

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 2006, ended March 31, 2006, amounted to ¥9,907.9 billion, up 14.5% from the previous fiscal year.

Of this amount, domestic net sales decreased by ¥5.1 billion, or 0.3%, to ¥1,694.0 billion, while overseas net sales increased by ¥1,263.0 billion, or 18.2% to ¥8,213.9 billion.

Operating Income

Operating income amounted to ¥868.9 billion, which was an increase of 37.7% from the previous fiscal year.

This was primarily due to positive currency effects caused by the depreciation of the Japanese yen, increased profit attributable to higher revenue, continuing cost reduction effects and gain on return of the substitutional portion of the Employees' Pension Funds to the Japanese government (herein referred to as "return"), which offset the negative impact of increased SG&A and R&D expenses.

Selling, General and Administrative Expenses/Research and Development Expenses

SG&A expenses for fiscal 2006 increased by ¥143.1 billion or 9.5%, to ¥1,656.3 billion, reflecting increased sales expenses and storage fee due to the increase of net sales and increased advertisement expenses.

R&D expenses increased by ¥42.6 billion or 9.1%, to ¥510.3 billion.

Income before Income Taxes and Equity in Income of Affiliates

Income before income taxes and equity in income of affiliates was up 24.0%, to ¥814.6 billion.

Other income & expenses, net decreased by ¥80.1 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 3.7%, to ¥99.6 billion.

Net Income

Net income amounted to ¥597.0 billion, an increase of 22.8%. The effective tax rate was 38.9%, an decrease by 1.7 percentage points from the previous fiscal year.

Basic net income per common share amounted to ¥648.67, compared with ¥520.68 in fiscal 2005.

The gain on "return" of ¥138.0 billion which was recorded in the fiscal year ended March 31, 2006, was included in the result of consolidated operating income and consolidated income before income taxes. Accordingly, the result of amount of the relevant income after tax that was recorded by the "return" was included in the consolidated net income for the fiscal year ended March 31, 2006.

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.

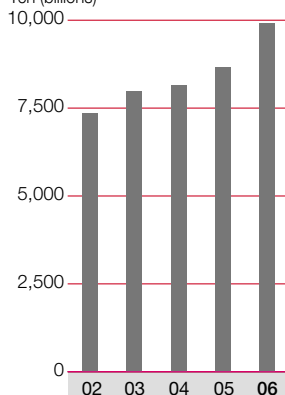
In its manufacturing and sales business, Honda requires operating capital mainly to purchase parts and materials required for production, as well as to control inventory of finished products and cover receivables from dealers. Honda also requires funds for capital expenditures, mainly to upgrade, rationalize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

Net Sales and Other Operating Revenue

Years ended March 31

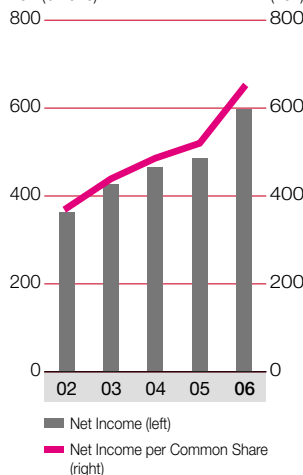
Yen (billions)



Net Income and Net Income per Common Share

Years ended March 31

Yen (billions)



corporate bonds, medium-term notes and commercial paper, as well as securitization of finance receivables. The year-end balance of liabilities associated with fund-raising by financial subsidiaries was ¥3,880.8 billion.

Cash Flows

Consolidated cash and cash equivalents at end of year amounted to ¥747.3 billion as of March 31, 2006, down ¥26.2 billion, or 3.4%, from a year earlier, owing to decreases from business subsidiaries.

Year-end cash and cash equivalents of business subsidiaries declined as net income and depreciation were outweighed by increases in purchases of production equipment and other tangible fixed assets. However, year-end cash and cash equivalents of finance subsidiaries increased, owing to an increase in their fund-raising activities associated with a rise in their receivables.

Net cash provided by operating activities amounted to ¥576.5 billion. Factors increasing cash flows included ¥597.0 billion in net income (including a ¥138.0 billion non-cash gain on the return of the substitutional portion of the employees' pension plan) and ¥262.2 billion in depreciation. By contrast, there was a ¥113.2 billion increase in trade accounts and notes receivable and a ¥109.6 billion increase in inventories.

Net cash used in investing activities totaled ¥672.7 billion. This was mainly due to ¥460.0 billion in capital expenditures associated with introducing new models, upgrading, streamlining and renewing production facilities, and the improvement of Sales and R&D facilities. Another factor was a ¥230.3 billion increase in acquisition (net) of finance subsidiaries' receivables associated with higher sales of automobiles in North America and elsewhere.

Net cash provided by financing activities was ¥24.0 billion. During the year, Honda raised ¥865.6 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 ¥568.3 billion in long-term debt. By contrast, there was a ¥124.9 billion decrease in short-term debt accompanying a decline in external liabilities in Europe. Honda also allocated ¥77.0 billion in payments for purchase of treasury stock and ¥71.0 billion in cash dividends paid.

The ¥747.3 billion in cash and cash equivalents at end of year corresponds to approximately 0.9 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 ¥1,369.1 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 ¥701.0 billion. In addition, Honda currently has ample credit limits, extended by prominent international banks, that are not subject to contracts.

Honda believes it has adequate liquidity to meet its cash obligations for the near future at least for the year ending March 31, 2007.

Honda's short- and long-term debt securities are rated by credit rating agencies, such as Moody's Investors Service, Inc., and Standard & Poor's Rating Services. 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, 2006, we guaranteed ¥46.7 billion of employee bank loans 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 ¥46.7 billion. As of March 31, 2006, 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, 2006:

| | Yen (millions) | | | | |
|-------------------------|------------------------|------------------|------------|-----------|---------------|
| | Payments due by period | | | | |
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| Long-term debt | ¥2,536,645 | ¥657,645 | ¥1,370,518 | ¥472,813 | ¥35,669 |
| Operating leases | 119,216 | 25,087 | 33,057 | 20,246 | 40,826 |
| Purchase commitments(*) | 53,304 | 53,304 | — | — | — |

(*) Honda had commitments for purchases of property, plant and equipment at March 31, 2006.

At March 31, 2006, 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 capital expenditures in fiscal 2006 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 ¥457.8 billion, up ¥83.8 billion from the previous year. Spending by business segment is shown below.

| Years ended March 31 | Yen (millions) | |
|------------------------------------|-----------------|-----------------|
| | 2005 | 2006 |
| Motorcycle Business | ¥ 41,845 | ¥ 52,246 |
| Automobile Business | 317,271 | 392,934 |
| Financial Services | 1,941 | 1,316 |
| Power Product and Other Businesses | 12,923 | 11,345 |
| Total | ¥373,980 | ¥457,841 |

In the motorcycle business, we made capital expenditures of ¥52.2 billion in the year ended March 31, 2006. Funds were allocated to the introduction of new models, as well as the

improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities.

In the automobile business, we made capital expenditures of ¥392.9 billion associated with introducing new models, improving, streamlining, and modernizing our production facilities, and improving our sales and R&D facilities in the year ended March 31, 2006.

In the financial services segment, capital expenditures amounted to ¥1.3 billion in the year ended March 31, 2006. Capital expenditures in power product and other businesses in the year ended March 31, 2006, totaling ¥11.3 billion, were deployed to upgrade, streamline, and modernize manufacturing facilities for power products, and to improve R&D facilities for power products.

Plans after Fiscal 2006

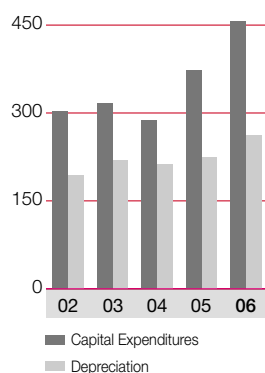
Honda plans to build a new auto plant capable of synchronous auto production—from the engine to the entire automobile—in Yorii-cho Oosato-gun, Saitama, Japan with an investment of approximately ¥70,000 million. The annual production capacity of this new auto plant will be approximately 200,000 units. This new auto plant plans to start operation in 2010, and when the

Capital Expenditures and Depreciation

Years ended March 31

Yen (billions)

600



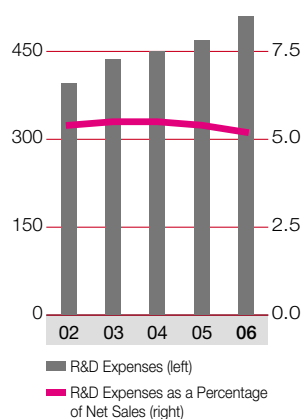
R&D Expenses and R&D Expenses as a Percentage of Net Sales

Years ended March 31

Yen (billions)

(%)

600 10.0



new plant becomes operational, Honda's total annual production capacity in Japan will increase to 1.5 million units.

Honda plans to build a new R&D center in Sakura City, Tochigi, Japan with an investment of approximately ¥17,000 million. This new R&D facility will have multiple test courses, which reproduce various driving conditions including high-speed driving to urban-area driving.

Honda is aiming to begin operation of this new R&D facility in 2009.

Honda plans to build a new auto plant in the U.S., with an investment of approximately \$550 million. The annual production capacity of this new plant will be approximately 200,000 units. This new auto plant plans to start operation in 2008, and when the new plant becomes operational, Honda's total annual production capacity in North America will increase to 1.6 million units.

Honda plans to build a new engine plant in Canada with an investment of approximately \$140 million. The annual production capacity of this new plant will be approximately 200,000 units, and the products of this new plant will be supplied to the auto plant of Honda Canada Inc. This new plant should begin operation in 2008.

The planned amount of capital expenditures in fiscal 2007 is shown below.

| Year ending March 31 | Yen (millions) |
|------------------------------------|-----------------|
| | 2007 |
| Motorcycle Business | ¥ 65,500 |
| Automobile Business | 489,500 |
| Financial Services | 1,300 |
| Power Product and Other Businesses | 13,700 |
| Total | ¥570,000 |

Research and Development

Using the most advanced technologies, 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 Research Institute 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 our other entities and business in their respective regions.

Total consolidated R&D expenditures for the year ended March 31, 2006, amounted to ¥510.3 billion. Main R&D activities conducted by 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 2006. The *FORZA Z 250cc* scooter underwent a full model change, and was outfitted with the Honda S-Matic seven-speed automatic transmission in place of the previous manual six-speed transmission. This model was also the first in the world to be fitted with an auto-shift mode, creating a riding experience that is finely tuned to road conditions.

In Japan, North America and Europe, the *CBR1000RR* on-road super sports model underwent a full model change. While the new model inherits the same basic styling and engine specifications of its predecessor, it is four kilograms lighter than the previous model to achieve quicker acceleration and better handling.

