales in North America edged down 0.8%, to ¥4,673.0 billion, due mainly to negative currency translation effects, which offset increased unit sales of motorcycles, automobiles and power products. Operating income dropped 30.2%, to ¥310.1 billion over the prior fiscal year.

Europe

Increased units sales of automobiles, together with positive currency translation effects, boosted net sales in Europe 15.0%, to ¥948.5 billion. Operating income increased 78.3%, to ¥25.8 billion over the prior fiscal year.

Asia

Net sales in Asia increased 34.6%, to ¥704.1 billion, as increased unit sales of motorcycles and automobiles compensated for negative currency translation effects. Operating income rose 18.2%, to ¥44.6 billion over the prior fiscal year.

Other Regions

Higher unit sales of motorcycles, automobiles and power products led to a 26.9% rise in net sales in other regions, to ¥348.2 billion over the prior fiscal year. Operating income was up 2.5%, to ¥23.7 billion over the prior fiscal year.

Application of Critical Accounting Policies

Critical accounting policies are those that require the application of our most difficult, subjective or complex judgments, often requiring us to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period, would have had a material impact on the presentation of our financial condition and results of operations. 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. We have identified the following critical accounting policies with respect to our financial presentation.

Product Warranty

We warrant our product for specific periods of time. Product warranties vary depending upon the nature of the product, the geographic location of its sales and other factors. Our warranty expense accruals are costs for general warranties on products we sell, product recalls and service actions outside the general warranties. We provide for estimated warranty expenses at the time products are sold to customers or new warranty programs are initiated. Estimated warranty expenses are provided based on historical warranty claim experience with consideration given to the expected level of future warranty costs, including current sales trends, the expected number of units to be affected and the estimated average repair cost per unit for warranty claims. Our products contain certain parts manufactured by third party

suppliers. As the manufacturing suppliers typically warrant these parts, expected receivables from warranties of these suppliers are deducted from our estimates of warranty expense accruals.

We believe that the accounting estimate related to warranty expense accruals is a “critical accounting estimate” because changes in it can materially affect net income, and it requires us to estimate the frequency and amounts of future claims, which are inherently uncertain.

Our policy is to continuously monitor warranty expense accruals to determine their adequacy. Therefore, warranty expense accruals are maintained at an amount we deem 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 expense accruals.

Allowance for Credit Losses

Our finance subsidiaries provide wholesale financing to dealers and retail lending and direct financing leases to customers mainly in order to support sales of our products principally in North America. We classify the receivables derived from those services as finance subsidiaries-receivables.

An allowance for credit losses is maintained to cover estimated losses on finance subsidiaries-receivables. To determine the overall allowance amount, receivables are segmented into pools with common characteristics such as product and collateral types. For each of these pools, we estimate losses primarily based on our historic loss experiences, delinquency rates, recovery rates and scale and composition of the portfolio, taking factors into consideration such as changing economic conditions and changes in operational policies and procedures.

We believe that the accounting estimate related to allowance for credit losses is a “critical accounting estimate” because it requires us to make assumptions about inherently uncertain items including future economic trends, quality of finance subsidiaries-receivables and other factors.

We review the adequacy of the allowance for credit losses, and the allowance for credit losses is maintained at an amount that we deem sufficient to cover the estimated credit losses on our owned portfolio of finance receivables. Actual losses may differ from original estimate as a result of actual results varying from those assumed in our estimates.

As an example of the sensitivity of the allowance calculation, the following scenario demonstrates the impact that a deviation in one of the primary factors estimated as a part of our allowance calculation would have an effect on the provision and allowance for credit losses. If we had experienced a 10% increase in net credit losses during fiscal 2004 in our North America portfolio, the provision for fiscal 2004 and the allowance balance at the end of fiscal 2004 would have increased by approximately ¥4.1 and ¥2.4 billion, respectively. Note that these sensitivities may be asymmetric, and are specific to the base condition in fiscal 2004.

Additional narrative of the Change in provision for credit loss as below

The following table shows information related to our credit loss experience in our North America portfolio:

	(Billions of yen)		
	2002	2003	2004
Charge-offs (net of recoveries)	¥ 7.4	¥ 13.2	¥ 16.2
Provision for credit losses	13.3	21.9	28.8
Allowance for credit losses	11.6	16.6	23.7
Ending receivable balance	2,500.6	3,051.0	3,301.5
Average receivable balance	2,075.8	2,692.0	3,201.0
Charge-offs as a % of average receivable balance	0.36%	0.49%	0.51%
Allowance as a % of ending receivable balance	0.47%	0.55%	0.72%

Fiscal Year 2004 Compared with Fiscal Year 2003

Net charge-offs in our North America portfolio increased by ¥3.0 billion, or 23%, primarily due to the increase in the size of our owned portfolio of finance receivables, continued economic weakness contributing to increased customer defaults, and continued weakness in used car markets reducing recoveries from sales of repossessed vehicles.

However, charge-offs as a percentage of average receivables remained consistent with the previous fiscal year, increasing by only 0.02%.

This can be attributed to the growth in receivables in the current fiscal year, which reduced this percentage.

The provision for credit losses in our North America portfolio increased by ¥6.8 billion, or 31%, due to increased charge-offs and the increase in the allowance balance.

The allowance in our North America portfolio was increased by ¥7.0 billion, or 42%, primarily due to an increase in Finance receivables, as well as an increase in our estimate of probable credit losses in the portfolio.

We expect charge-offs to increase due recent growth in new loan contracts.

Historically, the majority of customer defaults occur when loans are between one-half to one year old. As a result of recent growth in new loan contracts, charge-offs were estimated to increase accordingly in one-half to one year. Therefore, we estimated the allowance as a percentage of the amount of receivables as of March 31, 2004 to be 0.72%, which was 0.17% higher than for the fiscal year ended March 31, 2003.

Fiscal Year 2003 Compared with Fiscal Year 2002

Net charge-offs in our North America portfolio increased by ¥5.7 billion, or 77%.

The significant increase in charge-offs was due primarily to an increase in contract over the prior fiscal year, the weakening economy, and weakness in used car markets. However, charge-offs as a percentage of average finance receivables increased by 0.13% (from 0.36% to 0.49%).

This can be attributed to the growth in finance receivables in fiscal 2003, which reduced this percentage.

The provision for credit losses increased by ¥8.6 billion, or 65%, and the allowance increased by ¥5.0 billion, or 43%, due to an increase in finance receivables, increased charge-offs, and an increase in our estimate of probable credit losses in the portfolio.

Allowance for Losses on Lease Residual Values

End-customers of vehicles leased under a direct financing lease typically have an option to buy the leased vehicle from the car dealership (dealer) for the estimated residual value of the vehicle or to return the leased vehicle to the dealer at the end of the lease term. Likewise, dealers have the option to return the vehicle to our finance subsidiaries or to buy the leased vehicle at the end of the lease term from our finance subsidiaries.

The likelihood that the leased vehicle will be purchased varies depending on the difference between the actual market value of the vehicle at the end of the lease and the residual value estimated at the time of inception of the lease.

Our finance subsidiaries initially determine the residual value of the leased vehicle by using our estimation of future used vehicle values, which take into consideration data gathered from third parties. Our finance subsidiaries recognize a loss on the excess of the actual residual value over the fair market value of a returned vehicle when the leased vehicle is returned to the finance subsidiary at the end of the lease term. Our finance subsidiaries purchase insurance to cover a portion of the estimated residual value at the end of the lease term of vehicles leased to customers under direct financing leases. An allowance for expected losses on lease residual values is maintained to cover estimated losses on the uninsured portion of the vehicles' residual values.

We project two important components of losses in determining our allowance for losses on lease residual values: expected frequency of returns, or the percentage of leased vehicles we expect to be returned by customers at the end of the lease term, and expected loss severity, or the expected difference between the residual value and the amount we receive through sales of returned vehicles plus proceeds from insurance. We estimate losses on lease residual values by evaluating several different factors, including trends in historical and projected used vehicle values and general economic measures.

We believe that the accounting estimate related to allowance for losses on lease residual values is a "critical accounting estimate" because it is highly susceptible to market volatility and requires us to make assumptions about future economic trends and lease residual values.

The allowance is maintained at an amount we deem adequate to cover estimated losses on the uninsured portion of the vehicles' lease residual values. Evaluating the

adequacy of the allowance requires us to make assumptions of inherently uncertain factors, including changes in economic conditions. As a result, actual losses incurred may differ from original estimates.

If future auction values for all Honda and Acura vehicles in our US lease portfolio as of March 31, 2004, were to decrease by approximately ¥10,000 per unit from our present estimates, the total impact would be an increase of our allowance for losses on residual value by about ¥1.6 billion, which would be charged to our provision for losses on residual values in the current year.

Similarly, if future return rates for our existing portfolio of Honda and Acura vehicles were to increase by one percentage point from our present estimates, the total impact would be to increase our allowance for losses on residual values by about ¥0.4 billion, which would be charged to our provision for losses on residual values in the current year.

Note that these sensitivities may be asymmetric, and are specific to the base conditions in fiscal 2004.

Pension and Other Postretirement Benefits

We have various pension plans covering substantially all of our 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 on plan

assets. The discount rate and expected long-term rate of return on plan assets are determined based on our evaluation of current market conditions including changes in interest rates. The salary increase assumptions reflect our actual experience as well as near-term outlook. Our assumed discount rate and rate of salary increase as of March 31, 2004 were 2.0% and 2.3%, respectively, and our assumed expected long-term rate of return for the year ended March 31, 2004 was 4.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2004 were 5.8-6.8% and 4.3-6.7%, respectively, and our assumed expected long-term rate of return for fiscal 2004 was 6.8-8.5% for foreign plans.

We believe that the accounting estimates related to our pension plans are “critical accounting estimates” because changes in these estimates can materially affect our 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 expenses and recorded obligations in future periods.

We believe that the assumptions used are appropriate. However, differences in actual experience or changes in assumptions could affect our pension costs and obligations, including our cash requirements to fund such obligations.

