

Financial Section

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Financial Review

Net Sales and Other Operating Revenue

Honda's consolidated net sales and other operating revenue (hereafter "net sales") for fiscal 2005, ended March 31, 2005, amounted to ¥8,650.1 billion, up 6.0% from the previous fiscal year.

Of this amount, domestic net sales increased by ¥70.7 billion, or 4.3%, to ¥1,699.2 billion, while overseas net sales increased by ¥416.7 billion, or 6.4% to ¥6,950.9 billion.

Operating Income

Operating income amounted to ¥630.9 billion, which was an increase of 5.1% from the previous fiscal year.

This increase was primarily due to positive impacts of increased profit from higher revenue and ongoing cost reduction effects which offset negative impacts of the depreciation of the U.S. dollar and an increase in selling, general and administrative expenses and research and development expenses.

Selling, General and Administrative Expenses/Research and Development Expenses

SG&A expenses for fiscal 2005 increased by ¥9.5 billion or 0.6%, to ¥1,513.2 billion, reflecting increased expenses from higher revenue and increased advertisement expenses which offset the positive impact of decreased product warranty-related expenses.

R&D expenses increased by ¥18.7 billion or 4.2%, to ¥467.7 billion.

Income before Income Taxes and Equity in Income of Affiliates

Income before income taxes and equity in income of affiliates was up 2.3%, to ¥656.8 billion.

Other income & expenses, net decreased by ¥15.8 billion from the previous fiscal year, due mainly to decline in gains on derivative instruments.

Equity in Income of Affiliates

Equity in income of affiliates increased by 27.8%, to ¥96.0 billion. This increase was due mainly to boosted gains from affiliates in Asia.

Net Income

Net income amounted to ¥486.1 billion, an increase of 4.7%. The effective tax rate was 40.6%, an increase by 1.2 percentage points from the previous fiscal year.

Basic net income per common share amounted to ¥520.68, compared with ¥486.91 in fiscal 2004.

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.

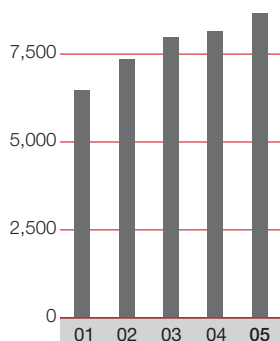
Honda meets its operating capital requirements mainly through cash generated by operations. Honda funds its financial programs for customers and dealers primarily from corporate bonds, medium-term notes and commercial paper, as well as securitization of finance receivables.

Net Sales and Other Operating Revenue

Years ended March 31

Yen (billions)

10,000



Net Income and Net Income per Common Share

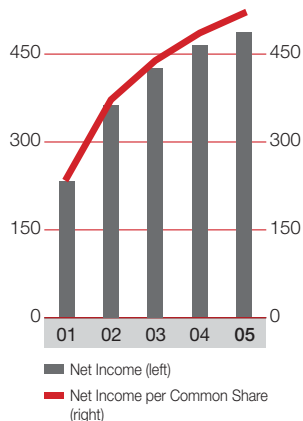
Years ended March 31

Yen (billions)

600

(Yen)

600



Cash Flows

Consolidated cash and cash equivalents at end of year amounted to ¥773.5 billion as of March 31, 2005, up ¥49.1 billion or an increase of 6.8%, 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 ¥746.6 billion. Factors increasing cash flows included ¥486.1 billion in net income, ¥225.7 billion in depreciation and a ¥76.3 billion increase in trade payables related to Japanese and North American operations. By contrast, there was a ¥60.4 billion devaluation loss on derivative instruments and related others, which have no relation to cash flows.

Net cash used in investing activities totaled ¥807.8 billion. This was mainly due to a ¥464.9 billion increase in acquisition of finance subsidiaries' receivables associated with higher sales of automobiles in North America and elsewhere, as well as ¥373.9 billion in capital expenditures associated with introducing new models, upgrading and renewing production facilities, and reforming the production organization in the automobile and other businesses.

Net cash provided by financing activities was ¥97.4 billion. During the year, Honda raised ¥704.4 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 ¥495.1 billion in long-term debt. By contrast, Honda also made ¥84.1 billion in payments for purchase of treasury stock and ¥47.7 billion in cash dividends paid.

The ¥773.5 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 ¥1,310.6 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 ¥643.6 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 Investor Service, Inc., and Standard & Poor's Rating Services. Based on major current ratings, which are shown below, 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.

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

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, 2005, we had guarantees of approximately ¥69.5 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 ¥69.5 billion. As of March 31, 2005, 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, 2005:

	(Millions of yen)				
	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	2,094,605	535,105	1,099,200	436,525	23,775
Operating leases	118,923	25,151	32,119	20,350	41,303
Purchase commitments(*)	40,145	40,145	—	—	—

(*) Honda had commitments for purchases of property, plant and equipment at March 31, 2005.

At March 31, 2005, 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 2005 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 ¥373,980 million, up ¥86,239 million from the previous year.

Spending by business segment is shown below.

Fiscal year ended March 31	(Millions of yen)	
	2004	2005
Motorcycle Business	¥ 35,041	¥ 41,845
Automobile Business	240,416	317,271
Financial Services	430	1,941
Power Product and Other Businesses	11,854	12,923
Total	¥ 287,741	¥373,980

In the motorcycle business, we made capital expenditures of ¥41,845 million in the fiscal year ended March 31, 2005. Funds were allocated to introduction of new models, as well as the improvement and modernization of production facilities.

In the automobile business, we made capital expenditures associated with introducing new models, improving and modernizing our production facilities and improving of production efficiency in the fiscal year ended March 31, 2005.

In the financial services segment, capital expenditures amounted to ¥1,941 million in the fiscal year ended March 31, 2005. Capital expenditures in power products and other businesses in the fiscal year ended March 31, 2005, totaling ¥12,923 million, were deployed to upgrade and modernize manufacturing facilities for power products and renovate facilities related to motor sports.

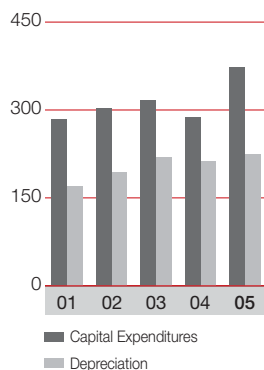
In July 2004, the Company completed construction of the Honda Wako Building in the old Wako facility site. The new building subsequently became the Company's regional

Capital Expenditures and Depreciation

Years ended March 31

Yen (billions)

600



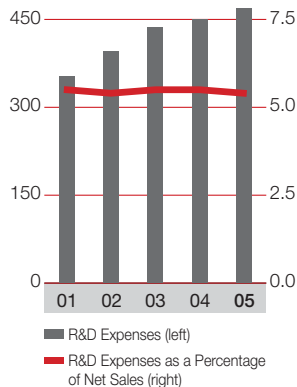
R&D Expenses and R&D Expenses as a Percentage of Net Sales

Years ended March 31

Yen (billions)

(%)

600 10.0



domestic sales headquarters. Other key operations were also transferred there, including the Company's power product and parts related operations, company-wide production strategy formulation and support functions, and core functions of the IT Division. Capital expenditures associated with this facility were distributed among the relevant business segments.

In April 2004, the Company discontinued production of automobiles at its facility in Takanezawa, Tochigi Prefecture. In the following month, automobile production was transferred to the Suzuka Factory. The Takanezawa facility will be used to support rollouts of new models, as well as for testing and development activities. In addition, the Company's production facility in Tochigi Factory Mohka Plant changed its name to Tochigi Factory.

Research and Development Activities

Using the most advanced technologies, the Honda Group (Honda Motor Company and its consolidated subsidiaries) conduct R&D activities aimed at creating distinctive products that are internationally competitive. The Group's main R&D divisions operate independently as subsidiaries, allowing technicians to pursue their tasks with complete freedom.

Product-related research and development is spearheaded by the Honda R&D Co., Ltd. in Japan, Honda R&D Americas, Inc., in the United States and Honda R&D Europe (Deutschland) GmbH in Germany. Research and development on production technologies centers on Honda Engineering Co., Ltd., in Japan and Honda Engineering North America, Inc. All of these entities work in close association with their respective regions.

Total consolidated R&D expenditures for the fiscal year ended March 31, 2005 amounted to ¥467.7 billion. Research and development activities for each business segment are outlined below.

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.

In Japan, we made a number of R&D achievements in fiscal 2005. The *FORZA*, which underwent a full model change, became the first 250cc scooter in the world to be equipped with the Honda S-Matic (electronically controlled belt converter) transmission, which allows riders to easily choose between automatic and six-speed manual modes. The new *FORZA* also features the Honda Smart Card system for effective theft deterrence. It was the first motorcycle in the world to incorporate such a system as standard.

In Europe, the Honda *Zoomer* became the first 50cc scooter sold in the region to be equipped with PGM-FI (electronically controlled programmed fuel injection) system, which delivers enhanced start-up performance and response, as well as improved fuel economy and cleaner exhaust emissions.

Also, the *SH125* and *SH150* scooters were the first European models fitted with engines that meet the Euro 3 emission standard set by the European Union.

In India, Honda released the *Unicorn*, equipped with a newly developed four-stroke, 150cc engine that offers superlative acceleration and fuel efficiency.

For some time, Honda has been studying next-generation motorcycle power sources from the perspective of reducing emissions and lowering the effect of global warming. By making motorcycle bodies lighter and more compact and by incorporating a lightweight nickel-hydrogen battery into an aluminum frame, for example, we have developed an electric commuter-style scooter with superior heat dissipation and longer battery life. Seeking to reduce emissions and greatly enhance fuel efficiency, we have also developed a hybrid 50cc scooter combining an electric motor with a gasoline engine that is nearing the market launch stage.

Honda has a strong track record in fuel cell technologies for automobiles. In fiscal 2005, we applied these technologies in our motorcycle business, developing a fuel cell model equipped with a specially modified version of Honda FC STACK, a light, compact fuel cell stack.

Research and development expenses in the Motorcycle Business segment in fiscal 2005 totaled ¥72.4 billion.

Automobile Business

In the Automobile Business Segment, we strive to develop innovative technologies and products through 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 2005 include the new *Elysion*, an eight-seater minivan with a host of revolutionary features. These include 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; a brake system that reduces damage and injury due to rear-end collisions; and the V6 3.0-liter i-VTEC engine, with a variable cylinder management system that improves fuel economy by varying the number of cylinders employed according to driving conditions.

In fiscal 2005, we also introduced the new *Legend*, featuring Honda's Super Handling All-Wheel Drive (SH-AWD) system, which provides variable torque distribution between the front and rear wheels while also varying the lateral torque distribution to the left and right rear wheels to deliver maximum performance from all four wheels in all driving conditions. The new *Legend* also has the world's first developed Intelligent Night Vision System, which uses infrared cameras to detect pedestrians during nighttime driving and provides visual and audio cautions to help prevent accidents.

In the United States, we undertook a full model change of the *Odyssey*, which now has the V6 3.5-liter i-VTEC engine with a variable cylinder management system, making it more environmentally friendly. We also launched the *Ridgeline*, an innovative next-generation pickup truck that delivers new levels of value, complemented by ample cabin and storage space.

In other news, we developed a pop-up hood system, which raises the engine hood in the event of a collision with a pedestrian and also provides added engine compartment clearance, thus reducing the possibility of serious impact to the pedestrian's head region.

In fuel cell technologies, the *FCX* received approval from Japan's Minister for Land, Infrastructure and Transportation. The *FCX* features Honda FC STACK, which enables startup at subzero temperatures. As a result, we can now sell the *FCX* in cold regions which have freezing winter temperatures. Also, the *FCX* was approved by the Environmental Protection Agency, which is the U.S. regulatory authority for fuel cell vehicles, and the California Air Resources Board (CARB).

Research and development expenses in the Automobile Business segment in fiscal 2005 totaled ¥382.8 billion.

Power Product 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.

In fiscal 2005, we launched the Honda i-Deluxe series of generators (sold as the *EM45is* and *EM55is* in Japan and *EM5000is/EM7000is* in the United States). Thanks to sine wave inverter technologies, these are the first generators in the world to provide simultaneous output of two different voltages—100V and 200V. They also feature Honda's Eco-Throttle, which automatically controls engine revolutions according to power load and thus reduces fuel consumption.

During the year, Honda launched the *Salad FF500* mini-tiller, featuring a high-output engine, a newly developed single-side 10-blade rotary and a unique ratchet arrangement for enhanced tilling efficiency. The new machine went on sale in Japan and Europe.

Research and development expenses in this segment in fiscal 2005 amounted to ¥12.4 billion.

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

Previously, Honda established an experimental Home Energy Station (HES), which generates hydrogen from natural gas for use in fuel cell vehicles while supplying electricity and hot water to the home through fuel cell cogeneration functions. In fiscal 2005, Honda began operating a second-generation Home Energy Station (HES II) in collaboration with Plug Power Inc. of the United States.