In Asia, we launched a new model, *Click*, the first 110cc scooter to be equipped with a water-cooled engine in Thailand. In China, we produced and released the *Storm*, a 125cc motorcycle featuring enhanced environmental technologies and acceleration.

Honda has succeeded in developing the world's first production motorcycle airbag system. This new system helps lessen the severity of injuries caused by head-on collisions. In another development, we released the Honda Advanced Safety Vehicle-3 (ASV-3), equipped with the latest safety technologies developed as a result of Honda's participation in the five-year Advanced Safety Vehicle (ASV) Project led by the Ministry of Land, Infrastructure and Transport. Features of the new vehicle include the Intersection Stop & Go Assistance System, which analyzes images from a camera mounted on the front of the motorcycle to detect stop signs and other markings. If the rider does not slow down when approaching an intersection, a warning appears on the motorcycle's display screen, and an audio warning sounds in the rider's helmet, prompting the rider to decelerate. Once the motorcycle has come to a stop, the Inter-Vehicle Communication System detects the position of any approaching vehicles, helping the rider determine whether or not it is safe to proceed through the intersection. In addition, since the shape and size of motorcycles make them less noticeable than automobiles, we have used research on human brain function to develop a new design concept that significantly improves motorcycle visibility.

Research and development expenses in the Motorcycle Business segment in fiscal 2006 totaled ¥83.0 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 during the year include a full worldwide model change of the Civic. The engines of the new models employ an intelligent VTEC (i-VTEC) system, which switches the valve timing for maximum efficiency during startup and acceleration to achieve powerful, torquey performance, then delays intake valve closure timing during cruising and other low-load conditions for improved fuel economy. In Japan, North America and Europe, the Civic Hybrid underwent a full model change. The new line is equipped with the New Honda

Hybrid System, combining a 3-stage i-VTEC engine that regulates the valves to provide three stages of valve timing (low-rpm, high-rpm and cylinder idle mode) with a significantly smaller and more efficient Integrated Motor Assist (IMA) system. We also launched a sporty 5-door model Civic developed exclusively for the European market. This new model is available with a choice of three engines: a 1.4-liter i-DSI (Intelligent Dual and Sequential Ignition) engine, a 1.8-liter i-VTEC engine—both realizing enhanced fuel economy—and a 2.2-liter i-CTDi diesel engine that complies with strict European regulations on gas emissions.

In Japan, we introduced the all-new Airwave compact station wagon, featuring a roomy passenger interior and a luggage compartment with ample storage capacity, as well as an extra-large glass “Sky Roof” that creates open-air feeling. We also introduced the new Step Wagon, following a full model change that lowered the vehicle’s floor level and center of gravity, providing enhanced driving performance and comfort. In addition, we commenced sales of the new Zest minicar, incorporating low-floor design technology for greater cabin room, generous storage area and a convenient access bay.

During the year under review, we announced the development of the Honda ASV-3, equipped with several new advanced safety technologies developed as a result of Honda’s participation in the five-year Advanced Safety Vehicle (ASV) Project led by the Ministry of Land, Infrastructure and Transport. In addition to using inter-vehicle communication to ascertain the position of automobiles, motorcycles and pedestrians relative to each other, the Honda ADV-3 incorporates a system that uses cameras and radar to provide drivers with information on approaching vehicles and obstacles on the road. There is also a system that offers driver support through steering- and brake-assist technologies, as well as an emergency response system designed to aid in rescue efforts in the event of an accident.

In fuel cell technologies, the FCX, featuring Honda FC STACK next-generation fuel cell technology, became Japan’s first fuel cell vehicle to receive motor vehicle type certification from the Japanese Ministry of Land, Infrastructure and Transport.

Research and development expenses in the Automobile Business segment in fiscal 2006 totaled ¥413.9 billion.

Power Product and Other Businesses

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

In fiscal 2006, we introduced the new iGX440 general-purpose engine in Japan, United States, Europe and elsewhere. Highly friendly to the environment and extremely quiet, the iGX440 is the world’s first single-cylinder general-purpose engine to employ electronic governor speed control technology, which eliminates the need for a battery. The electronic governor system allows optimum engine control to suit a wide range of power requirements.

In Japan, we incorporated the iGX440 into the newly launched HSM1590i, a mid-sized hybrid snow plow featuring a gasoline engine for removing snow and an electric motor for travel motion. The combination of the two power units facilitates switching between work modes and enhances user-friendliness. We also unveiled the Monpal ML200, a stylish four-wheel

scooter with a comfortable ride and high maneuvering stability.

Research and development expenses in this segment in fiscal 2006 amounted to ¥13.3 billion.

Fundamental Research

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

In joint research conducted with Nagoya University, we became the first in the world to discover a gene that dramatically improves rice harvests. Using rice of the Koshihikari variety, we identified a gene that radically enhances the regenerative ability of rice. This will lead the way to more rapid improvements in Koshihikari, the most popular variety of rice in Japan.

Honda’s latest ASIMO humanoid robot model is capable of performing tasks in concert with the movement of people, such as freely operating a cart. A newly developed total control system, which controls all of ASIMO’s functions, enables the robot to act autonomously—as a receptionist, for instance, or even as a waiter serving drinks on a tray. A drastic improvement in the robot’s mobility allows it to run at a speed of 6km/hr, as well as run in a circular pattern.

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

Patents and Licenses

On March 31, 2006, Honda owned more than 9,600 patents and 160 utility model registrations in Japan and more than 16,100 patents abroad. Honda also had applications pending for more than 19,900 patents in Japan and for more than 18,500 patents abroad. Under Japanese law, a utility model registration is a right granted with respect to inventions of less originality than those which qualify for patents. While the Company considers that, in the aggregate, Honda’s patents are important, it does not consider any one of such patents, or any related group of them, to be of such importance that the expiration or termination thereof would materially affect Honda’s business.

Segment Information

Business segments

Motorcycles

In fiscal 2006, domestic unit sales of motorcycles fell 2.6%, to 368,000 units. Overseas unit sales fell 2.0%, to 9,903,000 units, mainly due to a decrease in unit sales of parts for local production at affiliates accounted for under the equity method in Asia*.

As a result, total unit sales of motorcycles amounted to 10,271,000 units, down 2.0% compared to the previous fiscal year. Net sales from sales to unaffiliated customers in the motorcycle segment increased 11.7%, to ¥1,225.8 billion, due mainly to the positive impact of the currency translation effects and the change in model mix, offsetting negative impact of decreased unit sales. Operating income increased by 64.4% to ¥113.9 billion, due mainly to the positive impact of currency effects caused by the depreciation of the Japanese yen, increased profit attributable to higher revenue, continuing cost reduction effects and gain on “return”, offsetting the negative

impact of the increase in SG&A and R&D expenses.

* Of the net sales of Honda-brand motorcycle products that are manufactured and sold by overseas affiliates accounted for under the equity method, those with respect to which parts for manufacturing were not supplied from Honda or such subsidiaries are not included in net sales and other operating revenue, in conformity with U.S. generally accepted accounting principles.

Automobiles

Domestic unit sales of automobiles in fiscal 2006 fell 2.2%, to 696,000 units and overseas unit sales increased by 6.5%, to 2,695,000 units. Consequently, total unit sales of automobiles grew 4.6%, to 3,391,000 units, compared to the previous fiscal year. Net sales from sales to unaffiliated customers in the automobile segment increased 14.9%, to ¥8,004.6 billion, due to the positive currency translation effects and increased unit sales mainly in North America. Operating income increased by 38.9% to ¥628.3 billion, due mainly to the positive impact of currency effects caused by the depreciation of the Japanese yen, an increase in profit attributable to higher revenue, continuing cost reduction effects and gain on “return”, which offset the negative impact of increase in SG&A and R&D expenses.

Financial Services

Revenue from sales to unaffiliated customers in financial services business rose 20.0%, to ¥306.8 billion, compared to the previous fiscal year. Operating income increased 0.8%, to ¥90.5 billion, due primarily to the positive impact of currency effects caused by the depreciation of the Japanese yen, higher revenue due to an increased finance-subsidiaries receivable from growth of business and decreased SG&A expenses which offset increased funding costs.

Power Product and Other Businesses

Domestic unit sales of power products in fiscal 2006 increased 12.7%, to 487,000 units. Overseas unit sales increased 10.7%, to 5,389,000 units. Accordingly, total unit sales of power products rose 10.9%, to 5,876,000 units, compared to the previous fiscal year.

Net sales from power products and other businesses increased 11.3%, to ¥370.6 billion, due mainly to increased unit sales. Operating income increased 86.3% to ¥35.9 billion, due mainly to positive currency effects caused by the depreciation of the Japanese yen, the increased profit attributable to higher revenue and gain on “return”, which offset the negative impact of the increase in SG&A expenses.

Geographical segments

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

Japan

Net sales in Japan were ¥4,437.8 billion, up by 7.2% from the previous fiscal year, due mainly to increased export sales in the automobile business and increased revenue in the motorcycle, power product and other businesses, which offset the negative impact of decreased unit sales in domestic automobile business. Operating income in Japan was ¥370.9 billion, up by 100.6%, due primarily to the positive impact of the currency

effects caused by the depreciation of the yen, increased profit attributable to higher revenue and continuing cost reduction effects and gain on “return” of ¥138.0 billion, which offset the negative impact of the increase in SG&A and R&D expenses.

North America

Net sales in North America increased by 19.4% from the previous fiscal year to ¥5,616.3 billion, due mainly to positive currency translation impact and the increased revenue in all of Honda's business segments. Operating income in North America increased by 10.2% to ¥353.9 billion, due primarily to the positive impact of currency effects caused by the depreciation of the Japanese yen and the increased profit attributable to higher revenue, which offset the negative impact of the increase in SG&A expenses.

Europe

Net sales in Europe increased by 14.0% to ¥1,189.5 billion compared to the previous fiscal year, due mainly to the positive currency translation impact and the increased revenue in all of Honda's business segments. Operating income in Europe decreased by 36.2% to ¥26.3 billion, due mainly to the negative impact of the changes in model mix and increased SG&A expenses, offsetting the positive impact of the currency effects caused by the depreciation of the Japanese yen and the increased profit attributable to higher revenue.

Asia

Net sales in Asia increased by 15.9% to ¥997.3 billion from the previous fiscal year, due mainly to positive currency translation impact and the increased revenue in all of Honda's business segments. Operating income increased by 7.1% to ¥64.9 billion from the same period of the previous year, due mainly to the positive impact of the currency effects caused by the depreciation of the Japanese yen, increased profit attributable to higher revenue and continuing cost reduction, which offset the negative impact of the increase in SG&A expenses.