The following table shows the effect on our funded status, equity and pension expense from a 0.5% change in the assumed discount rate and the expected long-term rate of return.

Japanese Plans

Assumptions	Percentage point change	Funded status	Equity	Pension expense
Discount rate	+0.5/−0.5	−137.6/+157.2	+69.3/−77.3	−8.4/+11.9
Expected long-term rate of return	+0.5/−0.5	—	—	−4.0/+4.0

(Billions of yen)

Foreign Plans

Assumptions	Percentage point change	Funded status	Equity	Pension expense
Discount rate	+0.5/−0.5	−21.9/+23.1	+7.6/−7.1	−2.4/+3.3
Expected long-term rate of return	+0.5/−0.5	—	—	−0.8/+0.8

(*1) Note that these sensitivities may be asymmetric, and are specific to the base conditions at March 31, 2004.

(*2) Funded status for fiscal 2004 is affected by March 31, 2004 assumptions.

Pension expense for fiscal 2004 is affected by March 31, 2003 assumptions.

Quantitative and Qualitative Disclosure About Market Risk

Honda is exposed to market risks, which are changes in foreign currency exchange rates, in interest rates and in prices of marketable equity securities. Honda is party to derivative financial instruments in the normal course of business in order to manage risks associated with changes in foreign currency exchange rates and in interest rates. Honda does not hold any derivative financial instruments for trading purposes.

Foreign Currency Risk

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.

The tables below provide information about our derivatives related to foreign exchange risk as of March 31, 2003 and 2004. For forward exchange contracts and currency options, the table presents the contract amount and fair value. All forward exchange contracts and currency options to which we are party have original maturities of less than one year.

Foreign Exchange Risk

	2003			2004		
	(Millions of yen)		Average contractual rate	(Millions of yen)		Average contractual rate
	Contract amounts	Fair value		Contract amounts	Fair value	
Forward Exchange Contract						
To sell US\$	¥187,765	(1,650)	119.96	¥260,110	4,345	107.34
To sell EUR	82,117	(2,613)	127.92	67,123	2,176	132.80
To sell CAD	33,616	(1,052)	81.45	22,716	110	80.93
To sell GBP	26,126	198	189.01	21,695	(13)	191.70
To sell other foreign currencies	22,532	(339)	—	14,140	315	—
To buy US\$	4,536	56	118.41	3,774	(74)	107.62
To buy other foreign currencies	64	(1)	—	32	6	—
Cross-currencies	185,909	1,176	—	173,108	(437)	—
Total	¥542,665	(4,225)		¥562,698	6,428	
Currency Option						
Option purchased to sell US\$	¥141,001	1,257	—	¥ 50,497	1,454	—
Option written to sell US\$	141,879	(1,096)	—	64,497	(192)	—
Option purchased to sell other currencies	12,804	90	—	2,050	151	—
Option written to sell other currencies	21,744	(396)	—	4,099	(10)	—
Option purchased to buy other currencies	6,166	74	—	—	—	—
Option written to buy other currencies	6,166	(40)	—	—	—	—
Total	¥329,760	(111)		¥121,143	1,403	

Interest Rate Risks

Honda is exposed to market risk for changes in interest rates related primarily to its debt obligations and finance receivables. In addition to short-term financing such as commercial paper, Honda has long-term debt with both fixed and floating rates. Our finance receivables are primarily fixed rate. Interest swap agreements are mainly used to convert floating rate financing to (normally 3-5 years) fixed rate financing in order to match financing costs with income from finance receivables. Foreign currency and interest rate swap agreements used among different currencies, also serve to

hedge foreign currency exchange risk as well as interest rate risk.

The following tables provide information about Honda's financial instruments that were sensitive to changes in interest rates at March 31, 2003 and 2004. For finance receivables and long-term debt, these tables present principal cash flows, fair value and related weighted average interest rates. For interest rate swaps and currency and interest rate swaps, the table presents notional amounts, fair value and weighted average interest rates. Variable interest rates are determined using formulas such as LIBOR+ α and an index at the fiscal year end.

Interest Rate Risk

Finance Subsidiaries-Receiveables

	2003		2004								Average interest rate
	(Millions of yen)		(Millions of yen)								
	Total	Fair value	Total	Expected maturity date						Fair value	
			Within 1-year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter			
Direct Finance Leases:											
JP¥	¥ 12,580	*	¥ 22,817	13,357	4,892	2,801	1,181	584	2	*	5.90%
US\$	1,495,739	*	1,454,460	460,147	390,696	402,437	201,161	19	—	*	5.03%
Other	193,128	*	244,439	74,845	58,389	58,946	51,886	329	44	*	6.23%
Total—Direct Finance Leases	¥1,701,447	*	¥1,721,716	548,349	453,977	464,184	254,228	932	46	*	
Other Finance Receivables:											
JP¥	¥ 336,198	304,648	¥ 331,559	124,041	88,982	59,307	34,020	15,616	9,593	301,749	5.90%
US\$	1,253,115	1,272,876	1,510,120	513,342	297,993	288,009	253,294	142,095	15,387	1,522,724	5.03%
Other	230,514	224,201	264,546	140,520	50,044	38,162	25,036	9,902	882	256,201	7.38%
Total—Other Finance Receivables	¥1,819,827	1,801,725	¥2,106,225	777,903	437,019	385,478	312,350	167,613	25,862	2,080,674	
Retained interest in the sold pool of finance receivables**	67,024	67,024	61,072							61,072	
Total	¥3,588,298		¥3,889,013								

* : Under accounting principles generally accepted in the United States of America, disclosure of fair values of direct finance leases is not required.

** : The retained interest in the sold pool of finance receivables is accounted for as "trading" securities and is reported at fair value.

Long-Term Debt (including current maturities)

	2003		2004								Average interest rate
	(Millions of yen)		(Millions of yen)								
	Total	Fair value	Total	Expected maturity date						Fair value	
			Within 1-year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter			
Japanese yen bonds	¥ 141,000	142,250	¥ 171,000	30,000	—	61,000	50,000	30,000	—	170,989	0.75%
Japanese yen medium-term notes	228,788	231,608	379,707	45,500	93,079	56,607	96,511	84,810	3,200	382,677	0.53%
U.S. dollar medium-term notes	764,833	767,662	1,028,039	388,252	334,339	215,239	—	90,209	—	1,033,548	1.54%
U.S. dollar commercial paper	210,223	210,223	184,690	—	184,690	—	—	—	—	184,690	1.04%
Loans and others—primarily fixed rate	99,680	99,838	118,301	23,373	45,682	19,567	20,963	4,649	4,067	118,482	2.60%
Total	¥1,444,524	1,451,581	¥1,881,737	487,125	657,790	352,413	167,474	209,668	7,267	1,890,386	

Interest Rate Swaps

Notional principal currency	Receive/Pay	2003		2004								Average receive rate	Average pay rate
		(Millions of yen)		(Millions of yen)									
		Contract amounts	Fair value	Contract amounts	Expected maturity date						Fair value		
				Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter				
JP¥	Float/Fix	¥ 10,268	(174)	¥ 5,499	20	108	2,076	1,160	1,135	1,000	(103)	0.84%	1.32%
US\$	Float/Fix	1,791,621	(40,293)	1,997,417	187,539	379,131	792,942	637,805	—	—	(21,866)	1.12%	2.69%
	Fix/Float	2,404	94	114,145	—	2,114	22,194	—	89,837	—	4,064	3.60%	1.30%
CA\$	Float/Float	65,028	13	71,975	47,666	24,309	—	—	—	—	(2)	1.26%	1.21%
	Float/Fix	312,719	(2,311)	238,581	18,831	54,534	54,406	93,439	17,371	—	(5,409)	2.29%	4.10%
GBP	Fix/Float	—	—	19,877	5,205	2,374	—	35	12,263	—	261	4.28%	2.25%
	Float/Float	55,349	227	19,878	—	—	19,878	—	—	—	(94)	2.25%	2.35%
NZD	Float/Fix	32,633	(539)	66,232	24,266	19,327	14,966	6,316	1,357	—	83	4.45%	4.72%
	Fix/Float	17,050	58	22,575	7,651	6,873	4,926	2,514	611	—	83	4.82%	4.19%
Total		¥2,287,736	(42,926)	¥2,556,179	291,178	488,770	891,510	761,147	122,574	1,000	(22,983)		

Currency & Interest Rate Swaps

Receiving side currency	Paying side currency	Receive/Pay	2003		2004								Average receive rate	Average pay rate
			(Millions of yen)		(Millions of yen)									
			Contract amounts	Fair value	Contract amounts	Expected maturity date						Fair value		
				Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter					
JP¥	US\$	Fix/Float	¥150,579	319	¥255,323	16,605	69,789	29,113	73,444	66,372	—	25,836	0.63%	1.40%
		Float/Float	63,685	1,623	81,678	22,227	9,055	23,517	13,490	13,389	—	8,540	0.22%	1.37%
JP¥	EUR	Fix/Float	11,253	(995)	12,000	12,000	—	—	—	—	—	198	0.05%	2.04%
JP¥	CA\$	Float/Float	13,848	50	8,647	1,072	4,301	—	—	—	3,274	(329)	0.65%	2.47%
JP¥	GBP	Fix/Float	43,626	(587)	13,028	13,028	—	—	—	—	—	(70)	0.06%	4.45%
Other	Other	Fix/Float	1,893	(290)	1,665	1,665	—	—	—	—	—	39	8.95%	1.12%
		Float/Float	17,857	291	29,915	29,915	—	—	—	—	—	(260)	1.35%	4.53%
Total			¥302,741	411	¥402,256	96,512	83,145	52,630	86,934	79,761	3,274	33,954		

Equity Price Risk

Honda is exposed to equity price risk as a result of its holdings in marketable equity securities. Marketable equity securities included in Honda's investment portfolio are generally securities of domestic Japanese companies and are held for purposes other than trading. At March 31, 2003 and 2004, the estimated fair value of marketable equity securities was ¥66.8 billion and ¥98.3 billion, respectively.