Additionally in fiscal 2005, we developed new technologies for the next-generation ASIMO humanoid robot. These include Posture Control, which enables the robot to run in a natural human-like way, as well as Autonomous Continuous Movement and other technologies to ensure smooth human-like movements. These technologies provide a new level of mobility that will better enable ASIMO to make swift decisions and act more nimbly in real-world environments.

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

On March 31, 2005, Honda owned more than 9,200 patents and 350 utility model registrations in Japan and more than 14,600 patents abroad. Honda also had applications pending for more than 20,000 patents in Japan and for more than 17,500 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

Motorcycle Business

In fiscal 2005, domestic unit sales of motorcycles fell 6.2%, to 378,000 units. Overseas unit sales, by contrast, rose 14.8%, to 10,104,000 units. As a result, total unit sales of motorcycles amounted to 10,482,000 units, up 13.9% compared to the previous fiscal year. Net sales from sales to unaffiliated customers in the motorcycle segment increased 10.2%, to ¥1,097.7 billion, due mainly to higher unit sales, offsetting negative currency translation effects.

Operating income increased 63.4%, to ¥69.3 billion, due mainly to increased profits from higher revenue and ongoing cost reduction effects, which offset the negative currency effects of depreciation of the U.S. dollar.

Automobile Business

Domestic unit sales of automobiles in fiscal 2005 was 712,000 units, almost the same level as previous fiscal year, and overseas unit sales increased by 11.6%, to 2,530,000 units. Consequently, total unit sales of automobiles grew 8.7%, to 3,242,000 units, compared to the previous fiscal year. Net sales from sales to unaffiliated customers in the automobile segment increased 5.6%, to ¥6,963.6 billion, due to increased unit sales, offsetting the negative currency translation effects. Operating income increased 3.1%, to ¥452.3 billion, due mainly to the positive impact of increased profits from higher revenue and cost reduction effects, offsetting the negative impact of depreciation of the U.S. dollar.

Financial Services Business

Net sales from sales to unaffiliated customers in financial services business rose 5.4%, to ¥255.7 billion, compared to the previous fiscal year. Operating income decreased 17.1%, to ¥89.9 billion, due mainly to increased funding costs.

Power Product and Other Businesses

Domestic unit sales of power products in fiscal 2005 decreased 9.4%, to 432,000 units. Overseas unit sales climbed 6.5%, to 4,868,000 units. Accordingly, total unit sales of power products rose 5.0%, to 5,300,000 units, compared to the previous fiscal year.

Net sales from power products and other businesses increased 0.4%, to ¥332.9 billion, due mainly to increased

unit sales of power products. Operating income increased 85.9%, to ¥19.3 billion, due to increased profits from higher revenue in power product businesses, offsetting the negative currency effects of the depreciation of the U.S. dollar.

Geographical segments

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

Japan

Net sales in Japan were ¥4,138.9 billion, up by 5.3% from the previous fiscal year, due mainly to increased export sales in motorcycle and automobile businesses. Operating income in Japan was ¥184.8 billion, down by 3.9% from the previous fiscal year, due mainly to the negative currency impact caused by depreciation of the U.S. dollar, and increases in SG&A and R&D expenses, which offset the positive impact of increased profit from higher revenue and cost reduction effects.

North America

Net sales in North America increased by 0.7% from the previous fiscal year to ¥4,705.5 billion, due mainly to increased sales in the automobile and power product businesses, which offset negative currency translation effects. Operating income increased 3.5%, to ¥321.1 billion from the previous fiscal year, due mainly to increased profit from higher revenue and a decrease in SG&A, which offset the negative currency impact of depreciation of the U.S. dollar.

Europe

Net sales in Europe increased by 10.0% to ¥1,043.0 billion compared to the previous fiscal year, due mainly to increased unit sales in the motorcycle, automobile and power product businesses, and the positive impact of currency translation effects. Operating income increased by 59.6%, to ¥41.2 billion due mainly to the positive currency impact caused by the appreciation of the Euro, increased profit higher revenue and cost reduction effects.

Asia

Net sales in Asia increased by 22.2% to ¥860.5 billion from the previous fiscal year, due mainly to increased unit sales in the motorcycle, automobile and power product businesses, offsetting the negative currency translation effects. Operating income also increased 35.9% to ¥60.6 billion from the previous fiscal year, due to increased profit from higher revenue, which offset the negative impacts of an increase in SG&A.

Other Regions

Net sales in Other Regions increased by 33.8% to ¥465.9 billion compared to the previous fiscal year, due mainly to increased unit sales in the motorcycle, automobile and power product businesses, offsetting negative currency translation effect. Operating income increased by 39.5% to ¥33.1 billion from the previous year, due mainly to increased profit from higher revenue.

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 products for specific periods of time. Product warranties vary depending upon the nature of the product, the geographic location of their 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 the time 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 expenses.

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 mainly 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 such as 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 estimates 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 2005 in our North America portfolio, the provision for fiscal 2005 and the allowance balance at the end of fiscal 2005 would have increased by approximately ¥5.5 and ¥3.2 billion, respectively. Note that these sensitivities may be asymmetric, and are specific to the base condition in fiscal 2005.

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)		
	2003	2004	2005
Charge-offs (net of recoveries)	¥ 13.2	¥ 16.2	¥ 23.1
Provision for credit losses	21.9	28.8	31.7
Allowance for credit losses	16.6	23.7	29.2
Ending receivable balance	3,051.0	3,301.5	3,772.9
Average receivable balance	2,692.0	3,201.0	3,569.1
Charge-offs as a % of average receivable balance	0.49%	0.51%	0.65%
Allowance as a % of ending receivable balance	0.55%	0.72%	0.77%

(*) The allowance for credit losses and average receivable balance include allowance for credit losses and finance subsidiaries-receivables classified as trade receivables and other assets in the consolidated balance sheets. Additional detailed information is provided at the "(4) Finance subsidiaries-receivables and securitizations" in the notes to the accompanying consolidated financial statements.

Fiscal Year 2005 Compared with Fiscal Year 2004

Net charge-offs in our North American portfolio increased by ¥6.9 billion, or 43%, primarily due to the significant growth in finance receivables during fiscal year 2003 and 2004. Historically, the majority of customer defaults occur when loans are between one to two years old. Therefore, we experienced higher losses as the large number of new contracts booked in fiscal year 2003 and 2004 became between one to two years old in fiscal year 2005.

Higher losses were also attributable to difficulties experienced in connection with the implementation of a new customer account servicing system for our North American operations. The conversion process caused disruptions in servicing activities both during and after rollout of the new system. Disruptions were due to, among other things, periods of system downtime, periods devoted to user training, and extremely high volumes of calls from customers inquiring about new statements or errors on statements received. As a result, collectors were not able to make their requisite collection calls. These and other implementation difficulties contributed to higher delinquencies beginning in August, and resulted in higher charge-offs in the second and third quarters of fiscal year 2005. By the end of fiscal year 2005, delinquencies and charge-offs started to return back to historical levels experienced prior to the system conversion. Management expects that the initial period of difficulties involved with the system conversion has passed and that the new system, as

designed, will improve operating efficiency and enhance customer service.

The provision for credit losses in our North American portfolio increased by ¥2.9 billion, or 10%, which was due to the increase in charge-offs and the increase to the allowance balance.

The allowance for credit losses in our North American portfolio was increased by ¥5.5 billion, or 23%, primarily due to the continued growth in finance receivables.

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 fiscal year 2003, increasing by only 0.02%.

This can be attributed to the growth in receivables in the fiscal year 2004, which reduced the 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 expected charge-offs to increase due to 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.

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 in an amount which the fair market value of a returned vehicle is below the actual residual value 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 U.S. lease portfolio as of March 31, 2005, 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 ¥1.8 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 all 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 ¥0.5 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 2005.

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 the discount rate, the rate of salary increase and the 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, 2005 were 2.0% and 2.3%, respectively, and our assumed expected long-term rate of return for the year ended March 31, 2005 was 4.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2005 were 5.4-6.3% and 3.5-6.7%, respectively, and our assumed expected long-term rate of return for fiscal 2005 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

(Billions of yen)

Assumptions	Percentage point change (%)	Funded status	Equity	Pension expense
Discount rate	+0.5/-0.5	-132.2/+150.3	+68.5/-78.0	-7.7/+8.5
Expected long-term rate of return	+0.5/-0.5	—	—	-4.1/+4.1

Foreign Plans

Assumptions	Percentage point change (%)	Funded status	Equity	Pension expense
Discount rate	+0.5/-0.5	-29.3/+33.2	+5.2/-12.4	-3.4/+4.3
Expected long-term rate of return	+0.5/-0.5	—	—	-1.0/+1.0

(*1) Note that these sensitivities may be asymmetric, and are specific to the base conditions at March 31, 2005.

(*2) Funded status for fiscal 2005 is affected by March 31, 2005 assumptions. Pension expense for fiscal 2005 is affected by March 31, 2004 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 a 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, 2004 and 2005. For forward exchange contracts and currency options, the table presents the contract amounts and fair value. All forward exchange contracts and currency options to which we are a party have original maturities of less than one year.

Foreign Exchange Risk

	2004			2005		
	(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\$	¥260,110	4,345	107.34	¥225,573	(5,233)	104.58
To sell EUR	67,123	2,176	132.80	56,727	(915)	136.32
To sell CAD	22,716	110	80.93	22,736	(845)	84.73
To sell GBP	21,695	(13)	191.70	49,407	(1,188)	195.81
To sell other foreign currencies	14,140	315	—	57,109	(523)	—
To buy US\$	3,774	(74)	107.62	3,596	75	104.62
To buy other foreign currencies	32	6	—	2,304	19	—
Cross-currencies	173,108	(437)	—	275,389	(1,023)	—
Total	¥562,698	6,428		¥692,841	(9,633)	
Currency Option						
Option purchased to sell US\$	¥ 50,497	1,454	—	¥ 71,004	258	—
Option written to sell US\$	64,497	(192)	—	92,482	(1,270)	—
Option purchased to sell other currencies	2,050	151	—	20,462	123	—
Option written to sell other currencies	4,099	(10)	—	30,263	(287)	—
Option purchased to buy other currencies	—	—	—	—	—	—
Option written to buy other currencies	—	—	—	—	—	—
Total	¥121,143	1,403		¥214,211	(1,176)	

Interest Rate Risk

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, 2004 and 2005. 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 & 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-Receivables

	2004		2005								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¥	¥ 22,817	*	¥ 24,250	14,187	4,985	3,051	1,354	673	—	*	5.30%
US\$	1,454,460	*	1,562,695	439,500	517,893	472,591	132,654	57	—	*	4.77%
Other	244,439	*	335,303	103,436	80,554	79,358	62,332	9,522	101	*	5.51%
Total—Direct Finance Leases	¥1,721,716	*	¥1,922,248	557,123	603,432	555,000	196,340	10,252	101	*	
Other Finance Receivables:											
JP¥	¥ 331,559	301,749	¥ 350,281	127,665	93,683	63,417	37,891	18,080	9,545	319,697	5.30%
US\$	1,510,120	1,522,724	1,768,541	609,739	364,769	338,470	277,123	154,368	24,072	1,743,376	4.77%
Other	264,546	256,201	314,043	167,836	61,574	46,295	26,810	9,904	1,624	281,768	8.81%
Total—Other Finance Receivables	¥2,106,225	2,080,674	¥2,432,865	905,240	520,026	448,182	341,824	182,352	35,241	2,344,841	
Retained interest in the sold pool of finance receivables**	61,072	61,072	62,904							62,904	
Total***	¥3,889,013		¥4,418,017								

* : Under the U.S. generally accepted accounting principles, 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.

***: The finance subsidiaries-receivables include finance subsidiaries-receivables classified as trade receivables and other assets in the consolidated balance sheets. Additional detailed information is provided at the "(4) Finance Subsidiaries-Receivables and Securitizations" in the notes to the accompanying consolidated financial statements.