Other Regions

Net sales in Other Regions increased by 22.7% to ¥571.6 billion compared to the previous fiscal year, due mainly to positive impact of the currency translation effects and the increased revenue in all of Honda's business segments. Operating income increased by 72.2% from the same period of the previous year to ¥57.1 billion, due mainly to the positive currency effects caused by the depreciation of the Japanese yen, the increased profit attributable to higher revenue and continuing cost reduction effects, offsetting the negative impact of the increase in SG&A expenses.

Application of Critical Accounting Policies

Critical accounting policies require us to apply 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 Footnote 1 to the accompanying 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 and product recalls. 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. Since suppliers typically warrant these parts, the 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 the calculation can materially affect net income, and require 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 of the accrual. 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.

Additional detailed information about the changes in provisions for the product warranties for each of the years in the two-year period ended March 31, 2006 is described in Footnote 16 to the accompanying consolidated financial statements.

Allowance for Credit Losses

Our finance subsidiaries provide wholesale financing to dealers and retail lending and direct financing leases to customers mainly in order to support sales of our products, principally in North America. We classify the receivables derived from those services as finance subsidiaries-receivables. Certain finance receivables related to sales of inventory are reclassified to trade receivables and other assets in the consolidated balance sheets.

An allowance for credit losses is maintained to cover estimated losses incurred 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 the 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 on the provision and allowance for credit losses. If we had experienced a 10% increase in net credit losses during fiscal 2006 in our North America portfolio, the provision for fiscal 2006 and the allowance balance at the end of fiscal 2006 would have increased by approximately ¥5.1 and ¥3.0 billion, respectively. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2006.

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:

| | Yen (billions) | | |
|--|----------------|---------|---------|
| | 2004 | 2005 | 2006 |
| Charge-offs (net of recoveries) | ¥ 16.2 | ¥ 23.1 | ¥ 22.8 |
| Provision for credit losses | 28.8 | 31.7 | 27.4 |
| Allowance for credit losses | 23.7 | 29.2 | 30.1 |
| Ending receivable balance(**) | 3,145.9 | 3,613.6 | 4,166.5 |
| Average receivable balance, net(**) | 2,982.1 | 3,333.5 | 3,938.2 |
| Charge-offs as a % of average receivable balance(**) | 0.54% | 0.70% | 0.58% |
| Allowance as a % of ending receivable balance(**) | 0.75% | 0.81% | 0.72% |

(*) 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 information is described in Footnote 3 to the accompanying consolidated financial statements.

(**) For fiscal year ended March 31, 2006, Honda excluded unearned interest income and fees from the ending receivables balance and average receivables balance in the table above. The reclassifications have made to the prior years' balances to conform to the presentation used for the year ended March 31, 2006.

Fiscal Year 2006 Compared with Fiscal Year 2005

Net charge-offs in our North America portfolio decreased by ¥0.3 billion, or 1%. The lower loan originations during fiscal year 2005 resulted in a lower volume of defaults during fiscal year 2006, offsetting the currency translation effects. Also the difficulties experienced with the implementation of the new customer account servicing system in fiscal year 2005 has passed, which improved collection efforts.

The provision for credit losses decreased by ¥4.3 billion, or 14%. The allowance for credit losses increased by ¥0.9 billion, or 3%, due to the currency translation effects. Excluding this effect, the allowance for credit losses decreased.

Fiscal Year 2005 Compared with Fiscal Year 2004

Net charge-offs in the North America 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 prior fiscal years 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 2004, 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 have 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 the new system, as designed, will improve operating efficiency and enhance customer service.

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

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 when the proceeds from the sale of leased vehicles are less than contractual residual value 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 North American lease portfolio as of March 31, 2006, 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 ¥2.3 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 ¥0.4 billion, which would be charged to our provision for losses on residual values in the current year. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2006.

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, 2006 were 2.0% and 2.2%, respectively, and our assumed expected long-term rate of return for the year ended March 31, 2006 was 4.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2006 were 4.9-5.8% and 3.5-5.2%, respectively, and our assumed expected long-term rate of return for fiscal 2006 was 6.8-8.0% 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 | | | | | Yen (billions) |
|-----------------------------------|-----------------------------|---------------|-------------|-----------------|----------------|
| Assumptions | Percentage Point Change (%) | Funded status | Equity | Pension expense | |
| Discount rate | +0.5/-0.5 | -88.3/+95.7 | +40.6/-43.8 | -6.3/+7.3 | |
| Expected long-term rate of return | +0.5/-0.5 | — | — | -4.1/+4.1 | |

| Foreign Plans | | | | | Yen (billions) |
|-----------------------------------|-----------------------------|---------------|------------|-----------------|----------------|
| Assumptions | Percentage Point Change (%) | Funded status | Equity | Pension expense | |
| Discount rate | +0.5/-0.5 | -39.0/+44.8 | +3.5/-10.0 | -5.0/+5.7 | |
| Expected long-term rate of return | +0.5/-0.5 | — | — | -1.3/+1.3 | |

(*1) Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions at March 31, 2006.

(*2) Funded status for fiscal 2006 is affected by March 31, 2006 assumptions. Pension expense for fiscal 2006 is affected by March 31, 2005 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, 2005 and 2006. 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

| | 2005 | | | 2006 | | |
|---|------------------|------------|--------------------------|------------------|------------|--------------------------|
| | Yen (millions) | | Average contractual rate | Yen (millions) | | Average contractual rate |
| | Contract amounts | Fair value | | Contract amounts | Fair value | |
| Forward Exchange Contract | | | | | | |
| To sell US\$ | ¥225,573 | (5,233) | 104.58 | ¥270,070 | (1,771) | 115.88 |
| To sell EUR | 56,727 | (915) | 136.32 | 132,694 | (3,333) | 138.57 |
| To sell CAD | 22,736 | (845) | 84.73 | 19,225 | (1) | 100.59 |
| To sell GBP | 49,407 | (1,188) | 195.81 | 82,546 | (984) | 201.67 |
| To sell other foreign currencies | 57,109 | (523) | — | 82,985 | 310 | — |
| To buy US\$ | 3,596 | 75 | 104.62 | 5,535 | 45 | 115.78 |
| To buy other foreign currencies | 2,304 | 19 | — | 992 | 22 | — |
| Cross-currencies | 275,389 | (1,023) | — | 304,078 | 2,228 | — |
| Total | ¥692,841 | (9,633) | | ¥898,125 | (3,484) | |
| Currency Option | | | | | | |
| Option purchased to sell US\$ | ¥ 71,004 | 258 | — | ¥ 58,446 | 520 | — |
| Option written to sell US\$ | 92,482 | (1,270) | — | 104,576 | (323) | — |
| Option purchased to sell other currencies | 20,462 | 123 | — | 4,982 | 19 | — |
| Option written to sell other currencies | 30,263 | (287) | — | 8,544 | (85) | — |
| Total | ¥214,211 | (1,176) | | ¥176,548 | 131 | |

Interest Rate Risks

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

exchange risk as well as interest rate risk.

The following tables provide information about Honda's financial instruments that were sensitive to changes in interest rates at March 31, 2005 and 2006. 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

| | 2005 | | 2006 | | | | | | | Average interest rate | |
|---|----------------|------------|----------------|------------------------|-----------|-----------|-----------|------------|--------|-----------------------|------------|
| | Yen (millions) | | Yen (millions) | | | | | | | | |
| | 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^{*1}: | | | | | | | | | | | |
| JP¥ | ¥ 24,250 | — | ¥ 24,450 | 14,387 | 5,097 | 2,951 | 1,398 | 617 | — | — | 5.30% |
| US\$ | 1,562,695 | — | 1,846,959 | 611,039 | 595,153 | 498,507 | 142,260 | — | — | — | 4.40% |
| Other | 335,303 | — | 348,691 | 22,339 | 110,490 | 105,391 | 87,488 | 22,925 | 58 | — | 4.51% |
| Total—Direct Finance Leases | ¥1,922,248 | — | ¥2,220,100 | 647,765 | 710,740 | 606,849 | 231,146 | 23,542 | 58 | — | |
| Other Finance Receivables: | | | | | | | | | | | |
| JP¥ | ¥ 350,281 | 319,697 | ¥ 412,415 | 140,606 | 107,007 | 76,111 | 48,524 | 24,848 | 15,319 | 377,036 | 5.30% |
| US\$ | 1,768,541 | 1,743,376 | 1,982,413 | 712,455 | 402,810 | 363,843 | 287,695 | 170,035 | 45,575 | 1,935,956 | 6.34% |
| Other | 314,043 | 281,768 | 428,934 | 242,705 | 69,883 | 56,464 | 34,731 | 20,095 | 5,056 | 405,397 | 8.46% |
| Total—Other Finance Receivables | ¥2,432,865 | 2,344,841 | ¥2,823,762 | 1,095,766 | 579,700 | 496,418 | 370,950 | 214,978 | 65,950 | 2,718,389 | |
| Retained interest in the sold pool of finance receivables ^{*2} | 62,904 | 62,904 | 94,634 | | | | | | | 94,634 | |
| Total ^{*3} | ¥4,418,017 | | ¥5,138,496 | | | | | | | | |

^{*1} : Under the U.S. generally accepted accounting principles, disclosure of fair values of direct finance leases is not required.

^{*2} : The retained interest in the sold pool of finance receivables is accounted for as "trading" securities and is reported at fair value.

^{*3} : The finance subsidiaries-receivables include finance subsidiaries-receivables classified as trade receivables and other assets in the consolidated balance sheets. Additional detailed information is described in Footnote 3 to the accompanying consolidated financial statements.