Additionally, Honda has convertible notes and convertible

preferred stocks with conversion features that enable Honda to convert its investment into common shares of the issuer. Convertible features are accounted for as embedded derivatives.

The conversion features are measured at fair value in our consolidated balance sheets, and the changes in fair value are recognized as other income or expenses in our consolidated statements of income.

Business Segment Information

Years ended or at March 31	Yen (millions)	
	2003	2004
Net sales and other operating revenue:		
Motorcycle Business		
Sales to unaffiliated customers	¥ 978,095	¥ 996,290
Automobile Business		
Sales to unaffiliated customers	6,440,094	6,592,024
Financial Services		
Sales to unaffiliated customers	237,958	242,696
Intersegment sales	3,037	3,138
Total	240,995	245,834
Power Products and Other Businesses		
Sales to unaffiliated customers	315,352	331,590
Intersegment sales	10,971	10,070
Total	326,323	341,660
Eliminations	(14,008)	(13,208)
Consolidated	¥7,971,499	¥8,162,600
Operating income:		
Motorcycle Business	¥ 57,230	¥ 42,433
Automobile Business	551,392	438,891
Financial Services	107,813	108,438
Power Products and Other Businesses	(8,092)	10,382
Consolidated	¥ 724,527	¥ 600,144
Assets:		
Motorcycle Business	¥ 798,530	¥ 764,893
Automobile Business	3,624,639	3,727,259
Financial Services	3,505,017	3,818,915
Power Products and Other Businesses	241,085	247,451
Corporate assets and eliminations	(487,980)	(229,750)
Consolidated	¥7,681,291	¥8,328,768
Depreciation:		
Motorcycle Business	¥ 25,311	¥ 25,156
Automobile Business	187,839	181,266
Financial Services	804	359
Power Products and Other Businesses	6,920	6,664
Consolidated	¥ 220,874	¥ 213,445
Capital expenditures:		
Motorcycle Business	¥ 37,496	¥ 35,041
Automobile Business	270,263	240,416
Financial Services	646	430
Power Products and Other Businesses	8,586	11,854
Consolidated	¥ 316,991	¥ 287,741

Geographical Segment Information

Years ended or at March 31	Yen (millions)	
	2003	2004
Net sales and other operating revenue:		
Japan		
Sales to unaffiliated customers	¥ 1,975,518	¥ 1,879,141
Transfers between geographical segments	1,943,465	2,051,729
Total	3,918,983	3,930,870
North America		
Sales to unaffiliated customers	4,580,004	4,552,941
Transfers between geographical segments	131,906	120,069
Total	4,771,910	4,673,010
Europe		
Sales to unaffiliated customers	663,032	756,312
Transfers between geographical segments	161,551	192,235
Total	824,583	948,547
Asia		
Sales to unaffiliated customers	487,415	637,163
Transfers between geographical segments	35,710	67,009
Total	523,125	704,172
Others		
Sales to unaffiliated customers	265,530	337,043
Transfers between geographical segments	8,865	11,222
Total	274,395	348,265
Eliminations	(2,281,497)	(2,442,264)
Consolidated	¥ 7,971,499	¥ 8,162,600
Operating income:		
Japan	¥ 191,419	¥ 192,451
North America	444,383	310,150
Europe	14,498	25,843
Asia	37,809	44,672
Others	23,211	23,799
Eliminations	13,207	3,229
Consolidated	¥ 724,527	¥ 600,144
Assets:		
Japan	¥ 2,392,252	¥ 2,370,214
North America	4,182,861	4,539,320
Europe	535,507	571,419
Asia	362,432	435,815
Others	109,827	141,851
Corporate assets and eliminations	98,412	270,149
Consolidated	¥ 7,681,291	¥ 8,328,768

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

At March 31, 2003 and 2004	Yen (millions)	
	2003	2004
Assets		
Non-financial services businesses		
Current Assets:	¥2,987,609	¥3,033,178
Cash and cash equivalents	530,343	707,917
Trade accounts and notes receivable	450,241	377,049
Inventories	751,980	765,433
Other current assets	1,255,045	1,182,779
Investments and advances	557,971	743,427
Property, plant and equipment, at cost	1,376,137	1,418,397
Other assets	325,398	269,073
Total assets	5,247,115	5,464,075
Finance subsidiaries		
Cash and cash equivalents	17,061	16,504
Finance subsidiaries—short-term receivables, net	1,106,917	1,271,171
Finance subsidiaries—long-term receivables, net	2,231,804	2,378,345
Other assets	149,235	152,895
Total assets	3,505,017	3,818,915
Eliminations	(1,070,841)	(954,222)
Total assets	¥7,681,291	¥8,328,768
Liabilities and Stockholders' Equity		
Non-financial services businesses		
Current liabilities:	¥1,950,980	¥2,017,607
Short-term debt	241,039	200,784
Current portion of long-term debt	9,753	6,912
Trade payables	835,302	913,649
Accrued expenses	653,570	691,637
Other current liabilities	211,316	204,625
Long-term debt	32,805	28,370
Other liabilities	789,031	724,331
Total liabilities	2,772,816	2,770,308
Finance subsidiaries		
Short-term debt	1,400,962	1,170,538
Current portion of long-term debt	294,596	482,563
Accrued expenses	128,870	127,232
Long-term debt	1,111,069	1,378,346
Other liabilities	269,252	287,705
Total liabilities	3,204,749	3,446,384
Eliminations	(925,994)	(762,324)
Total liabilities	5,051,571	5,454,368
Common stock	86,067	86,067
Capital surplus	172,529	172,719
Legal reserves	29,391	32,418
Retained earnings	3,161,664	3,589,434
Accumulated other comprehensive income (loss)	(763,165)	(854,573)
Treasury stock	(56,766)	(151,665)
Total stockholders' equity	2,629,720	2,874,400
Total liabilities and stockholders' equity	¥7,681,291	¥8,328,768

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

Years ended March 31, 2003 and 2004	Yen (millions)			
	2003		2004	
	Non-financial services businesses	Finance subsidiaries	Non-financial services businesses	Finance subsidiaries
Cash flows from operating activities:				
Net income	¥ 412,636	¥ 14,265	¥ 423,794	¥ 40,569
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	220,070	804	213,086	359
Deferred income taxes	(18,139)	86,572	34,532	78,890
Equity in income of affiliates	(62,638)	—	(75,424)	—
Loss on derivative instruments and related others	(1,956)	38,939	(74,469)	(10,314)
Decrease (increase) in trade accounts and notes receivable	(19,774)	—	53,035	—
Decrease (increase) in inventories	(146,574)	—	(51,836)	—
Increase (decrease) in trade payables	28,273	—	130,322	—
Other, net	131,705	163	(104,351)	65,493
Net cash provided by operating activities	543,603	140,743	548,689	174,997
Cash flows from investing activities:				
Decrease (increase) in investments and advances	(122,255)	(551)	94,562	12
Capital expenditures	(316,345)	(646)	(287,311)	(430)
Proceeds from sales of property, plant and equipment	16,273	165	14,398	4,759
Decrease (increase) in finance subsidiaries—receivables	—	(796,314)	—	(745,872)
Net cash used in investing activities	(422,327)	(797,346)	(178,351)	(741,531)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(70,207)	156,825	(37,401)	(97,505)
Proceeds from long-term debt	8,240	767,749	11,663	885,084
Repayment of long-term debt	(9,886)	(283,589)	(11,169)	(278,079)
Proceeds from issuance of common stock	—	16,967	—	57,280
Cash dividends paid	(30,221)	(194)	(33,566)	—
Increase (decrease) in commercial paper classified as long-term debt	—	(2,131)	—	280
Payment for purchase of treasury stock, net	(56,717)	—	(95,312)	—
Net cash provided by (used in) financing activities	(158,791)	655,627	(165,785)	567,060
Effect of exchange rate changes on cash and cash equivalents	(22,940)	(606)	(26,979)	(1,083)
Net change in cash and cash equivalents	(60,455)	(1,582)	177,574	(557)
Cash and cash equivalents at beginning of year	590,798	18,643	530,343	17,061
Cash and cash equivalents at end of year	¥ 530,343	¥ 17,061	¥ 707,917	¥ 16,504

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 ¥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.
3. Free cash flow (the net of cash flows from operating activities and cash flows from investing activities) for non-financial services businesses was ¥370,338 million, while finance subsidiaries generated a negative free cash flow of ¥566,534 million in fiscal 2004. Excluding the increase in loans to finance subsidiaries (¥112,116 million), free cash flow for non-financial services businesses in fiscal 2004 was ¥258,222 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 March 31, 2003 and 2004	Yen (millions)		U.S. dollars (millions) (note 2)
Assets	2003	2004	2004
Current assets:			
Cash and cash equivalents	¥ 547,404	¥ 724,421	\$ 6,854
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥8,343 million in 2003 and ¥9,177 million (\$87 million) in 2004	444,498	373,416	3,533
Finance subsidiaries—receivables, net (note 3)	1,097,541	1,264,620	11,966
Inventories (note 4)	751,980	765,433	7,242
Deferred income taxes (note 9)	202,376	222,179	2,102
Other current assets (note 7)	248,561	303,185	2,869
Total current assets	3,292,360	3,653,254	34,566
Finance subsidiaries—receivables, net (note 3)	2,230,020	2,377,338	22,494
Investments and advances:			
Investments in and advances to affiliates (note 5)	272,753	298,242	2,822
Other, including marketable equity securities (note 6)	140,218	242,824	2,297
Total investments and advances	412,971	541,066	5,119
Property, plant and equipment, at cost (note 7):			
Land	342,991	354,762	3,357
Buildings	942,747	968,159	9,160
Machinery and equipment	2,023,724	2,072,347	19,608
Construction in progress	72,112	49,208	465
	3,381,574	3,444,476	32,590
Less accumulated depreciation	1,987,231	2,008,945	19,008
Net property, plant and equipment	1,394,343	1,435,531	13,582
Other assets (notes 7 and 9)	351,597	321,579	3,043
Total assets	¥7,681,291	¥8,328,768	\$78,804