Long-Term Debt (including current maturities)

	2004		2005								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	¥ 171,000	170,989	¥ 171,000	—	61,000	50,000	30,000	30,000	—	172,209	0.70%
Japanese yen medium-term notes	379,707	382,677	470,273	93,000	56,623	138,522	117,418	64,710	—	475,575	0.60%
U.S. dollar medium-term notes	1,028,039	1,033,548	1,111,126	391,759	354,176	164,801	90,844	88,172	21,374	1,118,885	3.17%
U.S. dollar commercial paper	184,690	184,690	187,526	—	187,526	—	—	—	—	187,526	2.71%
Loans and others—primarily fixed rate	118,301	118,482	154,680	50,346	53,614	32,938	14,429	952	2,401	154,832	3.53%
Total	¥1,881,737	1,890,386	¥2,094,605	535,105	712,939	386,261	252,691	183,834	23,775	2,109,027	

Interest Rate Swaps

Notional principal currency	Receive/Pay	2004		2005								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					
JPY	Float/Fix	¥ 5,499	(103)	¥ 4,525	260	1,360	1,120	885	900	—	(87)	0.82%	1.83%
US\$	Float/Fix	1,997,417	(21,866)	2,326,726	200,052	406,948	1,033,436	686,290	—	—	28,996	2.82%	3.14%
	Fix/Float	114,145	4,064	250,219	2,148	22,552	32,217	91,281	80,543	21,478	(1,635)	4.13%	2.97%
CA\$	Float/Float	71,975	(2)	40,808	24,700	—	8,054	—	8,054	—	(199)	2.84%	2.93%
	Float/Fix	238,581	(5,409)	361,748	39,778	45,763	101,954	129,460	44,793	—	(1,981)	2.46%	3.78%
GBP	Fix/Float	19,877	261	50,737	—	—	—	38,493	—	12,244	(288)	3.22%	2.59%
	Float/Float	19,878	(94)	93,270	—	—	93,270	—	—	—	(147)	2.58%	2.68%
GBP	Float/Fix	66,232	83	75,061	31,460	23,269	14,621	5,155	556	—	175	5.13%	5.03%
	Fix/Float	22,575	83	24,311	11,597	7,797	3,900	1,017	—	—	(31)	5.18%	5.02%
Total		¥2,556,179	(22,983)	¥3,227,405	309,995	507,689	1,288,572	952,581	134,846	33,722	24,803		

Currency & Interest Rate Swaps

Receiving side currency	Paying side currency	Receive/Pay	2004		2005								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						
JPY	US\$	Fix/Float	¥255,323	25,836	¥353,314	70,912	29,581	106,939	92,692	53,190	—	21,472	0.69%	3.11%
		Float/Float	81,678	8,540	84,526	9,201	23,895	23,082	20,535	7,813	—	4,588	0.23%	3.08%
JPY	EUR	Fix/Float	12,000	198	—	—	—	—	—	—	—	—	—	—
		Float/Float	—	—	2,418	—	—	—	—	—	2,418	(182)	0.95%	3.01%
JPY	CA\$	Fix/Float	—	—	5,846	4,692	—	—	—	1,154	—	(868)	0.83%	2.83%
		Float/Float	8,647	(329)	—	—	—	—	—	—	—	—	—	—
JPY	GBP	Fix/Float	13,028	(70)	28,314	28,314	—	—	—	—	—	5	0.04%	4.94%
Other	Other	Fix/Float	1,665	39	—	—	—	—	—	—	—	—	—	—
		Float/Float	29,915	(260)	30,854	30,854	—	—	—	—	—	(194)	2.72%	5.03%
Total			¥402,256	33,954	¥505,272	143,973	53,476	130,021	113,227	62,157	2,418	24,821		

Equity Price Risk

Honda is exposed to equity price risk as a result of its holdings of 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, 2004 and 2005, the estimated fair value of marketable equity securities was ¥98.3 billion and ¥93.0 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 expense in our consolidated statements of income.

Legal Proceedings

“Various legal proceedings are pending against us. We believe that such proceedings constitute ordinary routine litigation incidental to our business. With respect to product liability, personal injury claims or lawsuits, we believe that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by our insurance and reserves. Punitive damages are claimed in certain of these lawsuits. We are also subject to potential liability under other various lawsuits and claims.

Seventy-six purported class actions on behalf of all purchasers of new motor vehicles in the United States since January 1, 2001, have been filed in various state and federal courts against American Honda Motor Co., Inc., Honda Canada, Inc., General Motors, Ford, Daimler Chrysler, Toyota, Nissan and BMW and their Canadian affiliates, Volkswagen, the National Automobile Dealers Association and the Canadian Automobile Dealers Association. Several of the state court actions also name Honda Motor Co., Ltd. as a defendant, as well as other Japanese and German parent companies of United States based subsidiaries. The federal court actions have been consolidated for coordinated pretrial proceedings in federal court in Maine and more than 30 California cases have been consolidated in the state court in San Francisco. Additionally, there are pending cases in 10 other states.

The nearly identical complaints allege that the manufacturer defendants, aided by the association defendants, conspired among themselves and with their dealers to prevent United States citizens from purchasing vehicles produced for the Canadian market and sold by dealers in Canada. The complaints allege that new vehicle prices in Canada are 10 to 30% lower than those in the United States and that preventing the sale of these vehicles to United States citizens resulted in the payment of supracompetitive prices by United States consumers. The complaints seek treble damages under the antitrust laws, but do not specify damages. No Court has yet certified any of these cases as a class action. We believe our actions have been lawful and intend to vigorously defend these cases.

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

Business Segment Information

Years ended or at March 31	Yen (millions)	
	2004	2005
Net sales and other operating revenue:		
Motorcycle Business		
Sales to unaffiliated customers	¥ 996,290	¥1,097,754
Automobile Business		
Sales to unaffiliated customers	6,592,024	6,963,635
Financial Services		
Sales to unaffiliated customers	242,696	255,741
Intersegment sales	3,138	3,447
Total	245,834	259,188
Power Product and Other Businesses		
Sales to unaffiliated customers	331,590	332,975
Intersegment sales	10,070	9,869
Total	341,660	342,844
Eliminations	(13,208)	(13,316)
Consolidated	¥8,162,600	¥8,650,105
Operating income:		
Motorcycle Business	¥ 42,433	¥ 69,332
Automobile Business	438,891	452,382
Financial Services	108,438	89,901
Power Product and Other Businesses	10,382	19,305
Consolidated	¥ 600,144	¥ 630,920
Assets:		
Motorcycle Business	¥ 764,893	¥ 848,671
Automobile Business	3,727,259	4,160,818
Financial Services	3,818,915	4,362,096
Power Product and Other Businesses	247,451	261,843
Corporate assets and eliminations	(229,750)	(316,458)
Consolidated	¥8,328,768	¥9,316,970
Depreciation:		
Motorcycle Business	¥ 25,156	¥ 28,606
Automobile Business	181,266	189,150
Financial Services	359	419
Power Product and Other Businesses	6,664	7,577
Consolidated	¥ 213,445	¥ 225,752
Capital expenditures:		
Motorcycle Business	¥ 35,041	¥ 41,845
Automobile Business	240,416	317,271
Financial Services	430	1,941
Power Product and Other Businesses	11,854	12,923
Consolidated	¥ 287,741	¥ 373,980

Geographical Segment Information

Years ended or at March 31	Yen (millions)	
	2004	2005
Net sales and other operating revenue:		
Japan		
Sales to unaffiliated customers	¥ 1,879,141	¥1,983,182
Transfers between geographical segments	2,051,729	2,155,756
Total	3,930,870	4,138,938
North America		
Sales to unaffiliated customers	4,552,941	4,585,650
Transfers between geographical segments	120,069	119,904
Total	4,673,010	4,705,554
Europe		
Sales to unaffiliated customers	756,312	858,936
Transfers between geographical segments	192,235	184,136
Total	948,547	1,043,072
Asia		
Sales to unaffiliated customers	637,163	773,753
Transfers between geographical segments	67,009	86,810
Total	704,172	860,563
Others		
Sales to unaffiliated customers	337,043	448,584
Transfers between geographical segments	11,222	17,373
Total	348,265	465,957
Eliminations	(2,442,264)	(2,563,979)
Consolidated	¥ 8,162,600	¥ 8,650,105
Operating income:		
Japan	¥ 192,451	¥ 184,899
North America	310,150	321,154
Europe	25,843	41,243
Asia	44,672	60,692
Others	23,799	33,193
Eliminations	3,229	(10,261)
Consolidated	¥ 600,144	¥ 630,920
Assets:		
Japan	¥ 2,370,214	¥ 2,480,052
North America	4,539,320	5,202,980
Europe	571,419	649,547
Asia	435,815	541,331
Others	141,851	203,605
Corporate assets and eliminations	270,149	239,455
Consolidated	¥ 8,328,768	¥ 9,316,970

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

At March 31, 2004 and 2005	Yen (millions)	
	2004	2005
Assets		
Non-financial services businesses		
Current Assets:	¥3,033,178	¥3,376,411
Cash and cash equivalents	707,917	757,894
Trade accounts and notes receivable	377,049	422,673
Inventories	765,433	862,370
Other current assets	1,182,779	1,333,474
Investments and advances	743,427	830,698
Property, plant and equipment, at cost	1,418,397	1,564,762
Other assets	269,073	274,958
Total assets	5,464,075	6,046,829
Finance subsidiaries		
Cash and cash equivalents	16,504	15,644
Finance subsidiaries—short-term receivables, net	956,284	1,028,488
Finance subsidiaries—long-term receivables, net	2,266,881	2,625,078
Other assets	579,246	692,886
Total assets	3,818,915	4,362,096
Eliminations	(954,222)	(1,091,955)
Total assets	¥8,328,768	¥9,316,970
Liabilities and Stockholders' Equity		
Non-financial services businesses		
Current liabilities:	¥2,017,607	¥2,281,768
Short-term debt	200,784	228,558
Current portion of long-term debt	6,912	6,385
Trade payables	913,649	1,022,394
Accrued expenses	691,637	770,887
Other current liabilities	204,625	253,544
Long-term debt	28,370	19,570
Other liabilities	724,331	717,636
Total liabilities	2,770,308	3,018,974
Finance subsidiaries		
Short-term debt	1,170,538	1,310,678
Current portion of long-term debt	482,563	535,825
Accrued expenses	127,232	151,867
Long-term debt	1,378,346	1,546,953
Other liabilities	287,705	352,317
Total liabilities	3,446,384	3,897,640
Eliminations	(762,324)	(888,938)
Total liabilities	5,454,368	6,027,676
Common stock	86,067	86,067
Capital surplus	172,719	172,531
Legal reserves	32,418	34,688
Retained earnings	3,589,434	3,809,383
Accumulated other comprehensive income (loss)	(854,573)	(793,934)
Treasury stock	(151,665)	(19,441)
Total stockholders' equity	2,874,400	3,289,294
Total liabilities and stockholders' equity	¥8,328,768	¥9,316,970

Note:

In this current year, Honda reclassified certain finance subsidiaries-receivables to trade receivables in the consolidated balance sheets divided into Non-financial services businesses and Finance subsidiaries (unaudited). Reclassifications have been made to prior years' consolidated financial statements to confirm to the presentation used for the year ended March 31, 2005.

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

Years ended March 31, 2004 and 2005	Yen (millions)			
	2004		2005	
	Non-financial services businesses	Finance subsidiaries	Non-financial services businesses	Finance subsidiaries
Cash flows from operating activities:				
Net income	¥ 423,794	¥ 40,569	¥ 408,251	¥ 77,955
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	213,086	359	225,333	419
Deferred income taxes	34,532	78,890	38,737	76,782
Equity in income of affiliates	(75,424)	—	(97,821)	—
Loss on derivative instruments and related others	(74,469)	(10,314)	(4,000)	(56,432)
Decrease (increase) in trade accounts and notes receivable	53,035	(28,096)	(29,754)	(43,224)
Decrease (increase) in inventories	(51,836)	—	(79,483)	—
Increase (decrease) in trade payables	130,322	—	82,548	—
Other, net	(104,351)	56,135	89,703	59,382
Net cash provided by operating activities	548,689	137,543	633,514	114,882
Cash flows from investing activities:				
Decrease (increase) in investments and advances	94,562	12	(119,182)	—
Capital expenditures	(287,311)	(430)	(372,039)	(1,941)
Proceeds from sales of property, plant and equipment	14,398	4,759	13,990	226
Decrease (increase) in finance subsidiaries—receivables	—	(708,418)	—	(465,841)
Net cash used in investing activities	(178,351)	(704,077)	(477,231)	(467,556)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(37,401)	(97,505)	14,604	138,511
Proceeds from long-term debt	11,663	885,084	7,752	697,703
Repayment of long-term debt	(11,169)	(278,079)	(9,172)	(486,568)
Proceeds from issuance of common stock	—	57,280	—	1,911
Cash dividends paid	(33,566)	—	(47,806)	—
Increase (decrease) in commercial paper classified as long-term debt	—	280	—	(131)
Payment for purchase of treasury stock, net	(95,312)	—	(84,147)	—
Net cash provided by (used in) financing activities	(165,785)	567,060	(118,769)	351,426
Effect of exchange rate changes on cash and cash equivalents	(26,979)	(1,083)	12,463	388
Net change in cash and cash equivalents	177,574	(557)	49,977	(860)
Cash and cash equivalents at beginning of year	530,343	17,061	707,917	16,504
Cash and cash equivalents at end of year	¥ 707,917	¥ 16,504	¥ 757,894	¥ 15,644

Notes:

1. The company and its 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 ¥370,338 million, while finance subsidiaries generated a negative free cash flow of ¥566,534 million in fiscal 2004. 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 decrease in loans to finance subsidiaries (¥112,116 million), free cash flow for non-financial services businesses in fiscal 2004 was ¥258,222 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 ¥156,283 million, while finance subsidiaries generated a negative free cash flow of ¥352,674 million in fiscal 2005. Excluding the increase in loans to finance subsidiaries (¥132,317 million), free cash flow for non-financial services businesses in fiscal 2005 was ¥288,600 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.
5. In this current year, Honda changed its reporting of cash flow related to the finance subsidiaries-receivables which relate to sales of inventory as cash flows from operating activities instead of cash flows from investing activities in the consolidated statements of cash flows divided into Non-financial services businesses and Finance subsidiaries (unaudited). Reclassifications have been made to prior years' consolidated financial statements to confirm to the presentation used for the year ended March 31, 2005.
6. Decrease (increase) in trade accounts and notes receivable for finance subsidiaries is due to the reclassification of finance subsidiaries-receivables which relate to sales of inventory in the unaudited consolidated statements of cash flows presented above.