Long-Term Debt (including current maturities)

| | 2005 | | 2006 | | | | | | | | Average interest rate |
|---------------------------------------|----------------|------------|----------------|------------------------|-----------|-----------|-----------|------------|--------|------------|-----------------------|
| | Yen (millions) | | Yen (millions) | | | | | | | | |
| | 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 | 172,209 | ¥ 231,200 | 61,050 | 50,050 | 30,050 | 30,050 | 60,000 | — | 228,555 | 0.72% |
| Japanese yen medium-term notes | 470,273 | 475,575 | 475,320 | 56,599 | 137,718 | 140,601 | 80,741 | 59,661 | — | 476,215 | 0.63% |
| U.S. dollar medium-term notes | 1,111,126 | 1,118,885 | 1,322,522 | 482,568 | 407,888 | 253,937 | 96,365 | 58,403 | 23,361 | 1,330,282 | 4.66% |
| U.S. dollar commercial paper | 187,526 | 187,526 | 204,893 | — | 204,893 | — | — | — | — | 204,893 | 4.32% |
| Loans and others—primarily fixed rate | 154,680 | 154,832 | 302,710 | 57,428 | 102,635 | 42,746 | 14,572 | 73,021 | 12,308 | 303,969 | 3.95% |
| Total | ¥2,094,605 | 2,109,027 | ¥2,536,645 | 657,645 | 903,184 | 467,334 | 221,728 | 251,085 | 35,669 | 2,543,914 | |

Interest Rate Swaps

| Notional principal currency | Receive/Pay | 2005 | | 2006 | | | | | | | | Average receive rate | Average pay rate |
|-----------------------------|-------------|------------------|------------|------------------|------------------------|-----------|-----------|-----------|------------|--------|------------|----------------------|------------------|
| | | Yen (millions) | | Yen (millions) | | | | | | | | | |
| | | 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 | ¥ 4,525 | (87) | ¥ 1,455 | 1,240 | 80 | 135 | — | — | — | (3) | 1.00% | 1.49% |
| US\$ | Float/Fix | 2,326,726 | 28,996 | 2,712,564 | 260,549 | 583,020 | 1,163,743 | 705,252 | — | — | 39,965 | 4.76% | 4.00% |
| | Fix/Float | 250,219 | (1,635) | 337,726 | 24,669 | 35,241 | 107,485 | 88,102 | 58,735 | 23,494 | (6,426) | 4.31% | 4.92% |
| CA\$ | Float/Float | 40,808 | (199) | 52,274 | 11,160 | 32,304 | — | 8,810 | — | — | (311) | 4.44% | 4.72% |
| | Float/Fix | 361,748 | (1,981) | 433,089 | 39,534 | 58,915 | 88,373 | 158,582 | 87,685 | — | 4,445 | 3.14% | 3.71% |
| GBP | Fix/Float | 50,737 | (288) | 71,663 | — | — | 27,350 | 27,586 | 16,727 | — | (1,067) | 3.04% | 3.98% |
| | Float/Float | 93,270 | (147) | 185,057 | — | — | — | — | 185,057 | — | (303) | 3.48% | 4.14% |
| GBP | Float/Fix | 75,061 | 175 | 54,927 | 25,509 | 17,365 | 9,150 | 2,688 | 215 | — | 32 | 4.81% | 4.90% |
| | Fix/Float | 24,311 | (31) | 8,993 | 5,662 | 2,661 | 670 | — | — | — | — | 5.09% | 4.74% |
| Total | | ¥3,227,405 | 24,803 | ¥3,857,748 | 368,323 | 729,586 | 1,396,906 | 991,020 | 348,419 | 23,494 | 36,332 | | |

Currency & Interest Rate Swaps

| Receiving side currency | Paying side currency | Receive/Pay | 2005 | | 2006 | | | | | | | | Average receive rate | Average pay rate |
|-------------------------|----------------------|-------------|------------------|---------------|------------------|------------------------|-----------|-----------|------------|---------|---|------------|----------------------|------------------|
| | | | Yen (millions) | | Yen (millions) | | | | | | | | | |
| | | | 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 | ¥353,314 | 21,472 | ¥393,389 | 32,359 | 116,976 | 108,842 | 72,792 | 62,420 | — | (22,996) | 0.72% | 5.01% |
| | | Float/Float | 84,526 | 4,588 | 103,823 | 26,138 | 25,249 | 40,297 | 12,139 | — | — | (5,520) | 0.25% | 4.98% |
| JPY | CA\$ | Fix/Float | 2,418 | (182) | 2,772 | — | — | — | 2,772 | — | — | (610) | 0.95% | 4.14% |
| | | Float/Float | 5,846 | (868) | — | — | — | — | — | — | — | — | — | — |
| JPY | GBP | Fix/Float | 28,314 | 5 | — | — | — | — | — | — | — | — | — | |
| Other | Other | Fix/Float | — | — | 70,041 | — | — | — | — | 70,041 | — | 736 | 3.75% | 5.07% |
| | | Float/Float | 30,854 | (194) | 14,333 | 14,333 | — | — | — | — | — | 241 | 2.99% | 4.66% |
| Total | | | ¥505,272 | 24,821 | ¥584,358 | 72,830 | 142,225 | 149,139 | 87,703 | 132,461 | — | (28,149) | | |

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, 2005 and 2006, the estimated fair value of marketable equity securities was ¥93.0 billion and ¥141.8 billion, respectively.

Additionally, a subsidiary has convertible notes and convertible preferred stocks with conversion features that enable the

subsidiary to convert its investment into common shares of the issuer. The convertible features are accounted for as embedded derivatives.

Additionally, a subsidiary has convertible notes and convertible preferred stocks with conversion features that enable the subsidiary to convert its investment into common shares of the issuer. The 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. Furthermore, the subsidiary entered into a forward sale contract in relation to a portion of convertible notes. The changes in fair value of this derivative financial instrument 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 by other various lawsuits and claims.

Seventy-seven 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 Volkswagen and their Canadian affiliates, 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 37 California cases have been consolidated in the state court in San Francisco. Additionally, there are pending cases in 9 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. The federal court has certified a class for injunctive relief and damages. We believe our actions have been lawful and are vigorously defending 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) | |
|---|----------------|-------------|
| | 2005 | 2006 |
| Net sales and other operating revenue: | | |
| Motorcycle Business | | |
| Unaffiliated customers | ¥1,097,754 | ¥ 1,225,812 |
| Automobile Business | | |
| Unaffiliated customers | 6,963,635 | 8,004,694 |
| Financial Services Business | | |
| Unaffiliated customers | 255,741 | 306,869 |
| Intersegment | 3,447 | 4,068 |
| Total | 259,188 | 310,937 |
| Power Product and Other Businesses | | |
| Unaffiliated customers | 332,975 | 370,621 |
| Intersegment | 9,869 | 11,941 |
| Total | 342,844 | 382,562 |
| Eliminations | (13,316) | (16,009) |
| Consolidated | ¥8,650,105 | ¥ 9,907,996 |
| Operating income: | | |
| Motorcycle Business | ¥ 69,332 | ¥ 113,974 |
| Automobile Business | 452,382 | 628,372 |
| Financial Services Business | 89,901 | 90,585 |
| Power Product and Other Businesses | 19,305 | 35,974 |
| Consolidated | ¥ 630,920 | ¥ 868,905 |
| Assets: | | |
| Motorcycle Business | ¥ 848,671 | ¥ 1,006,308 |
| Automobile Business | 4,160,818 | 4,752,405 |
| Financial Services Business | 4,362,096 | 5,008,058 |
| Power Product and Other Businesses | 261,843 | 294,170 |
| Corporate assets and eliminations | (316,458) | (489,260) |
| Consolidated | ¥9,316,970 | ¥10,571,681 |
| Depreciation: | | |
| Motorcycle Business | ¥ 28,606 | ¥ 30,232 |
| Automobile Business | 189,150 | 222,165 |
| Financial Services Business | 419 | 771 |
| Power Product and Other Businesses | 7,577 | 9,057 |
| Consolidated | ¥ 225,752 | ¥ 262,225 |
| Capital expenditures: | | |
| Motorcycle Business | ¥ 41,845 | ¥ 52,246 |
| Automobile Business | 317,271 | 392,934 |
| Financial Services Business | 1,941 | 1,316 |
| Power Product and Other Businesses | 12,923 | 11,345 |
| Consolidated | ¥ 373,980 | ¥ 457,841 |

Note:

The gain on return of the substitutional portion of the Employees' Pension Funds to the Japanese government of ¥138,016 million which was recorded in the fiscal year ended March 31, 2006, was allocated to the Motorcycle Business segment for ¥15,319 million, Automobile Business segment for ¥115,935 million and Power Product and Other Businesses segment for ¥6,762 million in the results of consolidated operating income.

Geographical Segment Information

| Years ended or at March 31 | Yen (millions) | |
|---|----------------|-------------|
| | 2005 | 2006 |
| Net sales and other operating revenue: | | |
| Japan | | |
| Sales to unaffiliated customers | ¥1,983,182 | ¥ 2,021,999 |
| Transfers between geographical segments | 2,155,756 | 2,415,874 |
| Total | 4,138,938 | 4,437,873 |
| North America | | |
| Sales to unaffiliated customers | 4,585,650 | 5,475,261 |
| Transfers between geographical segments | 119,904 | 141,064 |
| Total | 4,705,554 | 5,616,325 |
| Europe | | |
| Sales to unaffiliated customers | 858,936 | 1,001,177 |
| Transfers between geographical segments | 184,136 | 188,341 |
| Total | 1,043,072 | 1,189,518 |
| Asia | | |
| Sales to unaffiliated customers | 773,753 | 856,892 |
| Transfers between geographical segments | 86,810 | 140,501 |
| Total | 860,563 | 997,393 |
| Others | | |
| Sales to unaffiliated customers | 448,584 | 552,667 |
| Transfers between geographical segments | 17,373 | 19,023 |
| Total | 465,957 | 571,690 |
| Eliminations | (2,563,979) | (2,904,803) |
| Consolidated | ¥ 8,650,105 | ¥ 9,907,996 |

Operating income:

| | | |
|---------------|-----------|-----------|
| Japan | ¥ 184,899 | ¥ 370,950 |
| North America | 321,154 | 353,943 |
| Europe | 41,243 | 26,305 |
| Asia | 60,692 | 64,999 |
| Others | 33,193 | 57,163 |
| Eliminations | (10,261) | (4,455) |
| Consolidated | ¥ 630,920 | ¥ 868,905 |

Assets:

| | | |
|-----------------------------------|-------------|-------------|
| Japan | ¥ 2,480,052 | ¥ 2,737,454 |
| North America | 5,202,980 | 6,026,342 |
| Europe | 649,547 | 800,786 |
| Asia | 541,331 | 717,933 |
| Others | 203,605 | 309,209 |
| Corporate assets and eliminations | 239,455 | (20,043) |
| Consolidated | ¥ 9,316,970 | ¥10,571,681 |

Notes:

1. Major countries or regions in each geographic segment:

| | |
|---------------|---|
| North America | United States, Canada, Mexico |
| Europe | United Kingdom, Germany, France, Italy, Belgium |
| Asia | Thailand, Indonesia, China, India |
| Other Regions | Brazil, Australia |

2. The gain on return of the substitutional portion of the Employees' Pension Funds to the Japanese government of ¥138,016 million which was recorded in the fiscal year ended March 31, 2006, was included in consolidated operating income of the Japan segment.