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Current liabilities:			
Short-term debt (note 7)	¥ 877,954	¥ 734,271	\$ 6,948
Current portion of long-term debt (note 7)	304,342	487,125	4,609
Trade payables:			
Notes	26,076	29,096	275
Accounts	804,595	882,141	8,347
Accrued expenses	777,492	813,733	7,699
Income taxes payable (note 9)	64,179	31,194	295
Other current liabilities (notes 7 and 9)	267,752	357,259	3,380
Total current liabilities	3,122,390	3,334,819	31,553
Long-term debt (note 7)	1,140,182	1,394,612	13,195
Other liabilities (notes 7, 8, 9 and 11)	788,999	724,937	6,859
Total liabilities	5,051,571	5,454,368	51,607
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares; issued 974,414,215 shares in 2003 and 2004	86,067	86,067	815
Capital surplus	172,529	172,719	1,634
Legal reserves (note 10)	29,391	32,418	307
Retained earnings (note 10)	3,161,664	3,589,434	33,962
Accumulated other comprehensive income (loss) (notes 6, 9, 11 and 13)	(763,165)	(854,573)	(8,086)
Treasury stock, at cost 12,797,465 shares in 2003 and 33,498,264 shares in 2004	(56,766)	(151,665)	(1,435)
Total stockholders' equity	2,629,720	2,874,400	27,197
Commitments and contingent liabilities (notes 16 and 17)			
Total liabilities and stockholders' equity	¥7,681,291	¥8,328,768	\$78,804

CONSOLIDATED STATEMENTS OF INCOME

Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2002, 2003 and 2004	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Net sales and other operating revenue (note 3)	¥7,362,438	¥7,971,499	¥8,162,600	\$77,232
Operating costs and expenses:				
Cost of sales (notes 1(r) and 3)	5,004,764	5,364,204	5,609,806	53,078
Selling, general and administrative (note 1(r))	1,301,296	1,445,905	1,503,683	14,228
Research and development	395,176	436,863	448,967	4,248
	6,701,236	7,246,972	7,562,456	71,554
Operating income	661,202	724,527	600,144	5,678
Other income (notes 1 (p), (r) and 6):				
Interest	7,445	7,445	9,299	88
Other	1,898	5,741	54,909	519
	9,343	13,186	64,208	607
Other expenses (notes 1 (c), (p), (r) and 6):				
Interest	16,769	12,207	10,194	96
Other	102,434	115,751	12,231	116
	119,203	127,958	22,425	212
Income before income taxes and equity in income of affiliates	551,342	609,755	641,927	6,073
Income taxes (note 9):				
Current	223,064	176,632	139,318	1,318
Deferred	8,086	68,433	113,422	1,073
	231,150	245,065	252,740	2,391
Income before equity in income of affiliates	320,192	364,690	389,187	3,682
Equity in income of affiliates (note 5)				
Net income	¥ 362,707	¥ 426,662	¥ 464,338	\$ 4,393
	Yen			U.S. dollars (note 2)
	2002	2003	2004	2004
Basic net income per common share (note 1 (n))	¥ 372.23	¥ 439.43	¥ 486.91	\$ 4.61

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2002, 2003 and 2004	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Common stock:				
Balance at beginning of year	¥ 86,067	¥ 86,067	¥ 86,067	\$ 815
Balance at end of year	86,067	86,067	86,067	815
Capital surplus:				
Balance at beginning of year	172,529	172,529	172,529	1,632
Reissuance of treasury stock	—	—	190	2
Balance at end of year	172,529	172,529	172,719	1,634
Legal reserves:				
Balance at beginning of year	27,929	28,969	29,391	278
Transfer from retained earnings (note 10)	1,040	422	3,027	29
Balance at end of year	28,969	29,391	32,418	307
Retained earnings:				
Balance at beginning of year	2,428,293	2,765,600	3,161,664	29,915
Net income for the year	362,707	426,662	464,338	4,393
Cash dividends (note 10)	(24,360)	(30,176)	(33,541)	(317)
Transfer to legal reserves (note 10)	(1,040)	(422)	(3,027)	(29)
Balance at end of year	2,765,600	3,161,664	3,589,434	33,962
Accumulated other comprehensive income (loss) (notes 6, 9, 11 and 13):				
Balance at beginning of year	(484,527)	(479,175)	(763,165)	(7,221)
Other comprehensive income (loss) for the year, net of tax	5,352	(283,990)	(91,408)	(865)
Balance at end of year	(479,175)	(763,165)	(854,573)	(8,086)
Treasury stock:				
Balance at beginning of year	—	(49)	(56,766)	(537)
Purchase of treasury stock	(49)	(56,717)	(95,318)	(902)
Reissuance of treasury stock	—	—	419	4
Balance at end of year	(49)	(56,766)	(151,665)	(1,435)
Total stockholders' equity	¥2,573,941	¥2,629,720	¥2,874,400	\$27,197
Disclosure of comprehensive income:				
Net income for the year	¥ 362,707	¥ 426,662	¥ 464,338	\$ 4,393
Other comprehensive income (loss) for the year, net of tax (notes 6, 9, 11 and 13)				
Adjustments from foreign currency translation	119,401	(169,391)	(195,941)	(1,854)
Unrealized gains (losses) on marketable equity securities:				
Unrealized holding gains (losses) arising during the year	(10,882)	(1,047)	21,246	201
Reclassification adjustments for losses realized in net income	2,975	7,137	—	—
Minimum pension liabilities adjustment	(106,142)	(120,689)	83,287	788
	5,352	(283,990)	(91,408)	(865)
Total comprehensive income for the year	¥ 368,059	¥ 142,672	¥ 372,930	\$ 3,528

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2002, 2003 and 2004	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Cash flows from operating activities (note 12):				
Net income	¥ 362,707	¥ 426,662	¥ 464,338	\$ 4,393
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	194,944	220,874	213,445	2,020
Deferred income taxes	8,086	68,433	113,422	1,073
Equity in income of affiliates	(42,515)	(61,972)	(75,151)	(711)
Provision for credit and lease residual losses on finance subsidiaries—receivables	22,139	39,377	46,940	444
Loss (gain) on derivative instruments and related others, net	21,740	36,983	(84,783)	(802)
Decrease (increase) in assets:				
Trade accounts and notes receivable	5,539	(16,842)	50,925	482
Inventories	10,191	(146,574)	(51,836)	(490)
Other current assets	69,243	(104,583)	(154,320)	(1,460)
Other assets	(28,577)	(44,820)	(24,018)	(227)
Increase (decrease) in liabilities:				
Trade accounts and notes payable	(14,101)	28,675	132,541	1,254
Accrued expenses	75,772	130,615	64,830	613
Income taxes payable	20,551	3,964	(31,068)	(294)
Other current liabilities	(41,717)	17,708	13,763	130
Other liabilities	59,762	30,412	43,656	413
Other, net	26,186	59,215	(9,742)	(92)
Net cash provided by operating activities	749,950	688,127	712,942	6,746
Cash flows from investing activities:				
Decrease (increase) in investments and advances	1,392	(16,041)	40,598	384
Payment for purchase of available-for-sale securities	(4,605)	(3,904)	(61)	(1)
Proceeds from sales of available-for-sale securities	3,689	40,682	10,082	95
Capital expenditures	(303,424)	(316,991)	(287,741)	(2,722)
Proceeds from sales of property, plant and equipment	7,416	16,438	19,157	181
Acquisitions of finance subsidiaries—receivables	(2,900,128)	(3,265,076)	(3,564,012)	(33,721)
Collections of finance subsidiaries—receivables	1,615,182	1,710,833	1,993,892	18,865
Proceeds from sales of finance subsidiaries—receivables	693,907	760,500	820,650	7,765
Net cash used in investing activities	(886,571)	(1,073,559)	(967,435)	(9,154)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	5,997	(47,959)	(7,910)	(75)
Proceeds from long-term debt	624,070	775,987	885,162	8,375
Repayment of long-term debt	(298,718)	(292,063)	(289,107)	(2,736)
Cash dividends paid (note 10)	(24,360)	(30,176)	(33,541)	(317)
Increase (decrease) in commercial paper classified as long-term debt	649	(2,131)	280	3
Payment for purchase of treasury stock, net	—	(56,717)	(95,312)	(902)
Net cash provided by financing activities	307,638	346,941	459,572	4,348
Effect of exchange rate changes on cash and cash equivalents	20,905	(23,546)	(28,062)	(265)
Net change in cash and cash equivalents	191,922	(62,037)	177,017	1,675
Cash and cash equivalents at beginning of year	417,519	609,441	547,404	5,179
Cash and cash equivalents at end of year	¥ 609,441	¥ 547,404	¥ 724,421	\$ 6,854

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 31 separate factories, 5 of which are located in Japan. Principal overseas manufacturing facilities are located in the United States of America, Canada, Mexico, the United Kingdom, France, Italy, Spain, India, Indonesia, Malaysia, Pakistan, the Philippines, Taiwan, Thailand, Vietnam, Brazil and Turkey.

Net sales and other operating revenue by category of activity for the year ended March 31, 2004 were derived from: motorcycle business 12.2%, automobile business 80.8%, financial services 3.0%, power products and other businesses 4.0%. Operating income by category of activity for the year ended March 31, 2004 was derived from: motorcycle business 7.1%, automobile business 73.1%, financial services 18.1%, and power products and other businesses 1.7%. The total assets at March 31, 2004 were attributable to: motorcycle business 9.2%, automobile business 44.7%, financial services 45.9%, power products and other businesses 3.0%, and corporate assets (net of company-wide accounts eliminated in consolidation) (2.8%).

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 2004, 77.0% of net sales and other operating revenue (¥6,283,459 million; \$59,452 million) was derived from subsidiaries operating outside Japan (2003: ¥5,995,981 million, 2002: ¥5,274,673 million). Net sales and other operating revenue for the year ended March 31, 2004 was geographically broken down based on the location of customers as follows: Japan 20.0%, North America 55.7%, Europe 9.4%, Asia 9.8% and others 5.1%. For the year ended March 31, 2004, 67.4% of operating income (¥404,464 million; \$3,827 million) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (2003: ¥519,901 million, 2002: ¥439,192 million). Also, 68.3% of Honda's assets at March 31, 2004 (¥5,688,405 million; \$53,822 million) was identified with foreign operations (2003: ¥5,190,627 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.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." In December 2003, the FASB issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FIN 46. Honda applied FIN 46R as of March 31, 2004. The implementation of FIN 46R did not have a significant effect on Honda's consolidated financial statements.