Consolidated Balance Sheets

Honda Motor Co., Ltd. and Subsidiaries March 31, 2004 and 2005	Yen (millions)		U.S. dollars (millions) (note 2)
Assets	2004	2005	2005
Current assets:			
Cash and cash equivalents	¥ 724,421	¥ 773,538	\$ 7,203
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥10,919 million in 2004 and ¥9,710 million (\$90 million) in 2005 (note 3)	688,303	791,195	7,368
Finance subsidiaries—receivables, net (notes 3, 4 and 8)	949,733	1,021,116	9,509
Inventories (note 5)	765,433	862,370	8,030
Deferred income taxes (note 10)	222,179	214,059	1,993
Other current assets (notes 7, 8 and 15)	303,185	346,464	3,226
Total current assets	3,653,254	4,008,742	37,329
 Finance subsidiaries—receivables, net (notes 3, 4 and 8)	 2,265,874	 2,623,909	 24,433
 Investments and advances:			
Investments in and advances to affiliates (note 6)	298,242	349,664	3,256
Other, including marketable equity securities (note 7)	242,824	264,926	2,467
Total investments and advances	541,066	614,590	5,723
 Property, plant and equipment, at cost (note 8):			
Land	354,762	365,217	3,401
Buildings	968,159	1,030,998	9,601
Machinery and equipment	2,072,347	2,260,826	21,052
Construction in progress	49,208	96,047	894
	3,444,476	3,753,088	34,948
Less accumulated depreciation	2,008,945	2,168,836	20,196
Net property, plant and equipment	1,435,531	1,584,252	14,752
 Other assets (notes 3, 8, 10 and 15)	 433,043	 485,477	 4,521
Total assets	¥8,328,768	¥9,316,970	\$86,758

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Current liabilities:			
Short-term debt (note 8)	¥ 734,271	¥ 769,314	\$ 7,164
Current portion of long-term debt (note 8)	487,125	535,105	4,983
Trade payables:			
Notes	29,096	26,727	249
Accounts	882,141	987,045	9,191
Accrued expenses	813,733	913,721	8,508
Income taxes payable (note 10)	31,194	65,029	606
Other current liabilities (notes 8, 10 and 15)	357,259	451,623	4,205
Total current liabilities	3,334,819	3,748,564	34,906
Long-term debt (note 8)	1,394,612	1,559,500	14,522
Other liabilities (notes 8, 9, 10, 12 and 15)	724,937	719,612	6,701
Total liabilities	5,454,368	6,027,676	56,129
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares in 2004 and 3,554,000,000 shares in 2005; issued 974,414,215 shares in 2004 and 928,414,215 shares in 2005	86,067	86,067	801
Capital surplus	172,719	172,531	1,607
Legal reserves (note 11)	32,418	34,688	323
Retained earnings (note 11)	3,589,434	3,809,383	35,472
Accumulated other comprehensive income (loss) (notes 7, 10, 12 and 14)	(854,573)	(793,934)	(7,393)
Treasury stock, at cost 33,498,264 shares in 2004 and 3,543,788 shares in 2005	(151,665)	(19,441)	(181)
Total stockholders' equity	2,874,400	3,289,294	30,629
Commitments and contingent liabilities (notes 17 and 18)			
Total liabilities and stockholders' equity	¥8,328,768	¥9,316,970	\$86,758

Consolidated Statements of Stockholders' Equity

Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2003, 2004 and 2005	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Common stock:				
Balance at beginning of year	¥ 86,067	¥ 86,067	¥ 86,067	\$ 801
Balance at end of year	86,067	86,067	86,067	801
Capital surplus:				
Balance at beginning of year	172,529	172,529	172,719	1,609
Reissuance of treasury stock	—	190	2	0
Retirement of treasury stock	—	—	(190)	(2)
Balance at end of year	172,529	172,719	172,531	1,607
Legal reserves:				
Balance at beginning of year	28,969	29,391	32,418	302
Transfer from retained earnings (note 11)	422	3,027	2,270	21
Balance at end of year	29,391	32,418	34,688	323
Retained earnings:				
Balance at beginning of year	2,765,600	3,161,664	3,589,434	33,424
Net income for the year	426,662	464,338	486,197	4,527
Cash dividends (note 11)	(30,176)	(33,541)	(47,797)	(445)
Transfer to legal reserves (note 11)	(422)	(3,027)	(2,270)	(21)
Retirement of treasury stock	—	—	(216,181)	(2,013)
Balance at end of year	3,161,664	3,589,434	3,809,383	35,472
Accumulated other comprehensive income (loss) (notes 7, 10, 12 and 14):				
Balance at beginning of year	(479,175)	(763,165)	(854,573)	(7,958)
Other comprehensive income (loss) for the year, net of tax	(283,990)	(91,408)	60,639	565
Balance at end of year	(763,165)	(854,573)	(793,934)	(7,393)
Treasury stock:				
Balance at beginning of year	(49)	(56,766)	(151,665)	(1,412)
Purchase of treasury stock	(56,717)	(95,318)	(84,160)	(784)
Reissuance of treasury stock	—	419	13	0
Retirement of treasury stock	—	—	216,371	2,015
Balance at end of year	(56,766)	(151,665)	(19,441)	(181)
Total stockholders' equity	¥2,629,720	¥2,874,400	¥3,289,294	\$30,629
Disclosure of comprehensive income:				
Net income for the year	¥ 426,662	¥ 464,338	¥ 486,197	\$ 4,527
Other comprehensive income (loss) for the year, net of tax (notes 7, 10, 12 and 14)				
Adjustments from foreign currency translation	(169,391)	(195,941)	40,476	377
Unrealized gains (losses) on marketable equity securities:				
Unrealized holding gains (losses) arising during the year	(1,047)	21,246	(3,668)	(34)
Reclassification adjustments for losses realized in net income	7,137	—	1,346	13
Minimum pension liabilities adjustment	(120,689)	83,287	22,485	209
	(283,990)	(91,408)	60,639	565
Total comprehensive income for the year	¥ 142,672	¥ 372,930	¥ 546,836	\$ 5,092

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2003, 2004 and 2005	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Cash flows from operating activities (note 13):				
Net income	¥ 426,662	¥ 464,338	¥ 486,197	\$ 4,527
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	220,874	213,445	225,752	2,102
Deferred income taxes	68,433	113,422	115,519	1,076
Equity in income of affiliates	(61,972)	(75,151)	(96,057)	(894)
Provision for credit and lease residual losses on finance subsidiaries—receivables (note 3)	39,256	45,937	50,638	472
Loss (gain) on derivative instruments and related others, net	36,983	(84,783)	(60,432)	(563)
Decrease (increase) in assets:				
Trade accounts and notes receivable (note 3)	(31,642)	22,829	(70,145)	(653)
Inventories	(146,574)	(51,836)	(79,483)	(740)
Other current assets	(104,583)	(154,320)	(11,797)	(110)
Other assets (note 3)	(52,780)	(33,376)	(52,198)	(486)
Increase (decrease) in liabilities:				
Trade accounts and notes payable	28,675	132,541	76,338	711
Accrued expenses	130,615	64,830	71,469	665
Income taxes payable	3,964	(31,068)	33,704	314
Other current liabilities	17,708	13,763	19,973	186
Other liabilities	30,412	43,656	19,826	184
Other, net (note 3)	59,336	(8,739)	17,320	161
Net cash provided by operating activities	665,367	675,488	746,624	6,952
Cash flows from investing activities:				
Decrease (increase) in investments and advances	(16,041)	54,007	26,148	243
Payment for purchase of available-for-sale securities	(3,904)	(61)	(1,608)	(15)
Proceeds from sales of available-for-sale securities	40,682	10,082	13,140	122
Payment for purchase of held-to-maturity securities	—	(13,409)	(20,856)	(194)
Capital expenditures	(316,991)	(287,741)	(373,980)	(3,482)
Proceeds from sales of property, plant and equipment	16,438	19,157	14,216	132
Acquisitions of finance subsidiaries—receivables (note 3)	(2,424,416)	(2,689,554)	(2,710,520)	(25,240)
Collections of finance subsidiaries—receivables (note 3)	892,933	1,156,888	1,561,299	14,539
Proceeds from sales of finance subsidiaries—receivables	760,500	820,650	684,308	6,372
Net cash used in investing activities	(1,050,799)	(929,981)	(807,853)	(7,523)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(47,959)	(7,910)	20,244	188
Proceeds from long-term debt	775,987	885,162	704,433	6,560
Repayment of long-term debt	(292,063)	(289,107)	(495,107)	(4,610)
Cash dividends paid (note 11)	(30,176)	(33,541)	(47,797)	(445)
Increase (decrease) in commercial paper classified as long-term debt	(2,131)	280	(131)	(1)
Payment for purchase of treasury stock, net	(56,717)	(95,312)	(84,147)	(784)
Net cash provided by financing activities	346,941	459,572	97,495	908
Effect of exchange rate changes on cash and cash equivalents	(23,546)	(28,062)	12,851	120
Net change in cash and cash equivalents	(62,037)	177,017	49,117	457
Cash and cash equivalents at beginning of year	609,441	547,404	724,421	6,746
Cash and cash equivalents at end of year	¥ 547,404	¥ 724,421	¥ 773,538	\$ 7,203

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 30 separate factories, 4 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, 2005 were derived from: motorcycle business 12.7%, automobile business 80.5%, financial services 3.0%, and power products and other businesses 3.8%. Operating income by category of activity for the year ended March 31, 2005 was derived from: motorcycle business 11.0%, automobile business 71.7%, financial services 14.2%, and power products and other businesses 3.1%. The total assets at March 31, 2005 were attributable to: motorcycle business 9.1%, automobile business 44.7%, financial services 46.8%, power products and other businesses 2.8%, and corporate assets (net of company-wide accounts eliminated in consolidation) (3.4%).

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 2005, 77.1% of net sales and other operating revenue (¥6,666,923 million; \$62,081 million) was derived from subsidiaries operating outside Japan (2004: ¥6,283,459 million, 2003: ¥5,995,981 million). Net sales and other operating revenue for the year ended March 31, 2005 was geographically broken down based on the location of customers as follows: Japan 19.6%, North America 52.9%, Europe 10.1%, Asia 11.3% and others 6.1%. For the year ended March 31, 2005, 72.3% of operating income (¥456,282 million; \$4,249 million) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (2004: ¥404,464 million, 2003: ¥519,901 million). Also, 70.8% of Honda's assets at March 31, 2005 (¥6,597,463 million; \$61,435 million) was identified with foreign operations (2004: ¥5,688,405 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 U.S. generally accepted accounting principles.

(c) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Investments in 20% to 50% owned affiliates in which the Company has the ability to exercise significant influence over their operating and financial policies, but where the Company does not have a controlling financial interest are accounted for using the equity method.

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," which was revised in December 2003 ("FIN 46R"). FIN 46R 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. Honda adopted the provisions of 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, 2005 were ¥9,658 million, ¥11,753 million and ¥11,559 million (\$108 million), respectively.

(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 U.S. generally accepted accounting principles. 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 paid 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 amortized 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 fair 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, 2004 and 2005 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, 2004 or 2005, except for retained interests in the sold pools of finance receivables, which are accounted for as "trading" securities and included in finance subsidiaries-receivables.

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

Goodwill is not amortized but instead be tested for impairment at least annually. Goodwill is considered impaired if its estimated fair value is less than the carrying value. Honda completed its annual test during each of its fiscal years ended March 31, 2003, 2004 and 2005 and concluded no impairment needed to be recognized. The carrying amount of goodwill at March 31, 2004 and 2005 was ¥17,666 million and ¥17,887 million (\$167 million), respectively.

(j) Depreciation

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

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 estimated fair value of the assets. Assets to be disposed of by sale are reported at the lower of the carrying amount or estimated 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, 2005 were ¥234,670 million, ¥239,332 million and ¥246,997 million (\$2,300 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, 2003, 2004 and 2005 was 970,952,677, 953,638,262 and 933,767,978, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2003, 2004 or 2005.

(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 revenue 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, 2005 are as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
	¥520	¥13,668	\$(160)
		¥(17,146)	

(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 recognizes the fair value of all derivative financial instruments in its consolidated balance sheet. As Honda does not apply hedge accounting, the changes in the fair value of its derivative financial instruments are recognized in earnings in the period of the change. The amount recognized in earnings included in other income (expenses)—other during the year ended March 31, 2003, 2004 and 2005 are ¥19,910 million loss, ¥122,583 million gain and ¥44,905

million (\$418 million) gain, respectively. 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 ¥12,778 million loss, ¥36,410 million loss and ¥10,667 million (\$99 million) gain in other income (expenses)—other during the years ended March 31, 2003, 2004 and 2005, respectively. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries of ¥45,988 million loss, ¥38,894 million loss and ¥28,000 million (\$261 million) loss are included in other income (expenses)—other during the years ended March 31, 2003, 2004 and 2005. 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, 2005 are as follows:

Yen (millions)			U.S. dollars (millions) (note 2)
2003	2004	2005	2005
¥144,791	¥146,698	¥159,472	\$1,485

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, 2005 have been translated into United States dollars at the rate of ¥107.39 = U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2005. Those

3. Presentation of finance subsidiaries-receivables in the consolidated statements of cash flows and the consolidated balance sheets

In prior periods, Honda reported the effects of all finance subsidiaries-receivables as investing activities for purposes of presentation in the consolidated statements of cash flows. This policy, when applied to wholesale receivables related to sales of inventory to outside dealers, had the effect of presenting an investing cash outflow and an operating cash inflow even though there was no cash flow on a consolidated basis.