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

| At March 31, 2005 and 2006 | Yen (millions) | |
|--|----------------|-------------|
| | 2005 | 2006 |
| Assets | | |
| Non-financial services businesses | | |
| Current Assets: | ¥3,376,411 | ¥ 3,788,184 |
| Cash and cash equivalents | 757,894 | 727,735 |
| Trade accounts and notes receivable | 422,673 | 504,101 |
| Inventories | 862,370 | 1,036,304 |
| Other current assets | 1,333,474 | 1,520,044 |
| Investments and advances | 830,698 | 942,970 |
| Property, plant and equipment, at cost | 1,564,762 | 1,795,173 |
| Other assets | 274,958 | 237,943 |
| Total assets | 6,046,829 | 6,764,270 |
| Finance subsidiaries | | |
| Cash and cash equivalents | 15,644 | 19,592 |
| Finance subsidiaries—short-term receivables, net | 1,028,488 | 1,240,581 |
| Finance subsidiaries—long-term receivables, net | 2,625,078 | 2,982,832 |
| Other assets | 692,886 | 765,053 |
| Total assets | 4,362,096 | 5,008,058 |
| Eliminations | (1,091,955) | (1,200,647) |
| Total assets | ¥9,316,970 | ¥10,571,681 |
| Liabilities and Stockholders' Equity | | |
| Non-financial services businesses | | |
| Current liabilities: | ¥2,281,768 | ¥ 2,355,999 |
| Short-term debt | 228,558 | 171,122 |
| Current portion of long-term debt | 6,385 | 9,138 |
| Trade payables | 1,022,394 | 1,144,159 |
| Accrued expenses | 770,887 | 763,879 |
| Other current liabilities | 253,544 | 267,701 |
| Long-term debt | 19,570 | 34,396 |
| Other liabilities | 717,636 | 575,034 |
| Total liabilities | 3,018,974 | 2,965,429 |
| Finance subsidiaries | | |
| Short-term debt | 1,310,678 | 1,369,177 |
| Current portion of long-term debt | 535,825 | 653,276 |
| Accrued expenses | 151,867 | 181,140 |
| Long-term debt | 1,546,953 | 1,858,362 |
| Other liabilities | 352,317 | 392,316 |
| Total liabilities | 3,897,640 | 4,454,271 |
| Eliminations | (888,938) | (973,769) |
| Total liabilities | 6,027,676 | 6,445,931 |
| Common stock | 86,067 | 86,067 |
| Capital surplus | 172,531 | 172,529 |
| Legal reserves | 34,688 | 35,811 |
| Retained earnings | 3,809,383 | 4,267,886 |
| Accumulated other comprehensive income (loss) | (793,934) | (407,187) |
| Treasury stock | (19,441) | (29,356) |
| Total stockholders' equity | 3,289,294 | 4,125,750 |
| Total liabilities and stockholders' equity | ¥9,316,970 | ¥10,571,681 |

Note:

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.

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

| Years ended March 31, 2005 and 2006 | Yen (millions) | | | |
|---|---|-------------------------|---|-------------------------|
| | 2005 | | 2006 | |
| | Non-financial services businesses | Finance subsidiaries | Non-financial services businesses | Finance subsidiaries |
| Cash flows from operating activities: | | | | |
| Net income | ¥ 408,251 | ¥ 77,955 | ¥ 543,200 | ¥ 53,847 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | 225,333 | 419 | 261,454 | 771 |
| Deferred income taxes | 38,737 | 76,782 | 22,037 | (24,793) |
| Equity in income of affiliates | (97,821) | — | (99,605) | — |
| Cash dividends from affiliates | 35,824 | — | 64,055 | — |
| Loss (gain) on derivative instruments, net | (4,000) | (56,432) | 11,683 | (1,332) |
| Gain on transfer of the substitutional portion of the Employees' Pension Funds | — | — | (138,016) | — |
| Decrease (increase) in trade accounts and notes receivable | (29,754) | (43,224) | (44,881) | (72,695) |
| Decrease (increase) in inventories | (79,483) | — | (109,661) | — |
| Increase (decrease) in trade payables | 82,548 | — | 45,297 | — |
| Other, net | 89,703 | 59,382 | 25,146 | 47,674 |
| Net cash provided by operating activities | 669,338 | 114,882 | 580,709 | 3,472 |
| Cash flows from investing activities: | | | | |
| Decrease (increase) in investments and advances | (155,006) | — | (36,954) | — |
| Capital expenditures | (372,039) | (1,941) | (458,705) | (1,316) |
| Proceeds from sales of property, plant and equipment | 13,990 | 226 | 39,645 | 306 |
| Decrease (increase) in finance subsidiaries—receivables | — | (465,841) | — | (231,909) |
| Net cash used in investing activities | (513,055) | (467,556) | (456,014) | (232,919) |
| Cash flows from financing activities: | | | | |
| Increase (decrease) in short-term debt | 14,604 | 138,511 | (66,144) | (54,391) |
| Proceeds from long-term debt | 7,752 | 697,703 | 25,995 | 851,710 |
| Repayment of long-term debt | (9,172) | (486,568) | (11,485) | (566,188) |
| Proceeds from issuance of common stock | — | 1,911 | — | 1,490 |
| Cash dividends paid | (47,806) | — | (71,075) | — |
| Increase (decrease) in commercial paper classified as long-term debt | — | (131) | — | (234) |
| Payment for purchase of treasury stock, net | (84,147) | — | (77,064) | — |
| Net cash provided by (used in) financing activities | (118,769) | 351,426 | (199,773) | 232,387 |
| Effect of exchange rate changes on cash and cash equivalents | 12,463 | 388 | 44,919 | 1,008 |
| Net change in cash and cash equivalents | 49,977 | (860) | (30,159) | 3,948 |
| Cash and cash equivalents at beginning of year | 707,917 | 16,504 | 757,894 | 15,644 |
| Cash and cash equivalents at end of year | ¥ 757,894 | ¥ 15,644 | ¥ 727,735 | ¥ 19,592 |

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 ¥156,283 million, while finance subsidiaries generated a negative free cash flow of ¥352,674 million in fiscal 2005. Non-financial services businesses lend to finance subsidiaries. These cash flows are included in the decrease (increase) in investments and advances, increase (decrease) in short-term debt, proceeds from long-term debt and repayment of long-term debt. Excluding the increase in loans to finance subsidiaries (¥132,317 million), free cash flow for non-financial services businesses in fiscal 2005 was ¥288,600 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 ¥124,695 million, while finance subsidiaries generated a negative free cash flow of ¥229,447 million in fiscal 2006. Excluding the increase in loans to finance subsidiaries (¥13,242 million), free cash flow for non-financial services businesses in fiscal 2006 was ¥137,937 million.
4. For each cash flow item shown above, the sum of the amounts for the non-financial services businesses and the finance subsidiaries does 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. 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.
6. As described in Note (1)(f) to our consolidated financial statements, certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the fiscal year ended March 31, 2006.

Consolidated Balance Sheets

| Honda Motor Co., Ltd. and Subsidiaries March 31, 2005 and 2006 | Yen (millions) | | U.S. dollars (millions) (note 2) |
|---|-------------------|-------------|--|
| Assets | 2005 | 2006 | 2006 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 773,538 | ¥ 747,327 | \$ 6,362 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥9,710 million in 2005 and ¥10,689 million (\$91 million) in 2006 (notes 3 and 18) | 791,195 | 963,320 | 8,199 |
| Finance subsidiaries—receivables, net (notes 3, 7 and 18) | 1,021,116 | 1,230,912 | 10,479 |
| Inventories (note 4) | 862,370 | 1,036,304 | 8,822 |
| Deferred income taxes (note 9) | 214,059 | 198,033 | 1,686 |
| Other current assets (notes 6, 7 and 14) | 346,464 | 450,002 | 3,831 |
| Total current assets | 4,008,742 | 4,625,898 | 39,379 |
| Finance subsidiaries—receivables, net (notes 3, 7 and 18) | 2,623,909 | 2,982,425 | 25,389 |
| Investments and advances: | | | |
| Investments in and advances to affiliates (note 5) | 349,664 | 408,993 | 3,482 |
| Other, including marketable equity securities (note 6) | 264,926 | 286,092 | 2,435 |
| Total investments and advances | 614,590 | 695,085 | 5,917 |
| Property, plant and equipment, at cost (note 7): | | | |
| Land | 365,217 | 384,447 | 3,273 |
| Buildings | 1,030,998 | 1,149,517 | 9,786 |
| Machinery and equipment | 2,260,826 | 2,562,507 | 21,814 |
| Construction in progress | 96,047 | 115,818 | 985 |
| | 3,753,088 | 4,212,289 | 35,858 |
| Less accumulated depreciation and amortization | 2,168,836 | 2,397,022 | 20,405 |
| Net property, plant and equipment | 1,584,252 | 1,815,267 | 15,453 |
| Other assets (notes 3, 7, 9 and 14) | 485,477 | 453,006 | 3,857 |
| Total assets | ¥9,316,970 | ¥10,571,681 | \$89,995 |

See accompanying notes to consolidated financial statements.

| Liabilities and Stockholders' Equity | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--|-------------------|-------------|--|
| | 2005 | 2006 | 2006 |
| Current liabilities: | | | |
| Short-term debt (note 7) | ¥ 769,314 | ¥ 693,557 | \$ 5,904 |
| Current portion of long-term debt (note 7) | 535,105 | 657,645 | 5,598 |
| Trade payables: | | | |
| Notes | 26,727 | 31,698 | 270 |
| Accounts | 987,045 | 1,099,902 | 9,363 |
| Accrued expenses | 913,721 | 930,115 | 7,918 |
| Income taxes payable (note 9) | 65,029 | 110,160 | 938 |
| Other current liabilities (notes 7, 9 and 14) | 451,623 | 466,332 | 3,970 |
| Total current liabilities | 3,748,564 | 3,989,409 | 33,961 |
| Long-term debt, excluding current portion (note 7) | 1,559,500 | 1,879,000 | 15,996 |
| Other liabilities (notes 7, 8, 9, 11 and 14) | 719,612 | 577,522 | 4,916 |
| Total liabilities | 6,027,676 | 6,445,931 | 54,873 |
| Stockholders' equity: | | | |
| Common stock, authorized 3,554,000,000 shares in 2005 and 3,543,000,000 shares in 2006; issued 928,414,215 shares in 2005 and 917,414,215 shares in 2006 | 86,067 | 86,067 | 733 |
| Capital surplus | 172,531 | 172,529 | 1,468 |
| Legal reserves (note 10) | 34,688 | 35,811 | 305 |
| Retained earnings (note 10) | 3,809,383 | 4,267,886 | 36,332 |
| Accumulated other comprehensive loss, net (notes 6, 9, 11 and 13) | (793,934) | (407,187) | (3,466) |
| Treasury stock, at cost 3,543,788 shares in 2005 and 4,340,000 shares in 2006 | (19,441) | (29,356) | (250) |
| Total stockholders' equity | 3,289,294 | 4,125,750 | 35,122 |
| Commitments and contingent liabilities (notes 16 and 17) | | | |
| Total liabilities and stockholders' equity | ¥9,316,970 | ¥10,571,681 | \$89,995 |