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. The amount of minority interest recognized in earnings, included in other expenses—other, for each of the years in the three-year period ended March 31, 2004 were ¥4,512 million, ¥9,658 million and ¥11,753 million (\$111 million), respectively.

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 accounted for using the equity method.

(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, but are not limited to, 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.

Honda provides dealer incentives passed on to the end customers generally in the form of below-market interest rate loans or lease programs. The amount of interest or lease subsidies paid is the difference between the amount offered to retail customers and a market-based interest or lease rate. Honda also provides dealer incentives retained by the dealer, which generally represent discounts provided by Honda to the dealers. These incentives are classified as a reduction of sales revenue as the consideration is in cash and Honda does not receive an identifiable benefit in exchange for this consideration. The estimated costs are accrued at the time the product is sold to the dealer.

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 estimated based on prepayments, credit losses and other information as available and are discounted at a rate which Honda believes is commensurate with the risk free rate plus a risk premium. 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, 2003 and 2004 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, 2003 or 2004, 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, 2003 or 2004.

Honda periodically reviews the fair value of investment securities. If the fair value of investment securities has declined below our cost basis and such decline is judged to be other-than-temporary, Honda recognizes the impairment of the investment securities and the carrying value is reduced to its fair value through a charge to income. The determination of other-than-temporary impairment is based upon an assessment of the facts and circumstances related to each investment security. In determining the nature and extent of impairment, Honda considers such factors as financial and operating conditions of the issuer, the industry in which the issuer operates, degree and period of the decline in fair value and other relevant factors.

(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. SFAS No. 142 requires that goodwill be not amortized, but instead be tested for impairment at least annually. 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 and 2004 as prescribed by SFAS No. 142 and concluded

no impairment needed to be recognized. The carrying amount of goodwill at March 31, 2003 and 2004 were ¥15,566 million and ¥17,666 million (\$167 million), respectively.

Net income and basic net income per common share exclusive of goodwill amortization expense recognized under previous accounting standards on an after-tax basis in the three-year period ended March 31, 2004 is as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Reported net income	¥362,707	¥426,662	¥464,338	\$4,393
Add back: Goodwill amortization	2,056	—	—	—
Adjusted net income	¥364,763	¥426,662	¥464,338	\$4,393

	Yen			U.S. dollars (note 2)
	2002	2003	2004	2004
Basic net income per common share				
Reported net income	¥372.23	¥439.43	¥486.91	\$4.61
Goodwill amortization	2.11	—	—	—
Adjusted net income	¥374.34	¥439.43	¥486.91	\$4.61

(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, 2004 were ¥213,836

million, ¥234,670 million and ¥239,332 million (\$2,264 million), respectively. Provisions for estimated costs related to product warranty are made at the time the products are sold to customers or new warranty programs are initiated. 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, 2002, 2003 and 2004 was 974,408,513, 970,952,677 and 953,638,262, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2002, 2003 or 2004.

(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 receivables and payables are translated at the applicable current rates on the balance sheet date. All revenues and expenses associated with foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the consolidated statements of income.

Foreign currency transaction gains (losses) included in other income (expenses)—other for each of the years in the three-year period ended March 31, 2004 are as follows:

Yen (millions)			U.S. dollars (millions) (note 2)
2002	2003	2004	2004
¥(46,678)	¥520	¥13,668	\$129

(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.

Honda adopted the provisions 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, which requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is immediately recognized in earnings.

The cumulative effect adjustments upon the adoption of SFAS No. 133 and SFAS No. 138, net of the related income tax effect, resulting 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.

As Honda does not 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 and ¥19,910 million, respectively, while included in other income—other during the year ended March 31, 2004 was ¥122,583 million (\$1,160 million). In relation to this, the Company included gains and losses on translation of debts of finance subsidiaries denominated in foreign currencies intended to be hedged of ¥806 million gain, ¥12,778 million loss and ¥36,410 million (\$344 million) loss in other income (expenses)—other during the years ended March 31, 2002, 2003 and 2004, respectively. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries of ¥31,424 million loss, ¥45,988 million loss and ¥38,894 million (\$368 million) loss are included in other income (expenses)—other during the years ended March 31, 2002, 2003 and 2004. These gains and losses are presented on a net basis.

(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, 2004 are as follows:

Yen (millions)			U.S. dollars (millions) (note 2)
2002	2003	2004	2004
¥134,358	¥144,791	¥146,698	\$1,388

(r) 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, 2004.

Certain gains and losses on sale and disposal of property, plant and equipment, which were previously recorded in other income (expenses), have been reclassified to selling, general and administrative expenses in the year ended March 31, 2004. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges in finance subsidiaries, which were previously recorded in cost of sales, have been reclassified to and included in other income (expenses)—other. As a result of these reclassifications, operating profit for the years ended March 31, 2002 and 2003 increased by ¥21,906 million and ¥35,078 million, respectively.

2. Basis of Translating Financial Statements

The consolidated financial statements are expressed in Japanese yen. However, the consolidated financial statements as of and for the year ended March 31, 2004 have been translated into United States dollars at the rate of ¥105.69 = U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004.

Those U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the reader. 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, 2003 and 2004:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Direct financing leases	¥1,701,447	¥1,721,716	\$16,290
Retail	1,550,787	1,822,873	17,248
Wholesale	241,039	256,588	2,428
Term loans to dealers	28,001	26,764	253
Total finance receivables	3,521,274	3,827,941	36,219
Retained interests in the sold pools of finance receivables	67,024	61,072	578
	3,588,298	3,889,013	36,797
Less:			
Allowance for credit losses	18,628	26,327	249
Allowance for losses on lease residual values	22,355	26,124	247
Unearned interest income and fees	219,754	194,604	1,841
Finance subsidiaries–receivables, net	3,327,561	3,641,958	34,460
Less current portion	1,097,541	1,264,620	11,966
Noncurrent finance subsidiaries–receivables, net	¥2,230,020	¥2,377,338	\$22,494

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2004 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2005	¥1,326,252	\$12,549
2006	890,996	8,430
2007	849,662	8,039
2008	566,578	5,361
2009	168,545	1,595
After five years	25,908	245
	2,501,689	23,670
Total	¥3,827,941	\$36,219

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, 2004 as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Finance income	¥209,315	¥240,995	¥245,834	\$2,326
Finance cost	62,444	42,507	35,796	339

Finance subsidiaries of the Company periodically sell finance receivables. Finance subsidiaries sold retail finance receivables subject to limited recourse provisions during the year ended March 31, 2002, 2003 and 2004 totaling approximately ¥694,149 million, ¥735,047 million and ¥793,261 million (\$7,506 million), respectively, to investors. Pre-tax net gains on such sales for each of the years in the three-year

period ended March 31, 2004, which are included in finance income in the table above, are ¥13,060 million, ¥10,144 million and ¥3,821 million (\$36 million), respectively. Finance subsidiaries sold direct financing lease receivables subject to limited recourse provisions totaling approximately ¥24,791 million in 2002. The sale resulted in a net loss of ¥183 million for 2002, which is included in the gain on sale of

receivables in 2002. No direct financing lease receivables were sold in 2003 and 2004.

Finance subsidiaries serviced approximately ¥984,898

million and ¥1,001,891 million (\$9,480 million) of receivables for investors at March 31, 2003 and 2004, respectively.

Retained interests in securitizations were comprised of the following at March 31 2003 and 2004:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Subordinated certificates	¥34,621	¥30,775	\$291
Residual interests	32,403	30,297	287
Total	¥67,024	¥61,072	\$578

The changes in retained interest in securitizations for each of the years in the three-year period ended March 31, 2004 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Balance at beginning of year	¥ 88,898	¥106,879	¥ 67,024	\$634
Additions	39,835	40,060	41,045	388
Repurchases	(8,914)	(45,404)	(7,716)	(73)
Amortization and fair value adjustments	(4,408)	2,582	868	8
Cash received	(15,729)	(27,317)	(32,140)	(304)
Foreign exchange translation	7,197	(9,776)	(8,009)	(75)
Balance at end of year	¥106,879	¥ 67,024	¥ 61,072	\$578

At March 31, 2004, the significant assumptions used in estimating the retained interest in the sold pools of finance receivables are as follows:

	Weighted average assumption
Prepayment speed	1.49%
Expected credit losses	0.34%
Residual cash flows discount rate	9.73%

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.

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, 2004 are as follows:

	2002	2003	2004
Weighted average life (years)	2.40 to 3.92	3.84 to 4.24	3.45 to 4.50
Prepayment speed	0.75% to 1.30%	1.00% to 1.50%	1.00% to 1.50%
Expected credit losses	0.20% to 0.35%	0.21% to 0.35%	0.22% to 0.81%
Residual cash flows discount rate	5.96% to 12.00%	6.67% to 12.00%	5.30% to 12.00%

The outstanding balance of securitized financial assets at March 31, 2004 is summarized as follows:

	Yen	U.S. dollars
	(millions)	(millions)
	2004	2004
Receivables sold:		
Retail	¥ 994,258	\$9,408
Direct financing leases	7,633	72
Total receivables sold	¥1,001,891	\$9,480

4. Inventories

Inventories at March 31, 2003 and 2004 are summarized as follows:

	Yen		U.S. dollars
	(millions)		(millions)
	2003	2004	2004
Finished goods	¥504,548	¥521,146	\$4,931
Work in process	23,728	22,237	210
Raw materials	223,704	222,050	2,101
	¥751,980	¥765,433	\$7,242

5. Investments and Advances—Affiliates

Certain combined financial information in respect of affiliates accounted for on the equity method at March 31, 2003 and 2004, and for each of the years in the three-year period ended March 31, 2004 is shown below:

	Yen		U.S. dollars
	(millions)		(millions)
	2003	2004	2004
Current assets	¥ 693,288	¥ 713,957	\$ 6,755
Other assets, principally property, plant and equipment	739,974	796,967	7,541
	1,433,262	1,510,924	14,296
Current liabilities	543,836	548,466	5,189
Other liabilities	136,951	146,039	1,382
Net assets	¥ 752,475	¥ 816,419	\$ 7,725

	Yen			U.S. dollars
	(millions)			(millions)
	2002	2003	2004	2004
Net sales	¥2,299,994	¥2,527,293	¥2,646,166	\$25,037
Net income	103,632	153,422	168,905	1,598
Cash dividends received by Honda during the year	11,580	26,741	46,780	443

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, 2003 and 2004 included in retained earnings was ¥166,907 million and ¥194,417 million (\$1,840 million), respectively.