(r) New Accounting Pronouncements Not Yet Adopted

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4." SFAS No. 151 amends the guidance in ARB No.43, "Inventory Pricing," for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) requiring that those items be recognized as current-period expenses regardless of whether they meet the criterion of "so abnormal," as described in ARB No. 43. This statement also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The statement is effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. Management does not expect this statement to have a material impact on Honda's consolidated financial position or results of operations.

(s) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2005.

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.

In the current year, based on concerns raised by the staff of the Securities and Exchange Commission ("SEC"), management has decided to report the cash flow related effects of those finance subsidiaries-receivables which relate to sales of inventory as operating activities in the consolidated statements of cash flows and also reclassify related finance subsidiaries-receivables to trade receivables in the consolidated balance sheets. This presentation results in the

elimination of the intercompany activities and proper classification of cash receipts from the settlement of wholesale receivables related to the sale of inventory as operating activities.

Certain finance subsidiaries provide retail finance to customers who purchased inventory from the consolidated dealers. The cash flows generated from these retail finance were reported as investing cash flows in prior periods. In the current year, based on concerns raised by the staff of the SEC, management has decided to report the cash flow related effects of those finance subsidiaries-receivables which relate to sales of inventory as operating activities in the consolidated statements of cash flows and also reclassify related finance subsidiaries- receivables to trade receivables, including those of non-current portion to other assets, in the consolidated balance sheets.

Consequently, management has revised the presentation in the consolidated statements of cash flows for the years ended March 31, 2003 and 2004 and the consolidated balance sheet at March 31, 2004 to achieve a comparable presentation for all periods presented herein.

The cash flow related effects of finance subsidiaries-receivable from retail, direct finance leases, wholesale and term loans to dealer which are unrelated to the sales of inventory continue to be reported as investing activities in the consolidated statements of cash flows.

The impacts of the reclassification of the affected line items in the consolidated statements of cash flows with respect to the years ended March 31, 2003 and 2004 and in the consolidated balance sheet at March 31, 2004 are as follows:

Consolidated Statements of Cash Flows

Year ended March 31,	Yen (millions)	
	2003	2004
Cash provided by operating activities, as previously reported	¥ 688,127	¥ 712,942
Amounts reclassified from investing activities;		
Provision for credit and lease residual losses on finance subsidiaries-receivables	(121)	(1,003)
Increase in trade account and notes receivable	(14,800)	(28,096)
Increase in other assets	(7,960)	(9,358)
Other, net	121	1,003
Cash provided by operating activities, after reclassification	665,367	675,488
Cash used in investing activities, as previously reported	(1,073,559)	(967,435)
Amount reclassified to operating activities;		
Acquisitions of finance subsidiaries-receivables	840,660	874,458
Collections of finance subsidiaries-receivables	(817,900)	(837,004)
Cash used in investing activities, after reclassification	¥(1,050,799)	¥(929,981)

Consolidated Balance Sheet

At March 31,	Yen (millions)
	2004
Trade accounts and notes receivables, as previously reported	¥ 373,416
Amount reclassified from finance subsidiaries-receivables, net-current	314,887
Trade accounts and notes receivables, after reclassification	688,303
Finance subsidiaries-receivables, net - current, as previously reported	1,264,620
Amount reclassified to trade accounts and notes receivables	(314,887)
Finance subsidiaries-receivables, net - current, after reclassification	949,733
Finance subsidiaries-receivables, net, as previously reported	2,377,338
Amount reclassified to other assets	(111,464)
Finance subsidiaries-receivables, net, after reclassification	2,265,874
Other assets, as previously reported	321,579
Amount reclassified from finance subsidiaries-receivables, net	111,464
Other assets, after reclassification	¥ 433,043

4. Finance Subsidiaries—Receivables and Securitizations

Finance subsidiaries—receivables represent finance receivables generated by finance subsidiaries. Certain finance receivables related to sales of inventory are reclassified to trade receivables and other assets in the consolidated balance sheets. 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, 2004 and 2005:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Direct financing leases	¥1,721,716	¥1,922,248	\$17,900
Retail	1,822,873	2,110,018	19,648
Wholesale	256,588	312,318	2,908
Term loans to dealers	26,764	10,529	98
Total finance receivables	3,827,941	4,355,113	40,554
Retained interests in the sold pools of finance receivables	61,072	62,904	586
	3,889,013	4,418,017	41,140
Less:			
Allowance for credit losses (a)	26,327	32,749	305
Allowance for losses on lease residual values	26,124	34,025	317
Unearned interest income and fees (b)	194,604	201,873	1,880
Finance subsidiaries—receivables, net, before reclassification	3,641,958	4,149,370	38,638
Less:			
Reclassification to trade receivables, net (note 3)	314,887	374,988	3,492
Reclassification to other assets, net (note 3)	111,464	129,357	1,204
Finance subsidiaries—receivables, net	3,215,607	3,645,025	33,942
Less current portion	949,733	1,021,116	9,509
Noncurrent finance subsidiaries—receivables, net	¥2,265,874	¥2,623,909	\$24,433

(a) The allowance for credit losses of finance subsidiaries—receivables at March 31, 2004 and 2005 include ¥1,916 million and ¥1,823 million (\$17 million), which were reclassified to the allowance for doubtful accounts of trade receivable and other assets in the consolidated balance sheets.

(b) The unearned interest income and fees at March 31, 2004 and 2005 include ¥16,800 million and ¥19,118 million (\$178 million), which were reclassified to trade receivable and other assets in the consolidated balance sheets.

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2005 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2006	¥1,462,363	\$13,617
2007	1,123,458	10,461
2008	1,003,182	9,342
2009	538,164	5,011
2010	192,604	1,794
After five years	35,342	329
	2,892,750	26,937
Total	¥4,355,113	\$40,554

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, 2005 as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Finance income	¥240,995	¥245,834	¥259,188	\$2,414
Finance cost	42,507	35,796	54,815	510

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, 2003, 2004 and 2005 totaling approximately ¥735,047 million, ¥793,261 million and ¥731,508 million (\$6,812 million), respectively, to investors. Pre-tax net gains or losses on such sales for each of the years in the three-year period ended March 31, 2005, which

are included in finance income in the table above, are ¥10,144 million gain, ¥3,821 million gain and ¥4,291 million (\$40 million) loss, respectively. No direct financing lease receivables were sold in 2003, 2004 or 2005.

Finance subsidiaries serviced approximately ¥1,001,891 million and ¥1,078,463 million (\$10,042 million) of receivables for investors at March 31, 2004 and 2005, respectively.

Retained interests in securitizations were comprised of the following at March 31 2004 and 2005:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Subordinated certificates	¥30,775	¥37,480	\$349
Residual interests	30,297	25,424	237
Total	¥61,072	¥62,904	\$586

The changes in retained interest in securitizations for each of the years in the three-year period ended March 31, 2005 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Balance at beginning of year	¥106,879	¥ 67,024	¥ 61,072	\$569
Additions	40,060	41,045	31,267	291
Repurchases	(45,404)	(7,716)	(4,632)	(43)
Amortization and fair value adjustments	2,582	868	2,846	26
Cash received	(27,317)	(32,140)	(28,606)	(266)
Foreign exchange translation	(9,776)	(8,009)	957	9
Balance at end of year	¥ 67,024	¥ 61,072	¥ 62,904	\$586

At March 31, 2005, the significant assumptions used in estimating the retained interest in the sold pools of finance receivables are as follows:

	Weighted average assumption
Prepayment speed	1.29%
Expected credit losses	0.39%
Residual cash flows discount rate	9.70%

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, 2005 are as follows:

	2003	2004	2005
Weighted average life (years)	1.54 to 1.74	1.59 to 1.79	1.64 to 1.77
Prepayment speed	1.00% to 1.50%	1.00% to 1.50%	1.25% to 1.30%
Expected credit losses	0.21% to 0.35%	0.22% to 0.81%	0.30% to 0.70%
Residual cash flows discount rate	6.67% to 12.00%	5.30% to 12.00%	6.55% to 12.00%

The outstanding balance of securitized financial assets at March 31, 2005 is summarized as follows:

	Yen (millions)	U.S. dollars (millions) (note 2)
	2005	2005
Receivables sold:		
Retail	¥1,078,463	\$10,042
Total receivables sold	¥1,078,463	\$10,042

5. Inventories

Inventories at March 31, 2004 and 2005 are summarized as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Finished goods	¥521,146	¥570,922	\$5,316
Work in process	22,237	24,965	233
Raw materials	222,050	266,483	2,481
	¥765,433	¥862,370	\$8,030

6. Investments and Advances-Affiliates

Significant investments in affiliates accounted for under the equity method at March 31, 2004 and 2005 are Showa Corporation (33.5%), Keihin Corporation (42.2%), Guangzhou Honda Automobile Co., Ltd. (50.0%), Dongfeng Honda Engine Co., Ltd. (50.0%), and P.T. Astra Honda Motor (50.0%).

Certain combined financial information in respect of affiliates accounted for under the equity method at March 31, 2004 and 2005, and for each of the years in the three-year period ended March 31, 2005 is shown below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Current assets	¥ 713,957	¥ 876,559	\$ 8,162
Other assets, principally property, plant and equipment	796,967	830,827	7,737
Total assets	1,510,924	1,707,386	15,899
Current liabilities	548,466	629,578	5,862
Other liabilities	146,039	146,554	1,365
Total liabilities	694,505	776,132	7,227
Stockholders' equity	¥ 816,419	¥ 931,254	\$ 8,672

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Net sales	¥2,527,293	¥2,646,166	¥3,039,751	\$28,306
Net income	153,422	168,905	220,596	2,054
Cash dividends received by Honda during the year	26,741	46,780	35,824	334

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, 2004 and 2005 included in retained earnings was ¥194,417 million and ¥224,047 million (\$2,086 million), respectively.

Trade receivables and trade payables include the following balances with affiliates at March 31, 2004 and 2005, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2005:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Trade receivables from	¥ 26,487	¥ 25,421	\$237
Trade payables to	106,831	106,543	992

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Purchases from	¥555,257	¥551,757	¥595,589	\$5,546
Sales to	107,985	122,241	148,352	1,381

Mr. Minekawa, a Director of the Company, served as the President of Guangzhou Honda Automobile Co., Ltd., one of our affiliates in China. In fiscal 2005, Honda sold automobile parts, equipment and services to the affiliated company in the amount of ¥37,023 million (\$345 million). He is expected to retire as a Director of the Company as of June 23 2005 and will be assigned as an operating officer of the Company.

7. Investments and Advances-Other

Investments and advances at March 31, 2004 and 2005 consisted of the following:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Current			
Corporate debt securities	¥ —	¥ 7,485	\$ 70
U.S. government and agency debt securities	—	3,222	30
	¥ —	¥10,707	\$100

Investments due within one year are included in other current assets.

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Noncurrent			
Marketable equity securities	¥ 98,300	¥ 93,004	\$ 866
Nonmarketable preferred stocks	16,200	11,100	103
Convertible preferred stocks	18,739	27,476	256
Convertible notes	49,759	65,920	614
Government bonds	—	3,000	28
U.S. government and agency debt securities	13,211	20,347	189
Guaranty deposits	31,040	31,076	289
Advances	4,064	3,915	37
Other	11,511	9,088	85
	¥242,824	¥264,926	\$2,467

Certain information with respect to marketable securities at March 31, 2004 and 2005, is summarized below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Available-for-sale			
Cost	¥30,928	¥29,815	\$278
Fair value	98,300	93,004	866
Gross unrealized gains	67,694	63,319	589
Gross unrealized losses	322	130	1
Held-to-maturity			
Amortized cost	¥13,211	¥34,054	\$317
Fair value	13,228	33,692	314
Gross unrealized gains	17	75	1
Gross unrealized losses	—	437	4

Maturities of debt securities classified as held-to-maturity at March 31, 2005 were as follows:

	Yen (millions)	U.S. dollars (millions) (note 2)
Due within one year	¥10,707	\$100
Due after one year through five years	21,349	199
Due after five years through ten years	1,998	18
Due after ten years	—	—
Total	¥34,054	\$317

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, 2005, were,

¥21,797 million net losses, ¥3,468 million net gains and ¥2,206 million (\$21 million) net gains, respectively.