Consolidated Statements of Stockholders' Equity

| Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2004, 2005 and 2006 | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|---|-------------------|------------|------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Common stock: | | | | |
| Balance at beginning of year | ¥ 86,067 | ¥ 86,067 | ¥ 86,067 | \$ 733 |
| Balance at end of year | 86,067 | 86,067 | 86,067 | 733 |
| Capital surplus: | | | | |
| Balance at beginning of year | 172,529 | 172,719 | 172,531 | 1,468 |
| Reissuance of treasury stock | 190 | 2 | — | — |
| Retirement of treasury stock | — | (190) | (2) | (0) |
| Balance at end of year | 172,719 | 172,531 | 172,529 | 1,468 |
| Legal reserves: | | | | |
| Balance at beginning of year | 29,391 | 32,418 | 34,688 | 295 |
| Transfer from retained earnings (note 10) | 3,027 | 2,270 | 1,123 | 10 |
| Balance at end of year | 32,418 | 34,688 | 35,811 | 305 |
| Retained earnings: | | | | |
| Balance at beginning of year | 3,161,664 | 3,589,434 | 3,809,383 | 32,430 |
| Net income for the year | 464,338 | 486,197 | 597,033 | 5,082 |
| Cash dividends (note 10) | (33,541) | (47,797) | (71,061) | (605) |
| Transfer to legal reserves (note 10) | (3,027) | (2,270) | (1,123) | (10) |
| Reissuance of treasury stock | — | — | (125) | (1) |
| Retirement of treasury stock | — | (216,181) | (66,221) | (564) |
| Balance at end of year | 3,589,434 | 3,809,383 | 4,267,886 | 36,332 |
| Accumulated other comprehensive loss, net (notes 6, 9, 11 and 13): | | | | |
| Balance at beginning of year | (763,165) | (854,573) | (793,934) | (6,759) |
| Other comprehensive income (loss) for the year, net of tax | (91,408) | 60,639 | 386,747 | 3,293 |
| Balance at end of year | (854,573) | (793,934) | (407,187) | (3,466) |
| Treasury stock: | | | | |
| Balance at beginning of year | (56,766) | (151,665) | (19,441) | (166) |
| Purchase of treasury stock | (95,318) | (84,160) | (77,067) | (656) |
| Reissuance of treasury stock | 419 | 13 | 928 | 8 |
| Retirement of treasury stock | — | 216,371 | 66,224 | 564 |
| Balance at end of year | (151,665) | (19,441) | (29,356) | (250) |
| Total stockholders' equity | ¥2,874,400 | ¥3,289,294 | ¥4,125,750 | \$35,122 |
| Disclosure of comprehensive income (loss): | | | | |
| Net income for the year | ¥ 464,338 | ¥ 486,197 | ¥ 597,033 | \$ 5,082 |
| Other comprehensive income (loss) for the year, net of tax (notes 6, 9, 11 and 13) | | | | |
| Adjustments from foreign currency translation | (195,941) | 40,476 | 249,160 | 2,122 |
| Unrealized gains (losses) on marketable equity securities: | | | | |
| Unrealized holding gains (losses) arising during the year | 21,246 | (3,668) | 29,807 | 254 |
| Reclassification adjustments for losses (gains) realized in net income | — | 1,346 | (841) | (8) |
| Unrealized gains (losses) on derivative instruments: | | | | |
| Unrealized holding gains (losses) arising during the year | — | — | (26) | (0) |
| Reclassification adjustments for losses (gains) realized in net income | — | — | (38) | (0) |
| Minimum pension liabilities adjustment | 83,287 | 22,485 | 108,685 | 925 |
| | (91,408) | 60,639 | 386,747 | 3,293 |
| Total comprehensive income for the year | ¥ 372,930 | ¥ 546,836 | ¥ 983,780 | \$ 8,375 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

| Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2004, 2005 and 2006 | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|--|-------------------|-------------|-------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Cash flows from operating activities (note 12): | | | | |
| Net income | ¥ 464,338 | ¥ 486,197 | ¥ 597,033 | \$ 5,082 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | 213,445 | 225,752 | 262,225 | 2,232 |
| Deferred income taxes | 113,422 | 115,519 | (2,756) | (23) |
| Equity in income of affiliates | (75,151) | (96,057) | (99,605) | (847) |
| Dividends from affiliates | 46,780 | 35,824 | 64,055 | 545 |
| Provision for credit and lease residual losses on finance subsidiaries–receivables | 45,937 | 50,638 | 36,153 | 308 |
| Loss (gain) on derivative instruments, net | (84,783) | (60,432) | 10,351 | 88 |
| Gain on transfer of the substitutional portion of the Employees' Pension Funds (note 11) | — | — | (138,016) | (1,175) |
| Decrease (increase) in assets: | | | | |
| Trade accounts and notes receivable | 22,829 | (70,145) | (113,259) | (964) |
| Inventories | (51,836) | (79,483) | (109,661) | (934) |
| Other current assets | (154,320) | (11,797) | (75,771) | (645) |
| Other assets | (33,376) | (52,198) | (61,482) | (523) |
| Increase (decrease) in liabilities: | | | | |
| Trade accounts and notes payable | 132,541 | 76,338 | 41,360 | 352 |
| Accrued expenses | 64,830 | 71,469 | 98,273 | 837 |
| Income taxes payable | (31,068) | 33,704 | 39,900 | 340 |
| Other current liabilities | 13,763 | 19,973 | 6,126 | 52 |
| Other liabilities | 43,656 | 19,826 | 5,740 | 49 |
| Other, net | (8,739) | 17,320 | 15,891 | 134 |
| Net cash provided by operating activities | 722,268 | 782,448 | 576,557 | 4,908 |
| Cash flows from investing activities: | | | | |
| Increase in investments and advances | (10,822) | (25,661) | (17,314) | (148) |
| Decrease in investments and advances | 18,049 | 15,985 | 3,711 | 32 |
| Payment for purchase of available-for-sale securities | (61) | (1,608) | (6,915) | (59) |
| Proceeds from sales of available-for-sale securities | 10,082 | 13,140 | 5,666 | 48 |
| Payment for purchase of held-to-maturity securities | (13,409) | (20,856) | (63,395) | (540) |
| Proceeds from redemption of held-to-maturity securities | — | — | 55,990 | 477 |
| Capital expenditures | (287,741) | (373,980) | (460,021) | (3,916) |
| Proceeds from sales of property, plant and equipment | 19,157 | 14,216 | 39,951 | 340 |
| Acquisitions of finance subsidiaries–receivables | (2,689,554) | (2,710,520) | (3,031,644) | (25,808) |
| Collections of finance subsidiaries–receivables | 1,156,888 | 1,561,299 | 1,870,675 | 15,925 |
| Proceeds from sales of finance subsidiaries–receivables | 820,650 | 684,308 | 930,595 | 7,922 |
| Net cash used in investing activities | (976,761) | (843,677) | (672,701) | (5,727) |
| Cash flows from financing activities: | | | | |
| Increase (decrease) in short-term debt | (7,910) | 20,244 | (124,941) | (1,064) |
| Proceeds from long-term debt | 885,162 | 704,433 | 865,677 | 7,369 |
| Repayment of long-term debt | (289,107) | (495,107) | (568,371) | (4,838) |
| Cash dividends paid (note 10) | (33,541) | (47,797) | (71,061) | (605) |
| Increase (decrease) in commercial paper classified as long-term debt | 280 | (131) | (234) | (2) |
| Payment for purchase of treasury stock, net | (95,312) | (84,147) | (77,064) | (656) |
| Net cash provided by financing activities | 459,572 | 97,495 | 24,006 | 204 |
| Effect of exchange rate changes on cash and cash equivalents | (28,062) | 12,851 | 45,927 | 392 |
| Net change in cash and cash equivalents | 177,017 | 49,117 | (26,211) | (223) |
| Cash and cash equivalents at beginning of year | 547,404 | 724,421 | 773,538 | 6,585 |
| Cash and cash equivalents at end of year | ¥ 724,421 | ¥ 773,538 | ¥ 747,327 | \$ 6,362 |

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 32 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, China, 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, 2006 were derived from: motorcycle business 12.4%, automobile business 80.8%, financial services 3.1%, and power products and other businesses 3.7%. Operating income by category of activity for the year ended March 31, 2006 was derived from: motorcycle business 13.1%, automobile business 72.3%, financial services 10.4%, and power products and other businesses 4.2%. The total assets at March 31, 2006 were attributable to: motorcycle business 9.5%, automobile business 45.0%, financial services 47.4%, power products and other businesses 2.8%, and corporate assets (net of company-wide accounts eliminated in consolidation) (4.7%).

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 2006, 79.6% of net sales and other operating revenue (¥7,885,997 million; \$67,132 million) was derived from subsidiaries operating outside Japan (2005: ¥6,666,923 million, 2004: ¥6,283,459 million). Net sales and other operating revenue for the year ended March 31, 2006 was geographically broken down based on the location of customers as follows: Japan 17.1%, North America 55.1%, Europe 10.2%, Asia 11.0% and others 6.6%. For the year ended March 31, 2006, 57.8% of operating income (¥502,410 million; \$4,277 million) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (2005: ¥456,282 million, 2004: ¥404,464 million). Also, 74.3% of Honda's assets at March 31, 2006 (¥7,854,270 million; \$66,862 million) was identified with foreign operations (2005: ¥6,597,463 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, its subsidiaries and those variable interest entities where the Company is the primary beneficiary under FASB Interpretation No.46 (revised December 2003), "Consolidation of Variable Interest Entities". All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in 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.

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, 2006 were ¥11,753 million, ¥11,559 million and ¥15,287 million (\$130million), 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 pre-payments, 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, 2005 and 2006 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, 2005 and 2006, 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 is 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 effective March 31, 2004, 2005 and 2006 and concluded no impairment needed to be recognized. The carrying amount of goodwill at March 31, 2005 and 2006 was ¥17,887 million and ¥27,951 million (\$238 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 | 3 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, 2006 were ¥239,332 million, ¥246,997 million and ¥287,901 million (\$2,451 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 and product recalls.

(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, 2004, 2005 and 2006 was 953,638,262, 933,767,978 and 920,399,836 respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2004, 2005 or 2006.

(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, 2006 are as follows:

| Yen (millions) | | | U.S. dollars (millions) (note 2) |
|----------------|-----------|-----------|----------------------------------|
| 2004 | 2005 | 2006 | 2006 |
| ¥13,668 | ¥(17,146) | ¥(38,880) | \$(331) |

(p) Derivative Financial Instruments

Honda has 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.

Starting from the year ended March 31, 2006, Honda adopted hedge accounting for certain foreign currency forward contracts related to forecasted foreign currency

transactions between the Company and its subsidiaries. These are designated as cash flow hedges on the date derivative contracts entered into. The Company has a currency rate risk management policy documented. In addition, it documents all relationships between all derivative financial instruments designated as cash flow hedges and the relevant hedged items to identify the relationship between them. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments designated as cash flow hedge are highly effective to offset changes in cash flows of hedged items.