Trade receivables and trade payables include the following balances with affiliates at March 31, 2003 and 2004, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2004:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Trade receivables from	¥24,085	¥ 26,487	\$ 251
Trade payable to	90,035	106,831	1,011

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Purchases from	¥536,404	¥555,257	¥551,757	\$5,221
Sales to	131,389	107,985	122,241	1,157

6. Investments and Advances—Other

Investments and advances—other at March 31, 2003 and 2004 consisted of the following:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Marketable equity securities	¥ 66,841	¥ 98,300	\$ 930
Nonmarketable preferred stocks	16,200	16,200	153
Convertible preferred stocks	4,291	18,739	177
Convertible notes	6,010	49,759	471
Guaranty deposits	32,162	31,040	294
Life insurance contracts	4,385	4,181	40
Advances	1,786	4,064	38
Other	8,543	20,541	194
	¥140,218	¥242,824	\$2,297

Certain information with respect to available-for-sale securities, all of which are marketable equity securities at March 31, 2003 and 2004, is summarized below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Cost	¥34,063	¥30,928	\$293
Fair value	66,841	98,300	930
Gross unrealized gains	34,207	67,694	640
Gross unrealized losses	1,429	322	3

Realized gains and losses from available-for-sale securities included in other expenses (income)—other for each of the years in the three-year period ended March 31, 2004,

were, ¥11,356 million net losses, ¥21,797 million net losses and ¥3,468 million (\$33 million) net gains, respectively.

Gross unrealized losses on available-for-sale securities and fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2004 were as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)	
	2004		2004	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Less than 12 months	¥ 155	¥ (31)	\$ 1	\$(0)
12 months or longer	926	(291)	9	(3)
	¥1,081	¥(322)	\$10	\$(3)

7. Short-term and Long-term Debt

Short-term debt at March 31, 2003 and 2004 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
	Short-term bank loans	¥220,499	¥258,556
Medium-term notes	325,737	85,979	814
Commercial paper	331,718	389,736	3,688
	¥877,954	¥734,271	\$6,948

The weighted average interest rates on short-term debt outstanding at March 31, 2003 and 2004 were 1.99% and 1.58%, respectively.

Long-term debt at March 31, 2003 and 2004 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
	Honda Motor Co., Ltd.:		
Loans, maturing through 2031:			
Unsecured, principally from banks	¥ 278	¥ 253	\$ 2
	278	253	2
Subsidiaries:			
Commercial paper	210,350	184,958	1,750
Loans, maturing through 2024:			
Secured, principally from banks	22,059	20,571	195
Unsecured, principally from banks	59,597	71,603	677
1.31% Japanese yen unsecured bond due 2005	30,000	30,000	284
0.69% Japanese yen unsecured bond due 2006	60,000	60,000	568
0.81% Japanese yen unsecured bond due 2006	1,000	1,000	10
0.47% Japanese yen unsecured bond due 2007	50,000	50,000	473
0.79% Japanese yen unsecured bond due 2008	—	30,000	284
Medium-term notes, maturing through 2010	1,011,367	1,433,620	13,564
Less unamortized discount, net	127	268	3
	1,444,246	1,881,484	17,802
Total long-term debt	1,444,524	1,881,737	17,804
Less current portion	304,342	487,125	4,609
	¥1,140,182	¥1,394,612	\$13,195

The loans maturing through 2031 and through 2024 are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.70% to 32.13% per annum at March 31, 2004 and weighted average interest rate on total outstanding long-term debt at March 31, 2003 and 2004 is 3.23% and 2.55%, respectively. Property, plant and equipment with a net book value of approximately ¥12,240 million and ¥11,425 million (\$108 million) at March 31, 2003 and 2004, respectively, were subject to specific mortgages securing indebtedness.

At March 31, 2003 and 2004, ¥210,350 million and ¥184,958 million (\$1,750 million), respectively, of commercial paper borrowings were classified as long-term, as it is the respective finance subsidiary's intention to refinance them on a long-term basis and it has established the necessary credit facilities to do so. The weighted average interest rate on commercial paper at March 31, 2003 and 2004 was approximately 1.88% and 1.04%, respectively.

Medium-term notes are unsecured, and their interest rates range from 0.59% to 8.95% at March 31, 2003 and from 0.53% to 8.95% at March 31, 2004.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2004 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2005	¥ 487,125	\$ 4,609
2006	657,790	6,224
2007	352,413	3,334
2008	167,474	1,584
2009	209,668	1,984
After five years	7,267	69
	1,394,612	13,195
Total	¥1,881,737	\$17,804

Certain of the Company's 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 swaps and interest rate swaps 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 setoff exists, the offsetting of assets and liabilities is not made in the consolidated balance sheets.

At March 31, 2004, Honda had unused line of credit facilities amounting to ¥729,857 million (\$6,906 million), of which ¥344,023 million (\$3,255 million) related to commercial paper programs and ¥385,834 million (\$3,651 million) related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2004, Honda also had committed lines of credit amounting to ¥692,467 million (\$6,552 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, 2003 and 2004 are summarized as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Allowance for product warranty, net of current portion	¥130,307	¥151,286	\$1,431
Minority interest	52,546	59,185	560
Additional minimum pension liabilities (note 11)	555,206	419,747	3,971
Deferred income taxes	8,740	44,456	421
Other	42,200	50,263	476
	¥788,999	¥724,937	\$6,859

9. Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2004 were allocated as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Income	¥231,150	¥245,065	¥252,740	\$2,391
Stockholders' equity—Accumulated other comprehensive income (loss) (note 13)	(80,772)	(85,643)	43,620	413
	¥150,378	¥159,422	¥296,360	\$2,804

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, 2004 consisted of the following:

	Income before income taxes	Yen (millions)		
		Income taxes		Total
		Current	Deferred	
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
2004:				
Japanese	¥204,695	¥106,672	¥(16,448)	¥ 90,224
Foreign	437,232	32,646	129,870	162,516
	¥641,927	¥139,318	¥113,422	¥252,740

	U.S. dollars (millions) (note 2)			
	Income before income taxes	Income taxes		Total
		Current	Deferred	
2004:				
Japanese	\$1,936	\$1,009	\$ (156)	\$ 853
Foreign	4,137	309	1,229	1,538
	\$6,073	\$1,318	\$1,073	\$2,391

The significant components of deferred income tax expense for each of the years in the three-year period ended March 31, 2004 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Deferred tax expense (exclusive of the effects of the other components listed below)	¥8,375	¥73,783	¥120,097	\$1,136
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	(2,298)	3,491	33
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(289)	(3,052)	(10,166)	(96)
	¥8,086	¥68,433	¥113,422	\$1,073

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, 2004. 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, 2004 differs from the Japanese statutory income tax rate for the following reasons:

	2002	2003	2004
Statutory income tax rate	41.0%	41.0%	41.0%
Valuation allowance provided for current year operating losses of subsidiaries	2.9	0.8	2.6
Difference in statutory tax rates of foreign subsidiaries	(1.0)	(2.1)	(1.4)
Reversal of valuation allowance due to utilization of operating loss carryforwards	(0.2)	(0.6)	(1.6)
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	(0.4)	0.5
Other	(0.8)	1.5	(1.7)
Effective tax rate	41.9%	40.2%	39.4%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2004 are presented below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Deferred tax assets:			
Inventory valuation	¥ 63,142	¥ 24,051	\$ 228
Allowance for dealers and customers	109,500	130,514	1,235
Foreign tax credit	32,735	10,166	96
Operating loss carryforwards	73,839	73,772	698
Minimum pension liabilities adjustment	221,481	167,224	1,582
Other accrued pension liabilities	78,544	89,263	845
Other	129,502	141,723	1,341
Total gross deferred tax assets	708,743	636,713	6,025
Less valuation allowance	65,040	71,726	679
Net deferred tax assets	643,703	564,987	5,346
Deferred tax liabilities:			
Inventory valuation	(12,191)	(13,658)	(129)
Depreciation and amortization, excluding lease transactions	(35,590)	(50,100)	(474)
Lease transactions	(231,557)	(268,461)	(2,540)
Undistributed earnings of subsidiaries and affiliates	(43,493)	(22,737)	(215)
Net unrealized gains on marketable equity securities	(13,111)	(26,934)	(255)
Other	(21,617)	(53,995)	(511)
Total gross deferred tax liabilities	(357,559)	(435,885)	(4,124)
Net deferred tax asset	¥286,144	¥129,102	\$1,222

Deferred income taxes at March 31, 2003 and 2004 are reflected in the consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Current assets—Deferred income taxes	¥202,376	¥222,179	\$2,102
Other assets	224,105	162,323	1,536
Other current liabilities	(131,597)	(210,944)	(1,995)
Other liabilities	(8,740)	(44,456)	(421)
Net deferred tax asset	¥286,144	¥129,102	\$1,222

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 over 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, 2003 and 2004.