Gross unrealized losses on marketable 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, 2005 were as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)	
	2005		2005	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale				
Less than 12 months	¥207	¥ (18)	\$2	\$(0)
12 months or longer	637	(112)	6	(1)
	¥844	¥(130)	\$8	\$(1)
Held-to-maturity				
Less than 12 months	¥30,617	¥(437)	\$285	\$(4)
12 months or longer	—	—	—	—
	¥30,617	¥(437)	\$285	\$(4)

8. Short-term and Long-term Debt

Short-term debt at March 31, 2004 and 2005 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Short-term bank loans	¥258,556	¥279,696	\$2,605
Medium-term notes	85,979	85,273	794
Commercial paper	389,736	404,345	3,765
	¥734,271	¥769,314	\$7,164

The weighted average interest rates on short-term debt outstanding at March 31, 2004 and 2005 were 1.58% and 2.09%, respectively.

Long-term debt at March 31, 2004 and 2005 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Honda Motor Co., Ltd.:			
Loans, maturing through 2031:			
Unsecured, principally from banks	¥ 253	¥ 238	\$ 2
	253	238	2
Subsidiaries:			
Commercial paper	184,958	187,932	1,750
Loans, maturing through 2029:			
Secured, principally from banks	20,571	30,147	281
Unsecured, principally from banks	71,603	65,892	614
1.31% Japanese yen unsecured bond due 2005	30,000	—	—
0.69% Japanese yen unsecured bond due 2006	60,000	60,000	559
0.81% Japanese yen unsecured bond due 2006	1,000	1,000	9
0.47% Japanese yen unsecured bond due 2007	50,000	50,000	466
0.79% Japanese yen unsecured bond due 2008	30,000	30,000	279
0.99% Japanese yen unsecured bond due 2009	—	30,000	279
3.65% Thai baht unsecured bond due 2007	—	5,460	51
Medium-term notes, maturing through 2019	1,433,620	1,634,342	15,219
Less unamortized discount, net	268	406	4
	1,881,484	2,094,367	19,503
Total long-term debt	1,881,737	2,094,605	19,505
Less current portion	487,125	535,105	4,983
	¥1,394,612	¥1,559,500	\$14,522

The loans maturing through 2031 and through 2029 are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.69% to 22.37% per annum at March 31, 2005 and weighted average interest rate on total outstanding long-term debt at March 31, 2004 and 2005 is 2.55% and 4.05%, respectively. Property, plant and equipment with a net book value of approximately ¥11,425 million and ¥12,881 million (\$120 million) at March 31, 2004 and 2005, respectively,

were subject to specific mortgages securing indebtedness. Furthermore, finance subsidiaries-receivables of approximately ¥14,313 million and ¥22,597 million (\$210 million) at March 31, 2004 and 2005, respectively, were pledged as collateral by a financial subsidiary for certain loans.

At March 31, 2004 and 2005, ¥184,958 million and ¥187,932 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, 2004 and 2005 was approximately 1.04% and 2.71%, respectively.

Medium-term notes are unsecured, and their interest rates range from 0.53% to 8.95% at March 31, 2004 and from 0.6% to 3.17% at March 31, 2005.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2005 and thereafter:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2006	¥ 535,105	\$ 4,983
2007	712,939	6,639
2008	386,261	3,597
2009	252,691	2,353
2010	183,834	1,712
After five years	23,775	221
	1,559,500	14,522
Total	¥2,094,605	\$19,505

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 is included in other assets/liabilities and/or other current assets/liabilities in the consolidated balance sheets, as appropriate (see note 15). Unless a right of setoff exists, the offsetting of assets and liabilities is not made in the consolidated balance sheets.

At March 31, 2005, Honda had unused line of credit facilities amounting to ¥1,125,290 million (\$10,478 million), of which ¥378,232 million (\$3,522 million) related to commercial paper programs and ¥747,058 million (\$6,956 million) related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2005, Honda also had committed lines of credit amounting to ¥661,864 million (\$6,163 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.

9. Other Liabilities

Other liabilities at March 31, 2004 and 2005 are summarized as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Allowance for product warranty, net of current portion	¥151,286	¥141,394	\$1,317
Minority interest	59,185	70,001	652
Additional minimum pension liabilities (note 12)	419,747	381,124	3,549
Deferred income taxes	44,456	68,561	638
Other	50,263	58,532	545
	¥724,937	¥719,612	\$6,701

10. Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2005 were allocated as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Income	¥245,065	¥252,740	¥266,665	\$2,483
Stockholders' equity—Accumulated other comprehensive income (loss) (note 14)	(85,643)	43,620	12,718	118
	¥159,422	¥296,360	¥279,383	\$2,601

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, 2005 consisted of the following:

	Yen (millions)			
	Income before income taxes	Income taxes		Total
		Current	Deferred	
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
2005:				
Japanese	¥147,455	¥ 57,066	¥ 24,134	¥ 81,200
Foreign	509,350	94,080	91,385	185,465
	¥656,805	¥151,146	¥115,519	¥266,665
	U.S. dollars (millions) (note 2)			
	Income before income taxes	Income taxes		Total
		Current	Deferred	
2005:				
Japanese	\$1,373	\$ 531	\$ 225	\$ 756
Foreign	4,743	876	851	1,727
	\$6,116	\$1,407	\$1,076	\$2,483

The significant components of deferred income tax expense for each of the years in the three-year period ended March 31, 2005 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Deferred tax expense (exclusive of the effects of the other component listed below)	¥70,731	¥109,931	¥115,519	\$1,076
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	(2,298)	3,491	—	—
	¥68,433	¥113,422	¥115,519	\$1,076

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 the years ended March 31, 2003 and 2004. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, which reduced standard business tax rates from 9.60% to 7.68% as well as

additionally levying business tax based on corporate size. The change in business tax rate was effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate was 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 16% to 40%.

The effective tax rate for Honda for each of the years in the three-year period ended March 31, 2005 differs from the Japanese statutory income tax rate for the following reasons:

	2003	2004	2005
Statutory income tax rate	41.0%	41.0%	40.0%
Valuation allowance provided for current year operating losses of subsidiaries	0.8	2.6	0.5
Difference in statutory tax rates of foreign subsidiaries	(2.1)	(1.4)	(1.9)
Reversal of valuation allowance due to utilization of operating loss carryforwards	(0.6)	(1.6)	(1.1)
Research and development credit	(1.6)	(3.8)	(2.3)
Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates	(0.4)	0.5	—
The prior year income taxes*	—	—	1.8
Other	3.1	2.1	3.6
Effective tax rate	40.2%	39.4%	40.6%

* The prior year income taxes in 2005 are due to assessment by the Japanese tax authorities as a result of their transfer pricing audit relating to the Company's motorcycle business in Brazil.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2004 and 2005 are presented below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Deferred tax assets:			
Inventory valuation	¥ 24,051	¥ 24,475	\$ 228
Allowance for dealers and customers	130,514	131,262	1,222
Foreign tax credit	10,166	11,565	108
Operating loss carryforwards	73,772	58,697	546
Minimum pension liabilities adjustment	167,224	152,036	1,416
Other accrued pension liabilities	89,263	99,471	926
Other	141,723	131,233	1,222
Total gross deferred tax assets	636,713	608,739	5,668
Less valuation allowance	71,726	59,737	556
Net deferred tax assets	564,987	549,002	5,112
Deferred tax liabilities:			
Inventory valuation	(13,658)	(14,322)	(133)
Depreciation and amortization, excluding lease transactions	(50,100)	(63,614)	(592)
Lease transactions	(268,461)	(328,554)	(3,060)
Undistributed earnings of subsidiaries and affiliates	(22,737)	(34,252)	(319)
Net unrealized gains on marketable equity securities	(26,934)	(25,266)	(235)
Other	(53,995)	(82,129)	(765)
Total gross deferred tax liabilities	(435,885)	(548,137)	(5,104)
Net deferred tax asset	¥129,102	¥ 865	\$ 8

Deferred income taxes at March 31, 2004 and 2005 are reflected in the consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Current assets—Deferred income taxes	¥222,179	¥214,059	\$1,993
Other assets	162,323	129,162	1,203
Other current liabilities	(210,944)	(273,795)	(2,550)
Other liabilities	(44,456)	(68,561)	(638)
Net deferred tax asset	¥129,102	¥ 865	\$ 8

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 and operating loss carryforwards utilized. 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 and operating loss carryforwards, net of the existing valuation allowances at March 31, 2004 and 2005.

The net change in the total valuation allowance for the years ended March 31, 2003 and 2004 was an increase of ¥3,911 million and ¥6,686 million, respectively, and for the year ended March 31, 2005 was decrease of ¥11,989 million (\$112 million).

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, 2005, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of ¥173,603 million (\$1,617 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	¥ 2,629	\$ 25
1 to 5 years	5,128	48
5 to 15 years	21,820	203
Indefinite periods	144,026	1,341
	¥173,603	\$1,617

At March 31, 2004 and 2005, Honda did not recognize deferred tax liabilities of ¥31,193 million and ¥47,340 million (\$441 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, 2004 and 2005, the undistributed earnings not subject to deferred tax liabilities were ¥1,557,268 million and ¥1,895,285 million (\$17,649 million), respectively.

11. 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, 2005 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, 2005 were ¥31, ¥35 and ¥51 (\$0.47), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥37 (\$0.34) per share aggregating ¥34,220 million (\$319 million) to be proposed in June 2005.

12. Pension and Other Postretirement Benefits

The Company and its subsidiaries have various pension plans covering substantially all of their employees in Japan and in certain foreign countries. Benefits under the plans are primarily based on the combination of years of service and compensation. The funding policy is to make periodic contributions as required by applicable regulations. Plan assets consist primarily of listed equity securities and bonds.

Retirement benefits for directors, excluding certain benefits, are 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.

As stipulated in the Japanese Welfare Pension Insurance Law, the "Honda Employees' Pension Fund (Confederated Welfare Pension Fund)" of which the Company and a part of

its domestic subsidiaries are members, obtained an approval from the Minister of Health, Labor and Welfare for exemption from benefits obligations related to future employee service in respect of the substitutional portion on April 1, 2004. The Company and a part of its domestic subsidiaries are currently in the process of transferring past service liabilities to the government. The aggregate effect of this separation will be determined based on the their 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	
	2004	2005	2004	2005
Change in benefit obligations:				
Benefit obligations at beginning of year	¥(1,537,055)	¥(1,618,402)	¥(185,645)	¥(212,393)
Service cost	(49,309)	(40,963)	(13,022)	(17,560)
Interest cost	(30,741)	(32,368)	(12,164)	(14,445)
Plan participants' contributions	(7,487)	(352)	(811)	(681)
Actuarial gain (loss)	(7,626)	18,383	(19,748)	(42,687)
Benefits paid	29,339	32,109	1,814	2,501
Amendment	(15,523)	—	54	(8,684)
Foreign exchange translation	—	—	17,129	(7,430)
Benefit obligations at end of year	(1,618,402)	(1,641,593)	(212,393)	(301,379)
Change in plan assets:				
Fair value of plan assets at beginning of year	625,240	794,543	140,482	194,849
Actual return on plan assets	132,336	33,559	37,688	28,743
Employer contributions	58,819	46,197	34,169	29,058
Plan participants' contributions	7,487	352	811	681
Benefits paid	(29,339)	(32,109)	(1,814)	(2,501)
Foreign exchange translation	—	—	(16,487)	6,335
Fair value of plan assets at end of year	794,543	842,542	194,849	257,165
Funded status	(823,859)	(799,051)	(17,544)	(44,214)
Unrecognized actuarial loss	662,232	607,399	49,317	81,240
Unrecognized net transition obligations	6,761	5,726	374	332
Unrecognized prior service cost (benefit)	(68,002)	(62,089)	3,995	6,764
Net amount recognized	(222,868)	(248,015)	36,142	44,122
Adjustments to recognize additional minimum liabilities (note 9):				
Intangible assets	—	—	(1,056)	(311)
Amount included in accumulated other comprehensive income (loss)	(410,570)	(377,864)	(8,121)	(2,949)

Prepaid (accrued) pension cost recognized in the consolidated balance sheets	¥ (633,438)	¥ (625,879)	¥ 26,965	¥ 40,862
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Pension plans with accumulated benefit obligations in excess of plan assets:

Projected benefit obligations	¥(1,613,967)	¥(1,630,982)	¥ (87,498)	¥ (52,334)
Accumulated benefit obligations	(1,424,689)	(1,460,030)	(67,494)	(33,749)
Fair value of plan assets	790,951	833,539	63,984	29,685