When it is determined that a derivative financial instrument is not highly effective as a cash flow hedge, when the hedged item matures, is sold or is terminated, or when it is identified that the forecasted transaction is no longer probable, the Company discontinues hedge accounting. To the extent derivative financial instruments are designated as cash flow hedges and have been assessed as being highly effective, changes in their fair value are recognized in other comprehensive income (loss). The amounts are reclassified into earnings in the period when forecasted hedged transactions affect earnings. When these cash flow hedges prove to be ineffective, changes in the fair value of the derivatives are immediately recognized in earnings.

In conformity with Financial Accounting Standards (SFAS) No.133, changes in the fair value of derivative financial instruments not designated as accounting hedges 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, 2004, 2005 and 2006 are ¥122,583 million gain, ¥44,905 million gain and ¥55,516 million (\$473 million) loss, 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 ¥36,410 million loss, ¥10,667 million gain and ¥45,046 million (\$383 million) gain in other income (expenses)—other during the years ended March 31, 2004, 2005 and 2006, respectively. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries of ¥38,894 million loss, ¥28,000 million loss and ¥827 million (\$7 million) gain are included in other income (expenses)—other during the years ended March 31, 2004, 2005 and 2006, respectively. These gains and losses are presented on a net basis.

Honda doesn't hold any derivative financial instruments for trading purposes.

(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, 2006 are as follows:

| | | | U.S. dollars (millions) (note 2) |
|----------|----------|----------|--|
| 2004 | 2005 | 2006 | 2006 |
| ¥146,698 | ¥159,472 | ¥181,675 | \$1,547 |

(r) Asset Retirement Liability

During the year ended March 31, 2006, Honda adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 47, "Accounting for Conditional Asset Retirement obligations—an interpretation of FASB Statement No. 143". FIN47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143 and requires a liability to be recorded if the fair value of the obligation can be reasonably estimated. Asset retirement obligations covered by this Interpretation include those for which an entity has a legal obligation to perform an asset retirement activity, however the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

Adoption of FIN47 had no material impact on Honda's consolidated financial position or results of operations.

(s) 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.

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 156, "Accounting for Servicing of Financial Assets". This statement amends SFAS No. 140, "Accounting

for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 gives revised guidance as to when servicing assets and servicing liabilities should be recognized. It also revises guidance regarding the initial and subsequent measurement of servicing assets and liabilities. SFAS No. 156 is effective as of the beginning of an entity’s first fiscal year that begins after September 15, 2006, with early adoption being permitted. Management is currently in process of determining whether to early adopt this statement and quantifying the financial impact of adoption. It is not anticipated that adoption will have a material impact on the Company’s financial position or results of operations.

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, 2006 have been translated into United States dollars at the rate of ¥117.47= U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2006. Those

3. 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

(t) 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, 2006. In the current year, management has classified cash dividends received from affiliates in operating activities in the consolidated statements of cash flows. Consequently management has revised the consolidated statements of cash flows for the years ended March 31, 2004 and 2005 to include such cash dividends in operating activities, instead of investing activities, to achieve a comparable presentation for all periods presented herein.

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.

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, 2005 and 2006:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--|-------------------|------------|--|
| | 2005 | 2006 | 2006 |
| Direct financing leases | ¥1,922,248 | ¥2,220,100 | \$18,899 |
| Retail | 2,110,018 | 2,405,926 | 20,481 |
| Wholesale | 312,318 | 403,499 | 3,435 |
| Term loans to dealers | 10,529 | 14,337 | 122 |
| Total finance receivables | 4,355,113 | 5,043,862 | 42,937 |
| Retained interests in the sold pools of finance receivables | 62,904 | 94,634 | 806 |
| | 4,418,017 | 5,138,496 | 43,743 |
| Less: | | | |
| Allowance for credit losses (a) | 32,749 | 35,316 | 301 |
| Allowance for losses on lease residual values | 34,025 | 37,774 | 322 |
| Unearned interest income and fees (b) | 201,873 | 224,901 | 1,914 |
| Finance subsidiaries-receivables, net, before reclassification | 4,149,370 | 4,840,505 | 41,206 |
| Less: | | | |
| Reclassification to trade receivables, net | 374,988 | 470,002 | 4,000 |
| Reclassification to other assets, net | 129,357 | 157,166 | 1,338 |
| Finance subsidiaries-receivables, net | 3,645,025 | 4,213,337 | 35,868 |
| Less current portion | 1,021,116 | 1,230,912 | 10,479 |
| Noncurrent finance subsidiaries-receivables, net | ¥2,623,909 | ¥2,982,425 | \$25,389 |

(a) The allowance for credit losses of finance subsidiaries-receivables at March 31, 2005 include ¥1,356 million and ¥467 million, which were reclassified to the allowance for doubtful accounts of trade receivable and other assets in the consolidated balance sheets, respectively. The allowance for credit losses of finance subsidiaries-receivables at March 31, 2006 include ¥1,903 million (\$16 million) and ¥463 million (\$4 million), which were reclassified to the allowance for doubtful

accounts of trade receivable and other assets in the consolidated balance sheets, respectively.

(b) The unearned interest income and fees at March 31, 2005 and 2006 include ¥19,118 million and ¥21,252 million (\$181 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, 2006 and thereafter:

| Years ending March 31 | Yen (millions) | U.S. dollars (millions) (note 2) |
|-----------------------|-------------------|--|
| 2007 | ¥1,743,531 | \$14,842 |
| 2008 | 1,290,440 | 10,985 |
| 2009 | 1,103,267 | 9,392 |
| 2010 | 602,096 | 5,126 |
| 2011 | 238,520 | 2,030 |
| After five years | 66,008 | 562 |
| | 3,300,331 | 28,095 |
| Total | ¥5,043,862 | \$42,937 |

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, 2006 as follows:

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|----------------|-------------------|----------|-----------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Finance income | ¥245,834 | ¥259,188 | ¥310,937 | \$2,647 |
| Finance cost | 35,796 | 54,815 | 115,636 | 984 |

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, 2004, 2005 and 2006 totaling approximately ¥793,261 million, ¥731,508 million and ¥930,629 million (\$7,922 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, 2006, which are included in finance income in the table above, are ¥3,821 million gain, ¥4,291 million loss and ¥11,849 million (\$101 million) loss, respectively. Finance subsidiaries also sold

direct financing lease receivables subject to limited recourse provisions totaling approximately ¥100,374 million (\$854 million) during the year ended March 31, 2006. Pre-tax net gains or losses on such sales which are included in finance income in the table above are ¥483 million (\$4 million) gain. The leases sold during the year ended March 31, 2006 had 100% insurance coverage of the residual value of the vehicles collateralizing those leases.

Finance subsidiaries serviced approximately ¥1,078,463 million and ¥1,500,263 million (\$12,771 million) of receivables for investors at March 31, 2005 and 2006, respectively.

Retained interests in securitizations were comprised of the following at March 31 2005 and 2006:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|---------------------------|-------------------|----------------|--|
| | 2005 | 2006 | 2006 |
| Subordinated certificates | ¥37,480 | ¥52,572 | \$448 |
| Residual interests | 25,424 | 42,062 | 358 |
| Total | ¥62,904 | ¥94,634 | \$806 |

The changes in retained interest in securitizations for each of the years in the three-year period ended March 31, 2006 are as follows:

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|---|-------------------|----------|-----------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Balance at beginning of year | ¥ 67,024 | ¥ 61,072 | ¥62,904 | \$537 |
| Additions | 41,045 | 31,267 | 59,841 | 509 |
| Repurchases | (7,716) | (4,632) | (5,119) | (44) |
| Amortization and fair value adjustments | 868 | 2,846 | 865 | 7 |
| Cash received | (32,140) | (28,606) | (30,753) | (262) |
| Foreign exchange translation | (8,009) | 957 | 6,896 | 59 |
| Balance at end of year | ¥ 61,072 | ¥ 62,904 | ¥94,634 | \$806 |

At March 31, 2006, the significant assumptions used in estimating the retained interest in the sold pools of finance receivables are as follows:

| | Weighted average assumption |
|-----------------------------------|-----------------------------|
| Prepayment speed | 1.28% |
| Expected credit losses | 0.42% |
| Residual cash flows discount rate | 9.99% |

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, 2006 are as follows:

| | 2004 | 2005 | 2006 |
|-----------------------------------|-----------------|-----------------|------------------------|
| Weighted average life (years) | 1.59 to 1.79 | 1.64 to 1.77 | 1.60 to 1.75 |
| Prepayment speed | 1.00% to 1.50% | 1.25% to 1.30% | 1.00% to 1.30% |
| Expected credit losses | 0.22% to 0.81% | 0.30% to 0.70% | 0.35% to 0.55% |
| Residual cash flows discount rate | 5.30% to 12.00% | 6.55% to 12.00% | 6.53% to 12.00% |

The outstanding balance of securitized financial assets at March 31, 2006 is summarized as follows:

| | Yen (millions) | U.S. dollars (millions) (note 2) |
|-------------------------|-------------------|--|
| | 2006 | 2006 |
| Receivables sold: | | |
| Retail | ¥1,402,552 | \$11,939 |
| Direct financing leases | 97,711 | 832 |
| Total receivables sold | ¥1,500,263 | \$12,771 |

4. Inventories

Inventories at March 31, 2005 and 2006 are summarized as follows:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|-----------------|-------------------|-------------------|--|
| | 2005 | 2006 | 2006 |
| Finished goods | ¥570,922 | ¥ 687,230 | \$5,851 |
| Work in process | 24,965 | 28,218 | 240 |
| Raw materials | 266,483 | 320,856 | 2,731 |
| | ¥862,370 | ¥1,036,304 | \$8,822 |

5. Investments and Advances-Affiliates

Investments in affiliates are accounted for using the equity method. Differences between the cost of investments in affiliates and the amount of underlying equity in net assets of the affiliates are accounted for goodwill which is included in 'Other assets'. Goodwill is not amortized but instead be tested for impairment at least annually. Significant investments in affiliates accounted for under the equity method at March 31, 2005 and 2006 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%).

Investments in affiliates include equity securities which have quoted market values at March 31, 2005 and 2006 compared with related carrying amounts as follows:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|-----------------|-------------------|-----------------|--|
| | 2005 | 2006 | 2006 |
| Carrying amount | ¥108,435 | ¥130,802 | \$1,113 |
| Market value | 204,964 | 444,250 | 3,782 |

Certain combined financial information in respect of affiliates accounted for under the equity method at March 31, 2005 and 2006, and for each of the years in the three-year period ended March 31, 2006 is shown below:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|---|-------------------|-------------------|--|
| | 2005 | 2006 | 2006 |
| Current assets | ¥ 876,559 | ¥1,056,428 | \$ 8,993 |
| Other assets, principally property, plant and equipment | 830,827 | 1,063,235 | 9,051 |
| Total assets | 1,707,386 | 2,119,663 | 18,044 |
| Current liabilities | 629,578 | 762,660 | 6,492 |
| Other liabilities | 146,554 | 182,503 | 1,554 |
| Total liabilities | 776,132 | 945,163 | 8,046 |
| Stockholders' equity | ¥ 931,254 | ¥1,174,500 | \$ 9,998 |

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|--|-------------------|------------|-------------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Net sales | ¥2,646,166 | ¥3,039,751 | ¥3,426,348 | \$29,168 |
| Net income | 168,905 | 220,596 | 229,640 | 1,955 |
| Cash dividends received by Honda during the year | 46,780 | 35,824 | 64,055 | 545 |

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, 2005 and 2006 included in retained earnings was ¥224,047 million and ¥275,874 million (\$2,348 million), respectively.