The net change in the total valuation allowance for the years ended March 31, 2002, 2003 and 2004 was an increase of ¥14,904 million, ¥3,911 million and ¥6,686 million (\$63 million), respectively. The valuation allowance primarily relates to valuation allowance for deferred tax assets associated with

net operating loss carryforwards incurred by certain foreign subsidiaries. The Company has performed an analysis for each of these subsidiaries to assess their ability to realize such deferred tax assets, taking into consideration projections for future taxable income, historical performance, tax planning strategies, market conditions and other factors,

as appropriate. Considering these factors, management believes it is more likely than not that these subsidiaries will realize their respective deferred tax assets (principally net operating loss carry forwards), net of existing valuation allowance within the foreseeable future.

At March 31, 2004, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of ¥188,338 million (\$1,782 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	¥ 900	\$ 8
1 to 5 years	20,167	191
5 to 15 years	25,588	242
Indefinite periods	141,683	1,341
	¥188,338	\$1,782

At March 31, 2003 and 2004, Honda did not recognize deferred tax liabilities of ¥16,710 million and ¥31,193 million (\$295 million), respectively, for certain portions of the undistributed earnings of the Company's foreign subsidiaries

because such portions were considered permanently reinvested. At March 31, 2003 and 2004, the undistributed earnings not subject to deferred tax liabilities were ¥725,263 million and ¥1,557,268 million (\$14,734 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, 2004 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, 2004 were ¥25, ¥31 and ¥35 (\$0.33), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥23 (\$0.22) per share aggregating ¥21,641 million (\$205 million) to be proposed in June 2004.

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.

In January 2003, the Emerging Issues Task Force (EITF) 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. Honda EPF, including certain domestic subsidiaries, has decided to transfer the substitutional portion of its EPF to the government and received

government approval of exemption from the obligation for benefits related to future employee service with respect to the substitutional portion of its EPF in April 2004 and is proceeding with the remaining steps to effectuate the transfer. The aggregate effect of this separation will be determined based on the Company's total pension benefits obligation as of the date the transfer is completed and the amount of plan assets required to be transferred. The Company has not yet determined the effect of the adoption on Honda's consolidated financial position and results of operations as the fair value of plan assets and the pension benefit obligation to be transferred, determined pursuant to a government formula, will not be determined until the transfer of such assets and obligation is completed.

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	
	2003	2004	2003	2004
Change in benefit obligations:				
Benefit obligations at beginning of year	¥(1,365,694)	¥(1,537,055)	¥(161,172)	¥(185,645)
Service cost	(44,733)	(49,309)	(12,663)	(13,022)
Interest cost	(34,142)	(30,741)	(10,944)	(12,164)
Plan participants' contributions	(6,669)	(7,487)	(684)	(811)
Actuarial gain (loss)	(136,938)	(7,626)	(14,128)	(19,748)
Benefits paid	29,205	29,339	1,523	1,814
Amendment	21,916	(15,523)	(30)	54
Foreign exchange translation	—	—	12,453	17,129
Benefit obligations at end of year	(1,537,055)	(1,618,402)	(185,645)	(212,393)
Change in plan assets:				
Fair value of plan assets at beginning of year	692,926	625,240	146,063	140,482
Actual return on plan assets	(89,316)	132,336	(19,816)	37,688
Employer contributions	44,166	58,819	26,447	34,169
Plan participants' contributions	6,669	7,487	684	811
Benefits paid	(29,205)	(29,339)	(1,523)	(1,814)
Foreign exchange translation	—	—	(11,373)	(16,487)
Fair value of plan assets at end of year	625,240	794,543	140,482	194,849
Funded status	(911,815)	(823,859)	(45,163)	(17,544)
Unrecognized actuarial loss	801,885	662,232	60,725	49,317
Unrecognized net transition obligations	7,796	6,761	454	374
Unrecognized prior service cost (benefit)	(89,438)	(68,002)	4,824	3,995
Net amount recognized	(191,572)	(222,868)	20,840	36,142
Adjustments to recognize additional minimum liabilities (note 8):				
Intangible assets	—	—	—	(1,056)
Amount included in accumulated other Comprehensive income (loss)	(549,236)	(410,570)	(5,970)	(8,121)

Prepaid (accrued) pension cost recognized in the consolidated balance sheets	¥ (740,808)	¥ (633,438)	¥ 14,870	¥ 26,965
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Pension plans with accumulated benefit obligations in excess of plan assets:

Projected benefit obligations	¥(1,537,055)	¥(1,613,967)	¥ (72,844)	¥ (87,498)
Accumulated benefit obligations	(1,366,048)	(1,424,689)	(56,673)	(67,494)
Fair value of plan assets	625,240	790,951	42,723	63,984

	U.S. dollars (millions) (note2)	
	Japanese plans	Foreign plans
	2004	2004
Change in benefit obligations:		
Benefit obligations at beginning of year	\$(14,543)	\$ (1,757)
Service cost	(467)	(123)
Interest cost	(291)	(115)
Plan participants' contributions	(71)	(8)
Actuarial gain (loss)	(72)	(187)
Benefits paid	278	17
Amendment	(147)	1
Foreign exchange translation	—	162
Benefit obligations at end of year	(15,313)	(2,010)
Change in plan assets:		
Fair value of plan assets at beginning of year	5,916	1,329
Actual return on plan assets	1,252	357
Employer contributions	557	323
Plan participants' contributions	71	8
Benefits paid	(278)	(17)
Foreign exchange translation	—	(156)
Fair value of plan assets at end of year	7,518	1,844
Funded status	(7,795)	(166)
Unrecognized actuarial loss	6,266	467
Unrecognized net transition obligations	64	4
Unrecognized prior service cost (benefit)	(643)	38
Net amount recognized	(2,108)	343
Adjustments to recognize additional minimum liabilities (note 8):		
Intangible assets	—	(10)
Amount included in accumulated other comprehensive income (loss)	(3,885)	(77)
Prepaid (accrued) pension cost recognized in the consolidated balance sheets	\$ (5,993)	\$ 256
Pension plans with accumulated benefit obligations in excess of plan assets:		
Projected benefit obligations	\$(15,271)	\$ (828)
Accumulated benefit obligations	(13,480)	(639)
Fair value of plan assets	7,484	605

Pension expense for each of the years in the three-year period ended March 31, 2004 included the following:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Japanese plans:				
Service cost-benefits earned during the year	¥39,506	¥44,733	¥49,309	\$466
Interest cost on projected benefit obligations	35,240	34,142	30,741	291
Expected return on plan assets	(30,083)	(31,711)	(32,041)	(303)
Net amortization and deferral	13,349	23,223	38,058	360
	¥58,012	¥70,387	¥86,067	\$814
Foreign plans:				
Service cost-benefits earned during the year	¥10,434	¥12,663	¥13,022	\$123
Interest cost on projected benefit obligations	9,149	10,944	12,164	115
Expected return on plan assets	(9,739)	(9,593)	(12,947)	(122)
Net amortization and deferral	(978)	(1,781)	2,069	20
	¥ 8,866	¥12,233	¥14,308	\$136

Weighted-average assumptions used to determine benefit obligation at March 31, 2003 and 2004 were as follows:

	2003	2004
Japanese plans:		
Discount rate	2.0%	2.0%
Rate of salary increase	2.3%	2.3%
Foreign plans:		
Discount rate	5.5–7.0%	5.8–6.8%
Rate of salary increase	4.0–6.7%	4.3–6.7%

Weighted-average assumptions used to determine net periodic benefit cost for each of the years in the three-year period ended March 31, 2004 were as follows:

	2002	2003	2004
Japanese plans:			
Discount rate	3.0%	2.5%	2.0%
Rate of salary increase	2.8%	2.5%	2.3%
Expected long-term rate of return	4.0%	4.0%	4.0%
Foreign plans:			
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%
Expected long-term rate of return	6.5–9.0%	6.5–9.0%	6.8–8.5%

Honda determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. Honda considers the current expectations for future returns and the actual historical returns of each plan asset category.

Measurement date

The Company and its domestic subsidiaries use a March 31 measurement date for their plans.

Plan Assets

Honda's domestic pension plan weighted-average asset allocations at March 31, 2003 and 2004, by asset category are as follows:

	2003	2004
Japanese plans:		
Equity securities	45%	38%
Debt securities	43%	26%
Other	12%	36%
	100%	100%

The Company's investment policies for the domestic pension benefit are designed to maximize total returns are available to provide future payments of pension benefits to eligible participants under accepted risks. Honda sets target assets allocations for the individual asset categories based on the estimated returns and risks in the long future. Plan assets are invested in individual equity and debt securities using the target assets allocation.

Obligations

The accumulated benefit obligation for all domestic defined

benefit plans at March 31, 2003 and 2004 were ¥1,366,048 million and ¥1,427,769 million (\$ 13,509 million), respectively.

Cash flows

Honda expects to contribute ¥41,912 million (\$397 million) to its domestic pension plan in the year ending March 31, 2005.

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)
	2002	2003	2004	2004
Cash paid during the year for:				
Interest	¥105,614	¥100,368	¥ 91,207	\$ 863
Income taxes	200,453	173,697	203,029	1,921

During the year ended March 31, 2004, the Company reissued its treasury stocks at fair value of ¥603 million to the minority shareholder of a subsidiary, upon which the Company merged with the subsidiary.