	U.S. dollars (millions) (note2)	
	Japanese plans	Foreign plans
	2005	2005
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ (15,070)	\$ (1,978)
Service cost	(381)	(164)
Interest cost	(301)	(135)
Plan participants' contributions	(3)	(6)
Actuarial gain (loss)	170	(396)
Benefits paid	299	23
Amendment	—	(81)
Foreign exchange translation	—	(69)
Benefit obligations at end of year	(15,286)	(2,806)
Change in plan assets:		
Fair value of plan assets at beginning of year	7,399	1,814
Actual return on plan assets	313	268
Employer contributions	430	271
Plan participants' contributions	3	6
Benefits paid	(299)	(23)
Foreign exchange translation	—	59
Fair value of plan assets at end of year	7,846	2,395
Funded status	(7,440)	(411)
Unrecognized actuarial loss	5,656	756
Unrecognized net transition obligations	53	3
Unrecognized prior service cost (benefit)	(578)	63
Net amount recognized	(2,309)	411
Adjustments to recognize additional minimum liabilities (note 9):		
Intangible assets	—	(3)
Amount included in accumulated other comprehensive income (loss)	(3,519)	(27)
Prepaid (accrued) pension cost recognized in the consolidated balance sheets	\$ (5,828)	\$ 381
Pension plans with accumulated benefit obligations in excess of plan assets:		
Projected benefit obligations	\$ (15,187)	\$ (487)
Accumulated benefit obligations	(13,596)	(314)
Fair value of plan assets	7,762	276

Pension expense for each of the years in the three-year period ended March 31, 2005 included the following:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Japanese plans:				
Service cost-benefits earned during the year	¥44,733	¥49,309	¥40,963	\$381
Interest cost on projected benefit obligations	34,142	30,741	32,368	301
Expected return on plan assets	(31,711)	(32,041)	(33,589)	(313)
Net amortization and deferral	23,223	38,058	27,921	261
	¥70,387	¥86,067	¥67,663	\$630
Foreign plans:				
Service cost-benefits earned during the year	¥12,663	¥13,022	¥17,560	\$164
Interest cost on projected benefit obligations	10,944	12,164	14,445	135
Expected return on plan assets	(9,593)	(12,947)	(17,418)	(162)
Net amortization and deferral	(1,781)	2,069	2,576	23
	¥12,233	¥14,308	¥17,163	\$160

Weighted-average assumptions used to determine benefit obligation at March 31, 2004 and 2005 were as follows:

	2004	2005
Japanese plans:		
Discount rate	2.0%	2.0%
Rate of salary increase	2.3%	2.3%
Foreign plans:		
Discount rate	5.8–6.8%	5.4–6.3%
Rate of salary increase	4.3–6.7%	3.5–6.7%

Weighted-average assumptions used to determine net periodic benefit cost for each of the years in the three-year period ended March 31, 2005 were as follows:

	2003	2004	2005
Japanese plans:			
Discount rate	2.5%	2.0%	2.0%
Rate of salary increase	2.5%	2.3%	2.3%
Expected long-term rate of return	4.0%	4.0%	4.0%
Foreign plans:			
Discount rate	5.5–7.5%	5.5–7.0%	5.8–6.8%
Rate of salary increase	4.0–6.0%	4.0–6.7%	3.5–6.7%
Expected long-term rate of return	6.5–9.0%	6.8–8.5%	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

Honda uses a March 31 measurement date for their plans excluding certain foreign subsidiaries which use a December 31 measurement date for their plan.

Plan assets

Honda's domestic and foreign pension plan weighted-average asset allocations at March 31, 2004 and 2005, by asset category are as follows:

	2004	2005
Japanese plans:		
Equity securities	38%	37%
Debt securities	26%	23%
Other	36%	40%
	100%	100%
Foreign plans:		
Equity securities	68%	68%
Debt securities	25%	24%
Other	7%	8%
	100%	100%

Honda investment policies for the domestic and foreign 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, 2004 and 2005 were ¥1,427,769 million and ¥1,468,115 million (\$13,671 million), respectively. The accumulated benefit obligation for all foreign defined benefit plans at March 31, 2004 and 2005 were ¥162,079 million and 225,853 million (\$2,103 million), respectively.

Cash flows

Honda expects to contribute ¥41,433 million (\$386 million) to its domestic pension plans and ¥24,956 million (\$232 million) to its foreign pension plans in the year ending March 31, 2006.

Estimated future benefit payment

The following table presents estimated future gross benefit payments:

	Yen (millions)		U.S. dollars (millions) (note 2)	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
2006	¥37,054	¥2,799	\$345	\$26
2007	41,377	3,295	385	31
2008	49,362	3,836	460	36
2009	53,366	4,429	497	41
2010	57,974	5,487	540	51
2011-2015	327,654	47,504	3,051	442

Certain of the Company's subsidiaries in North America provide certain health care and life insurance benefits to retired

employees. Such benefits have no material effect on Honda's financial position and results of operations.

13. Supplemental Disclosures of Cash Flow Information

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Cash paid during the year for:				
Interest	¥100,368	¥ 91,207	¥ 99,475	\$ 926
Income taxes	173,697	203,029	159,041	1,481

During the year ended March 31, 2004, the Company reissued certain of its treasury stock at fair value of ¥603 million to the minority shareholder of subsidiary, upon which the Company merged with the subsidiary. During the fiscal year ended March 31, 2005, the Company retired shares

totaling 46,000,000 shares at a cost of ¥216,371 million (\$2,015 million) by offsetting with capital surplus of ¥190 million (\$2 million) and unappropriated retained earnings of ¥216,181 million (\$2,013 million) based on the resolution of board of directors.

14. Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of changes in adjustments for foreign currency translation, changes in fair value of available-for-sale marketable equity securities, and changes 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, 2005 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2003	2004	2005	2005
Adjustments from foreign currency translation:				
Balance at beginning of year	¥(300,081)	¥(469,472)	¥(665,413)	\$(6,196)
Adjustments for the year	(169,391)	(195,941)	40,476	377
Balance at end of year	(469,472)	(665,413)	(624,937)	(5,819)
Net unrealized gains on marketable equity securities:				
Balance at beginning of year	8,730	14,820	36,066	335
Realized (gain) loss on marketable equity securities	7,137	—	1,346	13
Increase (decrease) in net unrealized gains on marketable equity securities	(1,047)	21,246	(3,668)	(34)
Balance at end of year	14,820	36,066	33,744	314
Minimum pension liabilities adjustment:				
Balance at beginning of year	(187,824)	(308,513)	(225,226)	(2,097)
Adjustments for the year	(120,689)	83,287	22,485	209
Balance at end of year	(308,513)	(225,226)	(202,741)	(1,888)
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(479,175)	(763,165)	(854,573)	(7,958)
Adjustments for the year	(283,990)	(91,408)	60,639	565
Balance at end of year	¥(763,165)	¥(854,573)	¥(793,934)	\$(7,393)

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 10)	Net-of-tax amount
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)

2005:			
Adjustments from foreign currency translation	¥ 39,469	¥ 1,007	¥ 40,476
Unrealized gains (losses) on marketable equity securities:			
Unrealized holding gains (losses) arising during the year	(6,104)	2,436	(3,668)
Reclassification adjustments for losses realized in net income	2,114	(768)	1,346
Net unrealized gains (losses)	(3,990)	1,668	(2,322)
Minimum pension liabilities adjustment	37,878	(15,393)	22,485
Other comprehensive income (loss)	¥ 73,357	¥(12,718)	¥ 60,639

	U.S. dollars (millions) (note 2)		
	Before-tax amount	Tax (expense) or benefit (note 10)	Net-of-tax amount
2005:			
Adjustments from foreign currency translation	\$368	\$ 9	\$377
Unrealized gains (losses) on marketable equity securities:			
Unrealized holding gains (losses) arising during the year	(57)	23	(34)
Reclassification adjustments for losses realized in net income	20	(7)	13
Net unrealized gains (losses)	(37)	16	(21)
Minimum pension liabilities adjustment	352	(143)	209
Other comprehensive income (loss)	\$683	\$(118)	\$565

15. Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 2004 and 2005 are as follows:

	Yen (millions)				U.S. dollars (millions) (note 2)	
	2004		2005		2005	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries–receivables (a)	¥2,112,139	¥2,141,746	¥2,433,240	¥2,407,745	\$ 22,658	\$22,421
Marketable equity securities	98,300	98,300	93,004	93,004	866	866
Convertible preferred stocks						
Host contracts	5,954	5,954	7,791	7,791	73	73
Embedded derivatives	12,785	12,785	19,685	19,685	183	183
	18,739	18,739	27,476	27,476	256	256
Convertible notes						
Host contracts	6,176	6,176	7,038	7,038	66	66
Embedded derivatives	43,583	43,583	58,882	58,882	548	548
	49,759	49,759	65,920	65,920	614	614
Debt	(2,616,008)	(2,624,657)	(2,863,919)	(2,878,341)	(26,669)	(26,803)
Foreign exchange instruments (b)						
Asset position	¥ 43,847	¥ 43,847	¥ 28,030	¥ 28,030	\$ 261	\$ 261
Liability position	(2,062)	(2,062)	(14,018)	(14,018)	(131)	(131)
Net	¥ 41,785	¥ 41,785	¥ 14,012	¥ 14,012	\$ 130	\$ 130
Interest rate instruments (c)						
Asset position	¥ 166	¥ 166	¥ 27,353	¥ 27,353	\$ 255	\$ 255
Liability position	(23,149)	(23,149)	(2,550)	(2,550)	(24)	(24)
Net	¥ (22,983)	¥ (22,983)	¥ 24,803	¥ 24,803	\$ 231	\$ 231

(a) The carrying amounts of finance subsidiaries-receivables at March 31, 2004 and 2005 in the table exclude ¥1,529,819 million and ¥1,716,130 million (\$15,980 million) of direct financing leases, net, classified as finance subsidiaries-receivables in the consolidated balance sheets, respectively. The carrying amounts of finance subsidiaries-receivables at March 31, 2004 and 2005 in the table also include ¥426,351 million and ¥504,345 million (\$4,696 million) of finance receivables classified as trade receivables and other assets in the consolidated balance sheets.

(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 8):

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
	Other current assets	¥ 9,761	¥ 643
Other assets	34,086	27,387	255
Other current liabilities	(2,062)	(14,018)	(131)
	¥41,785	¥14,012	\$130

(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 8):

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Other current assets	¥ 166	¥ 161	\$ 2
Other assets	—	27,192	253
Other current liabilities	(23,048)	(2,462)	(23)
Other liabilities	(101)	(88)	(1)
	¥(22,983)	¥24,803	\$231

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.

Marketable equity securities

The fair value of marketable equity securities was estimated using quoted market prices.

Convertible notes and convertible preferred stock investment

Honda investments in convertible instruments are bifurcated into two investments for accounting purposes. The note and preferred stock portions of these convertible instruments are treated as available-for-sale and are marked-to-market through other comprehensive income (loss). The fair value is determined based on an analysis of interest rate movements and an assessment of credit worthiness. The embedded derivative is marked-to-market through the statement of income and fair value is estimated using a trinomial convertible bond pricing model.

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.

16. Risk Management Activities and Derivative Financial Instruments

The Company and certain of its subsidiaries are parties to derivative financial instruments in the normal course of business to reduce their exposure to fluctuations in foreign exchange rates and interest rates. Currency swap agreements are used to convert long-term debt denominated in a certain currency to long-term debt denominated in other currencies. Foreign currency forward contracts and purchased option contracts are normally used to hedge sale commitments denominated in foreign currencies (principally U.S. dollars). Foreign currency written option contracts are entered into in combination with purchased option contracts to offset premium amounts to be paid for purchased option contracts. Interest rate swap agreements are mainly used to convert floating rate financing, such as commercial paper, to (normally three-five years) fixed rate financing in order to match financing costs with income from finance receivables. These instruments involve, to varying degrees, elements of credit, exchange rate and interest rate risks in excess of the amount recognized in the consolidated balance sheets.

The aforementioned instruments contain an element of risk in the event the counterparties are unable to meet the terms of the 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, 2004 were ¥562,698 million, ¥121,143 million and ¥402,256 million, respectively and totaled ¥1,086,097 million. At March 31, 2005, foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding were ¥692,841 million (\$6,451 million), ¥214,211 million (\$1,995 million) and ¥505,272 million (\$4,705 million), respectively and totaled ¥1,412,324 million (\$13,151 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, 2004 and 2005, the notional principal amounts of interest rate swap agreements were ¥2,556,179 million and ¥3,227,405 million (\$30,053 million), respectively.

17. Commitments and Contingent Liabilities

At March 31, 2005, Honda had commitments for purchases of property, plant and equipment of approximately ¥40,145 million (\$374 million).

Honda has entered into various guarantee and indemnification agreements. At March 31, 2004 and 2005, Honda has guaranteed approximately ¥77,426 million and ¥69,574 million (\$648 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 ¥77,426 million and ¥69,574 million (\$648 million), respectively, at March 31, 2004 and 2005. As of March 31, 2005, 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, 2005 are as follow:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2004	2005	2005
Balance at beginning of year	¥239,798	¥278,153	\$2,590
Warranty claims paid during the period	(112,810)	(138,368)	(1,288)
Liabilities accrued for warranties issued during the period	161,406	124,892	1,163
Changes in liabilities for pre-existing warranties during the period	2,407	(3,770)	(35)
Foreign currency translation	(12,648)	7,522	70
	¥278,153	¥268,429	\$2,500

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.

18. 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, 2005 are as follows:

Years ending March 31	Yen (millions)	U.S. dollars (millions) (note 2)
2006	¥ 25,151	\$ 234
2007	18,455	172
2008	13,664	127
2009	10,518	98
2010	9,832	91
After five years	41,303	385
Total minimum lease payments	¥118,923	\$1,107

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2005 were ¥46,877 million, ¥43,441 million and ¥44,619 million (\$415 million), respectively.

19. Allowances for Trade Receivable and Finance Subsidiaries-Receivables

The allowances for trade receivable and finance subsidiaries-receivables for the years ended March 31, 2003, 2004 and 2005 are set forth in the following table:

	Yen (millions)					
	Balance at beginning of period	Additions Charged to costs and expenses	Deductions Bad debts written off	Net increase (decrease) in unearned income	Translation difference	Balance at end of period
March 31, 2003:						
Trade receivable						
Allowance for doubtful accounts	¥ 9,417	¥ 1,700	¥ 1,117	¥ —	¥ (758)	¥ 9,242
Finance subsidiaries-receivables						
Allowance for credit losses	¥ 12,018	¥22,972	¥16,419	¥ —	¥ (970)	¥ 17,601
Allowance for losses on lease residual values	12,560	16,284	5,347	—	(1,142)	22,355
Unearned interest income and fees	174,336	—	—	33,184	(3,918)	203,602
	¥198,914	¥39,256	¥21,766	¥ 33,184	¥(6,030)	¥243,558
March 31, 2004:						
Trade receivable						
Allowance for doubtful accounts	¥ 9,242	¥ 3,760	¥ 1,877	¥ —	¥ (206)	¥ 10,919
Finance subsidiaries-receivables						
Allowance for credit losses	¥ 17,601	¥28,965	¥19,924	¥ —	¥(2,231)	¥ 24,411
Allowance for losses on lease residual values	22,355	16,972	10,989	—	(2,214)	26,124
Unearned interest income and fees	203,602	—	—	(27,963)	2,165	177,804
	¥243,558	¥45,937	¥30,913	¥(27,963)	¥(2,280)	¥228,339
March 31, 2005:						
Trade receivable						
Allowance for doubtful accounts	¥ 10,919	¥ 693	¥ 2,121	¥ —	¥ 219	¥ 9,710
Finance subsidiaries-receivables						
Allowance for credit losses	¥ 24,411	¥33,365	¥27,575	¥ —	¥ 725	¥ 30,926
Allowance for losses on lease residual values	26,124	17,273	10,156	—	784	34,025
Unearned interest income and fees	177,804	—	—	2,029	2,922	182,755
	¥228,339	¥50,638	¥37,731	¥ 2,029	¥4,431	¥247,706

	U.S. dollars (millions) (note 2)					
	Balance at beginning of period	Additions	Deductions	Net increase (decrease) in unearned income	Translation difference	Balance at end of period
		Charged to costs and expenses	Bad debts written off			
March 31, 2005:						
Trade receivable						
Allowance for doubtful accounts	\$ 102	\$ 6	\$ 20	\$—	\$ 2	\$ 90
Finance subsidiaries-receivables						
Allowance for credit losses	\$ 227	\$311	\$257	\$—	\$ 7	\$ 288
Allowance for losses on lease residual values	243	161	94	—	7	317
Unearned interest income and fees	1,656	—	—	19	27	1,702
	\$2,126	\$472	\$351	\$19	\$41	\$2,307

In 2005, Honda reclassified the above allowances and unearned interest and fees of finance receivables related to sales of inventory. Reclassifications have been made to prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2005.



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, 2004 and 2005, 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, 2005. 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 U.S. generally accepted accounting principles.

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, 2004 and 2005 and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2005 in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005 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 26, 2005

Selected Quarterly Financial Data (Unaudited and Not Reviewed)

	Yen (millions except per share amounts)							
	Year ended March 31, 2004				Year ended March 31, 2005			
	I	II	III	IV	I	II	III	IV
Net sales and								
other operating revenue	¥2,008,228	¥2,017,203	¥1,992,245	¥2,144,924	¥2,073,153	¥2,093,578	¥2,133,820	¥2,349,554
Operating income**	159,465	158,431	169,328	112,920	159,993	172,932	157,636	140,359
Income before income taxes	147,995	183,886	203,581	106,465	174,080	165,587	187,996	129,142
Net income	101,819	137,359	151,050	74,110	114,262	127,122	150,760	94,053
Net income per common share:								
Basic	¥106.02	¥143.33	¥158.66	¥78.47	¥121.65	¥135.70	¥161.78	¥101.43
Diluted	106.02	143.33	158.66	78.47	121.65	135.70	161.78	101.43
Net income per American depositary share:								
Basic	53.01	71.66	79.33	39.23	60.82	67.85	80.89	50.71
Diluted	53.01	71.66	79.33	39.23	60.82	67.85	80.89	50.71
Tokyo Stock Exchange: (TSE) (in yen)								
High	¥4,790	¥5,510	¥4,790	¥5,140	¥5,320	¥5,640	¥5,520	¥5,700
Low	3,570	4,420	4,090	4,300	4,370	4,890	4,830	5,230
New York Stock Exchange: (NYSE) (in U.S. dollars)								
High	\$19.95	\$23.59	\$22.53	\$23.40	\$24.85	\$25.40	\$26.10	\$27.30
Low	15.47	18.54	18.81	20.92	19.25	22.56	23.55	24.92

* All quarterly financial data is unaudited and has not been reviewed by the independent registered public accounting firm (KPMG AZSA & Co.).

Net Sales and Operating Income by Business Segment

Years ended March 31	Yen (millions)				
	2001	2002	2003	2004	2005
Motorcycle Business:					
Net sales (sales to unaffiliated customers)	¥ 805,304	¥ 947,900	¥ 978,095	¥ 996,290	¥1,097,754
Operating income	55,700	68,315	57,230	42,433	69,332
Operating income/Net sales	6.9%	7.2%	5.9%	4.3%	6.3%
Automobile Business:					
Net sales (sales to unaffiliated customers)	5,231,326	5,929,742	6,440,094	6,592,024	6,963,635
Operating income	315,627	512,911	551,392	438,891	452,382
Operating income/Net sales	6.0%	8.6%	8.6%	6.7%	6.5%
Financial Services Business:					
Net sales (sales to unaffiliated customers)	169,293	201,906	237,958	242,696	255,741
Operating income	30,719	76,365	107,813	108,438	89,901
Operating income/Net sales	18.1%	37.8%	45.3%	44.7%	35.2%
Power Product & Other Businesses:					
Net sales (sales to unaffiliated customers)	257,907	282,890	315,352	331,590	332,975
Operating income	(608)	3,611	8,092	10,382	19,305
Operating income/Net sales	(0.2%)	1.3%	2.6%	3.1%	5.8%
Total:					
Net sales (sales to unaffiliated customers)	¥6,463,830	¥7,362,438	¥7,971,499	¥8,162,600	¥8,650,105
Operating income	401,438	661,202	724,527	600,144	630,920
Operating income/Net sales	6.2%	9.0%	9.1%	7.4%	7.3%

* 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.

Financial Summary

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

	1995	1996	1997	1998
Sales, income, and dividends				
Net sales and other operating revenue	¥3,966,164	¥4,252,250	¥5,293,302	¥5,999,738
Operating income	106,936	138,741	397,238	456,852
Income before income taxes and equity in income of affiliates	94,287	115,134	390,722	443,351
Income taxes	44,904	58,281	189,044	201,278
Equity in income of affiliates	12,142	13,948	19,490	18,552
Net income	61,525	70,801	221,168	260,625
As percentage of sales	1.6%	1.7%	4.2%	4.3%
Cash dividends paid during the period	13,635	13,638	13,640	16,563
Research and development	203,004	220,573	251,128	285,863
Interest expense	34,382	30,601	27,514	27,655
Assets, long-term debt, and stockholders' equity				
Total assets	¥3,014,410	¥3,516,113	¥4,191,294	¥4,815,265
Long-term debt	589,537	656,461	734,255	677,750
Total stockholders' equity	1,017,462	1,144,540	1,388,430	1,607,914
Depreciation				
	125,115	125,007	141,351	153,337
Capital expenditures				
	128,644	150,489	217,782	309,517
Per common share				
Net income:				
Basic	¥ 63.16	¥ 72.68	¥ 227.00	¥ 267.49
Diluted	63.00	72.63	226.97	267.45
Cash dividends paid during the period	14	14	14	17
Stockholders' equity	1,044.44	1,174.73	1,425.04	1,650.14
Per American depository share				
Net income:				
Basic	31.58	36.34	113.50	133.74
Diluted	31.50	36.31	113.48	133.72
Cash dividends paid during the period	7.0	7.0	7.0	8.5
Stockholders' equity	522.22	587.36	712.52	825.07
Sales progress				
Sales amounts:*				
Japan	¥1,326,487	¥1,540,463	¥1,826,284	¥1,710,813
	33%	36%	35%	29%
Overseas	2,639,677	2,711,787	3,467,018	4,288,925
	67%	64%	65%	71%
Total	¥3,966,164	¥4,252,250	¥5,293,302	¥5,999,738
	100%	100%	100%	100%
Unit sales:				
Motorcycles	4,910	5,488	5,325	5,257
Automobiles	1,794	1,887	2,184	2,343
Power Products	1,909	2,268	2,521	2,857
Number of employees				
	92,800	96,800	101,100	109,400
Exchange rate (yen amounts per U.S. dollar)				
Rates for the period-end	¥ 89	¥ 106	¥ 124	¥ 132
Average rates for the period	99	96	113	123

Notes:

(1) The amounts for the fiscal year ended March 31, 2005, have been translated into U.S. dollars at the rate of ¥107.39=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2005.

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

(3) 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.

(4) 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 geographic breakdown of sales amounts is based on the location of customers.

						Yen (millions)	U.S. dollars (millions)
1999	2000	2001	2002	2003	2004	2005	2005
¥6,231,041	¥6,098,840	¥6,463,830	¥7,362,438	¥7,971,499	¥8,162,600	¥8,650,105	\$80,549
540,978	418,639	401,438	661,202	724,527	600,144	630,920	5,875
520,511	416,063	384,976	551,342	609,755	641,927	656,805	6,116
229,624	170,434	178,439	231,150	245,065	252,740	266,665	2,483
14,158	16,786	25,704	42,515	61,972	75,151	96,057	894
305,045	262,415	232,241	362,707	426,662	464,338	486,197	4,527
4.9%	4.3%	3.6%	4.9%	5.4%	5.7%	5.6%	
20,463	20,463	22,412	24,360	30,176	33,541	47,797	445
311,632	334,036	352,829	395,176	436,863	448,967	467,754	4,356
27,890	18,920	21,400	16,769	12,207	10,194	11,655	108
¥5,034,247	¥4,898,428	¥5,667,409	¥6,940,795	¥7,681,291	¥8,328,768	¥9,316,970	\$86,758
673,084	574,566	368,173	716,614	1,140,182	1,394,612	1,559,500	14,522
1,763,855	1,930,373	2,230,291	2,573,941	2,629,720	2,874,400	3,289,294	30,629
177,666	172,139	170,342	194,944	220,874	213,445	225,752	2,102
237,080	222,891	285,687	303,424	316,991	287,741	373,980	3,482
						Yen	U.S. dollars
¥ 313.05	¥ 269.31	¥ 238.34	¥ 372.23	¥ 439.43	¥ 486.91	¥ 520.68	\$ 4.85
313.05	269.31	238.34	372.23	439.43	486.91	520.68	4.85
21	21	23	25	31	35	51	0.47
1,810.20	1,981.07	2,288.87	2,641.55	2,734.69	3,054.90	3,556.49	33.12
156.52	134.65	119.17	186.11	219.71	243.45	260.34	2.42
156.52	134.65	119.17	186.11	219.71	243.45	260.34	2.42
10.5	10.5	11.5	12.5	15.5	17.5	25.5	0.24
905.10	990.53	1,144.43	1,320.77	1,367.34	1,527.45	1,778.24	16.56
						Yen (millions)	U.S. dollars (millions)
¥1,556,333	¥1,612,191	¥1,740,340	¥1,868,746	¥1,748,706	¥1,628,493	¥1,699,205	\$15,823
25%	26%	27%	25%	22%	20%	20%	
4,674,708	4,486,649	4,723,490	5,493,692	6,222,793	6,534,107	6,950,900	64,726
75%	74%	73%	75%	78%	80%	80%	
¥6,231,041	¥6,098,840	¥6,463,830	¥7,362,438	¥7,971,499	¥8,162,600	¥8,650,105	\$80,549
100%	100%	100%	100%	100%	100%	100%	
						Thousands	
4,295	4,436	5,118	6,095	8,080	9,206	10,482	
2,333	2,473	2,580	2,666	2,888	2,983	3,242	
3,412	4,057	3,884	3,926	4,584	5,407	5,300	
112,200	112,400	114,300	120,600	126,900	131,600	137,827	
¥ 121	¥ 106	¥ 124	¥ 133	¥ 120	¥ 106	¥ 107	
128	112	111	125	122	113	108	

The sales amount from such sales for fiscal 2002 amounted to ¥5,468 million.
(5) 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 depository share information has been restated for all periods presented to reflect this four-for-one ADR split.
(6) 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 and 2005.

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.