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, 2004 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2002	2003	2004	2004
Adjustments from foreign currency translation:				
Balance at beginning of year	¥(419,482)	¥(300,081)	¥(469,472)	\$(4,442)
Adjustments for the year	119,401	(169,391)	(195,941)	(1,854)
Balance at end of year	(300,081)	(469,472)	(665,413)	(6,296)
Net unrealized gains on marketable equity securities:				
Balance at beginning of year	16,637	8,730	14,820	140
Realized (gain) loss on marketable equity securities	2,975	7,137	—	—
Increase (decrease) in net unrealized gains on marketable equity securities	(10,882)	(1,047)	21,246	201
Balance at end of year	8,730	14,820	36,066	341
Minimum pension liabilities adjustment:				
Balance at beginning of year	(81,682)	(187,824)	(308,513)	(2,919)
Adjustments for the year	(106,142)	(120,689)	83,287	788
Balance at end of year	(187,824)	(308,513)	(225,226)	(2,131)
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(484,527)	(479,175)	(763,165)	(7,221)
Adjustments for the year	5,352	(283,990)	(91,408)	(865)
Balance at end of year	¥(479,175)	¥(763,165)	¥(854,573)	\$(8,086)

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
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)
2004:			
Adjustments from foreign currency translation	¥(219,372)	¥ 23,431	¥(195,941)
Unrealized gains (losses) on marketable equity securities:			
Unrealized holding gains (losses) arising during the year	35,069	(13,823)	21,246
Reclassification adjustments for losses realized in net income	—	—	—
Net unrealized gains (losses)	35,069	(13,823)	21,246
Minimum pension liabilities adjustment	136,515	(53,228)	83,287
Other comprehensive income (loss)	¥ (47,788)	¥(43,620)	¥ (91,408)
2004:			
	U.S. dollars (millions) (note 2)		
	Before-tax amount	Tax (expense) or benefit (note 9)	Net-of-tax amount
2004:			
Adjustments from foreign currency translation	\$(2,076)	\$ 222	\$(1,854)
Unrealized gains (losses) on marketable equity securities:			
Unrealized holding gains (losses) arising during the year	332	(131)	201
Reclassification adjustments for losses realized in net income	—	—	—
Net unrealized gains (losses)	332	(131)	201
Minimum pension liabilities adjustment	1,292	(504)	788
Other comprehensive income (loss)	\$ (452)	\$(413)	\$ (865)

14. Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 2003 and 2004 are as follows:

	Yen (millions)				U.S. dollars (millions) (note 2)	
	2003		2004		2004	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries—receivables (a)	¥1,835,085	¥1,868,749	¥2,112,139	¥2,141,746	\$ 19,985	\$20,264
Investments and advances—marketable equity securities	66,841	66,841	98,300	98,300	930	930
Debt	(2,322,478)	(2,329,535)	(2,616,008)	(2,624,657)	(24,752)	(24,834)
Foreign exchange instruments (b)						
Asset position	¥ 9,598	¥ 9,598	¥ 43,847	¥ 43,847	\$ 415	\$ 415
Liability position	(13,523)	(13,523)	(2,062)	(2,062)	(20)	(20)
Net	¥ (3,925)	¥ (3,925)	¥ 41,785	¥ 41,785	\$ 395	\$ 395
Interest rate instruments (c)						
Asset position	¥ 572	¥ 572	¥ 166	¥ 166	\$ 2	\$ 2
Liability position	(43,498)	(43,498)	(23,149)	(23,149)	(219)	(219)
Net	¥ (42,926)	¥ (42,926)	¥ (22,983)	¥ (22,983)	\$ (217)	\$ (217)

(a) The carrying amounts of Finance subsidiaries-receivables at March 31, 2003 and 2004 in the table exclude ¥1,492,476 million and ¥1,529,819 million (\$14,475 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)
	2003	2004	2004
	Other current assets	¥ 4,025	¥ 9,761
Other assets	5,573	34,086	323
Other current liabilities	(13,523)	(2,062)	(20)
	¥ (3,925)	¥41,785	\$395

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

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
	Other current assets	¥ —	¥ 166
Other assets	572	—	—
Other current liabilities	(43,344)	(23,048)	(218)
Other liabilities	(154)	(101)	(1)
	¥(42,926)	¥(22,983)	\$(217)

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

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.

terms of the agreements. However, Honda minimizes the risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default. Honda generally does not require or place collateral for these financial instruments.

Foreign currency forward contracts and currency swap agreements are agreements to exchange different currencies at a specified rate on a specific future date. Foreign currency option contracts are contracts that allow the holder of the option the right but not the obligation to exchange different currencies at a specified rate on a specific future date. Foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding at March 31, 2003 were ¥542,665 million, ¥329,760 million and ¥302,741 million, respectively and totaled ¥1,175,166 million. At March 31, 2004, foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding were ¥562,698 million (\$5,324 million),

¥121,143 million (\$1,146 million) and ¥402,256 million (\$3,806 million), respectively and totaled ¥1,086,097 million (\$10,276 million).

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, 2003 and 2004, the notional principal amounts of interest rate swap agreements were ¥2,287,736 million and ¥2,556,179 million (\$24,186 million), respectively.

16. Commitments and Contingent Liabilities

At March 31, 2004, Honda had commitments for purchases of property, plant and equipment of approximately ¥29,707 million (\$281 million).

Honda has entered into various guarantee and indemnification agreements. At March 31, 2003 and 2004, Honda has guaranteed approximately ¥88,193 million and ¥77,426 million (\$733 million) of bank loan of employees for their housing costs, respectively. 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 were approximately ¥88,193 million and ¥77,426 million (\$733 million), respectively, at March 31, 2003 and 2004. As of March 31, 2004, 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 for each of the years in the two-year period ended March 31, 2004 are as follow:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2003	2004	2004
Balance at beginning of year	¥196,011	¥239,798	\$2,269
Warranty claims paid during the period	(89,757)	(112,810)	(1,067)
Liabilities accrued for warranties issued during the period	137,390	161,406	1,527
Changes in liabilities for pre-existing warranties during the period	4,579	2,407	23
Foreign currency translation	(8,425)	(12,648)	(120)
	¥239,798	¥278,153	\$2,632

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, 2004 are as follows:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2005	¥24,350	\$230
2006	16,140	153
2007	11,409	108
2008	6,930	66
2009	5,411	51
After five years	30,671	290
Total minimum lease payments	¥94,911	\$898

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2004 were ¥48,471 million, ¥46,877 million and ¥43,441 million (\$411 million), respectively.



The Board of Directors and Stockholders

Honda Motor Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2003 and 2004, 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, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 Company's consolidated financial statements do not disclose certain information required by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." In our opinion, disclosure of this information is required by accounting principles generally accepted in 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, 2003 and 2004 and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004 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, 2004 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.

KPMG AZSA & Co.

Tokyo, Japan

April 27, 2004

SELECTED QUARTERLY FINANCIAL DATA (Unaudited and Not Reviewed)*

	Yen (millions except per share amounts)							
	Year ended March 31, 2003				Year ended March 31, 2004			
	I	II	III	IV	I	II	III	IV
Net sales and other								
operating revenue	¥1,936,836	¥1,916,775	¥1,989,239	¥2,128,649	¥2,008,228	¥2,017,203	¥1,992,245	¥2,144,924
Operating income**	184,213	160,772	169,428	210,114	159,465	158,431	169,328	112,920
Income before income taxes	163,704	109,997	158,709	177,345	147,995	183,886	203,581	106,465
Net income	107,598	87,181	115,167	116,716	101,819	137,359	151,050	74,110
Net income per common share:								
Basic	¥110.42	¥89.54	¥118.63	¥120.86	¥106.02	¥143.33	¥158.66	¥78.47
Diluted	110.42	89.54	118.63	120.86	106.02	143.33	158.66	78.47
Net income per American share:								
Basic	55.21	44.77	59.31	60.43	53.01	71.66	79.33	39.23
Diluted	55.21	44.77	59.31	60.43	53.01	71.66	79.33	39.23
Tokyo Stock Exchange:								
(TSE) (in yen)								
High	¥5,990	¥5,460	¥5,170	¥4,510	¥4,790	¥5,510	¥4,790	¥5,140
Low	4,630	4,620	3,990	3,840	3,570	4,420	4,090	4,300
New York Stock Exchange:								
(NYSE) (in U.S. dollars)								
High	\$23.85	\$23.10	\$20.99	\$18.80	\$19.95	\$23.59	\$22.53	\$23.40
Low	19.25	19.65	17.01	16.40	15.47	18.54	18.81	20.92

* All quarterly financial data is unaudited and has not been reviewed by the independent registered public accounting firm.

** Certain gains and losses on sale and disposal of property, plant and equipment, which were previously recorded in other income (expenses), have been reclassified to selling, general and administrative expenses in the year ended March 31, 2004. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries, which were previously recorded in cost of sales, have been reclassified to and included in other income (expenses)—other.

NET SALES AND OPERATING INCOME BY BUSINESS SEGMENT*

Years ended March 31	Yen (millions)				
	2000	2001	2002	2003	2004
Motorcycle Business:					
Net sales (Sales to unaffiliated customers)	¥ 718,910	¥ 805,304	¥ 947,900	¥ 978,095	¥ 996,290
Operating income	46,195	55,700	68,315	57,230	42,433
Operating income/Net sales	6.4%	6.9%	7.2%	5.9%	4.3%
Automobile Business:					
Net sales (Sales to unaffiliated customers)	4,961,026	5,231,326	5,929,742	6,440,094	6,592,024
Operating income	342,000	315,627	512,911	551,392	438,891
Operating income/Net sales	6.9%	6.0%	8.6%	8.6%	6.7%
Financial Services:					
Net sales (Sales to unaffiliated customers)	137,128	169,293	201,906	237,958	242,696
Operating income	17,940	30,719	76,365	107,813	108,438
Operating income/Net sales	13.1%	18.1%	37.8%	45.3%	44.7%
Other Businesses:					
Net sales (Sales to unaffiliated customers)	281,776	257,907	282,890	315,352	331,590
Operating income	12,504	(608)	3,611	8,092	10,382
Operating income/Net sales	4.4%	(0.2%)	1.3%	2.6%	3.1%
Total:					
Net sales (Sales to unaffiliated customers)	¥6,098,840	¥6,463,830	¥7,362,438	¥7,971,499	¥8,162,600
Operating income	418,639	401,438	661,202	724,527	600,144
Operating income/Net sales	6.9%	6.2%	9.0%	9.1%	7.4%

* The business segment information has been prepared in accordance with the Ministerial Ordinance under the Securities and Exchange Law of Japan.

** The business segment information is unaudited and not reviewed by the independent registered public accounting firm (KPMG AZSA & Co.).

*** Certain gains and losses on sale and disposal of property, plant and equipment, which were previously recorded in other income (expenses), have been reclassified to selling, general and administrative expenses in the year ended March 31, 2004. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries, which were previously recorded in cost of sales, have been reclassified to and included in other income (expenses)—other.