Trade receivables and trade payables include the following balances with affiliates at March 31, 2005 and 2006, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2006:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|------------------------|-------------------|----------|--|
| | 2005 | 2006 | 2006 |
| Trade receivables from | ¥ 25,421 | ¥ 59,292 | \$505 |
| Trade payables to | 106,543 | 112,547 | 958 |

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|----------------|-------------------|----------|----------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Purchases from | ¥551,757 | ¥595,589 | ¥611,711 | \$5,207 |
| Sales to | 122,241 | 148,352 | 155,195 | 1,321 |

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 year 2006 from April to June, Honda sold automobile parts, equipment and services to the affiliated company in the amount of ¥10,008 million (\$85 million). He retired as a Director of the Company as of June 23, 2005 and was assigned as an operating officer of the Company. In fiscal year 2005, Honda sold automobile parts, equipment and services to the affiliated company in the amount of ¥37,023 million.

6. Investments and Advances

Investments and advances at March 31, 2005 and 2006 consisted of the following:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--|-------------------|---------|--|
| | 2005 | 2006 | 2006 |
| Current | | | |
| Corporate debt securities | ¥ 7,485 | ¥13,100 | \$112 |
| U.S. government and agency debt securities | 3,222 | 18,733 | 159 |
| Commercial paper | — | 5,998 | 51 |
| | ¥10,707 | ¥37,831 | \$322 |

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

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--|-------------------|-----------------|--|
| | 2005 | 2006 | 2006 |
| Noncurrent | | | |
| Marketable equity securities | ¥ 93,004 | ¥141,846 | \$1,208 |
| Nonmarketable preferred stocks | 11,100 | 6,000 | 51 |
| Convertible preferred stocks | 27,476 | 22,934 | 195 |
| Convertible notes | 65,920 | 56,635 | 482 |
| Government bonds | 3,000 | 2,999 | 26 |
| U.S. government and agency debt securities | 20,347 | 2,937 | 25 |
| Guaranty deposits | 31,076 | 30,110 | 256 |
| Advances | 3,915 | 2,209 | 19 |
| Other | 9,088 | 20,422 | 173 |
| | ¥264,926 | ¥286,092 | \$2,435 |

Certain information with respect to marketable securities at March 31, 2005 and 2006, is summarized below:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|-------------------------|-------------------|-----------------|--|
| | 2005 | 2006 | 2006 |
| Available-for-sale | | | |
| Cost | ¥29,815 | ¥ 30,366 | \$ 259 |
| Fair value | 93,004 | 141,846 | 1,208 |
| Gross unrealized gains | 63,319 | 111,540 | 950 |
| Gross unrealized losses | 130 | 60 | 1 |
| Held-to-maturity | | | |
| Amortized cost | ¥34,054 | ¥ 43,767 | \$ 373 |
| Fair value | 33,692 | 43,428 | 370 |
| Gross unrealized gains | 75 | 1 | 0 |
| Gross unrealized losses | 437 | 340 | 3 |

Maturities of debt securities classified as held-to-maturity at March 31, 2006 were as follows:

| | Yen (millions) | U.S. dollars (millions) (note 2) |
|--|-------------------|--|
| Due within one year | ¥37,831 | \$322 |
| Due after one year through five years | 3,938 | 34 |
| Due after five years through ten years | 1,998 | 17 |
| Total | ¥43,767 | \$373 |

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, 2006, were, ¥3,468 million net gains, ¥2,206 million net gains and ¥462 million (\$4 million) net loss, 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, 2006 were as follows:

| | Yen (millions) | | U.S. dollars (millions) (note 2) | |
|---------------------|-------------------|-------------------|--|-------------------|
| | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Available-for-sale | | | | |
| Less than 12 months | ¥453 | ¥(60) | \$ 4 | \$ (1) |
| 12 months or longer | — | — | — | — |
| | ¥453 | ¥(60) | \$ 4 | \$ (1) |
| Held-to-maturity | | | | |
| Less than 12 months | ¥16,068 | ¥ (30) | \$137 | \$(0) |
| 12 months or longer | 21,360 | (310) | 182 | (3) |
| | ¥37,428 | ¥(340) | \$319 | \$(3) |

Honda judged this decline in fair value of investment securities to be temporary, with considering 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.

7. Short-term and Long-term Debt

Short-term debt at March 31, 2005 and 2006 is as follows:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|-----------------------|-------------------|-----------------|--|
| | 2005 | 2006 | 2006 |
| Short-term bank loans | ¥279,696 | ¥314,124 | \$2,674 |
| Medium-term notes | 85,273 | 152,246 | 1,296 |
| Commercial paper | 404,345 | 227,187 | 1,934 |
| | ¥769,314 | ¥693,557 | \$5,904 |

The weighted average interest rates on short-term debt outstanding at March 31, 2005 and 2006 were 2.09% and 3.21%, respectively.

Long-term debt at March 31, 2005 and 2006 is as follows:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--|-------------------|------------|--|
| | 2005 | 2006 | 2006 |
| Honda Motor Co., Ltd.: | | | |
| Loans, maturing through 2031: | | | |
| Unsecured, principally from banks | ¥ 238 | ¥ 603 | \$ 5 |
| | 238 | 603 | 5 |
| Subsidiaries: | | | |
| Commercial paper | 187,932 | 205,573 | 1,750 |
| Loans, maturing through 2029 | | | |
| Secured, principally from banks | 30,147 | 19,765 | 168 |
| Unsecured, principally from banks | 65,892 | 94,509 | 806 |
| 0.69% Japanese yen unsecured bond due 2006 | 60,000 | 60,000 | 511 |
| 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 | 426 |
| 0.79% Japanese yen unsecured bond due 2008 | 30,000 | 30,000 | 255 |
| 0.99% Japanese yen unsecured bond due 2009 | 30,000 | 30,000 | 255 |
| 0.31% Japanese yen unsecured bond due 2010 | — | 200 | 2 |
| 0.66% Japanese yen unsecured bond due 2010 | — | 30,000 | 255 |
| 0.94% Japanese yen unsecured bond due 2010 | — | 30,000 | 255 |
| 3.65% Thai baht unsecured bond due 2007 | 5,460 | 6,040 | 51 |
| Medium-term notes, maturing through 2019 | 1,634,342 | 1,979,635 | 16,852 |
| Less unamortized discount, net | 406 | 680 | 6 |
| | 2,094,367 | 2,536,042 | 21,589 |
| Total long-term debt | 2,094,605 | 2,536,645 | 21,594 |
| Less current portion | 535,105 | 657,645 | 5,598 |
| | ¥1,559,500 | ¥1,879,000 | \$15,996 |

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 0.89% to 18.08% per annum at March 31, 2006 and weighted average interest rate on total outstanding long-term debt at March 31, 2005 and 2006 is 4.05% and 4.35%, respectively. Property, plant and equipment with a net book value of approximately ¥12,881 million and ¥22,592 million (\$192 million) at March 31, 2005 and 2006, respectively, were subject to specific mortgages securing indebtedness. Furthermore, finance subsidiaries-receivables of approximately ¥22,597 million and ¥8,993 million (\$77 million) at March 31, 2005 and 2006, respectively, were pledged as collateral by a financial subsidiary for certain loans.

At March 31, 2005 and 2006, ¥187,932 million and ¥205,573 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, 2005 and 2006 was approximately 2.71% and 4.32%, respectively.

Medium-term notes are unsecured, and their interest rates range from 0.6% to 3.17% at March 31, 2005 and from 0.63% to 4.66% at March 31, 2006.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2006 and thereafter:

| Years ending March 31: | Yen (millions) | U.S. dollars (millions) (note 2) |
|------------------------|-------------------|--|
| 2007 | ¥ 657,645 | \$ 5,598 |
| 2008 | 903,184 | 7,689 |
| 2009 | 467,334 | 3,978 |
| 2010 | 221,728 | 1,888 |
| 2011 | 251,085 | 2,137 |
| After five years | 35,669 | 304 |
| | 1,879,000 | 15,996 |
| Total | ¥2,536,645 | \$21,594 |

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

At March 31, 2006, Honda had unused line of credit facilities amounting to ¥1,523,948 million (\$12,973 million), of which ¥609,634 million (\$5,190 million) related to commercial paper programs and ¥914,314 million (\$7,783 million) related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2006, Honda also had committed lines of credit amounting to ¥720,982 million (\$6,138 million), none of which was in use. The committed lines are used to back up the commercial paper programs. Borrowings under those committed lines of credit generally are available at the prime interest rate.

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Certain debenture trust agreements provide that Honda must give additional security upon request of the trustee.

8. Other Liabilities

Other liabilities at March 31, 2005 and 2006 are summarized as follows:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--|-------------------|-----------------|--|
| | 2005 | 2006 | 2006 |
| Accrued liabilities for product warranty, net of current portion | ¥141,394 | ¥137,503 | \$1,171 |
| Minority interest | 70,001 | 87,460 | 745 |
| Additional minimum pension liabilities (note 11) | 381,124 | 171,773 | 1,463 |
| Deferred income taxes | 68,561 | 115,360 | 982 |
| Other | 58,532 | 65,426 | 555 |
| | ¥719,612 | ¥577,522 | \$4,916 |

9. Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2006 were allocated as follows:

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|--------------------------------------|-------------------|----------|-----------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Income from continuing operations | ¥252,740 | ¥266,665 | ¥317,189 | \$2,700 |
| Other comprehensive income (note 13) | 43,620 | 12,718 | 154,370 | 1,314 |
| | ¥296,360 | ¥279,383 | ¥471,559 | \$4,014 |

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, 2006 consisted of the following:

| | Income before income taxes | Yen (millions) | | |
|----------|-------------------------------|-------------------------------------|------------------|-----------------|
| | | Current | Deferred | Total |
| 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 |
| 2006: | | | | |
| Japanese | ¥315,828 | ¥103,697 | ¥ 38,225 | ¥141,922 |
| Foreign | 498,789 | 216,248 | (40,981) | 175,267 |
| | ¥814,617 | ¥319,945 | ¥ (2,756) | ¥317,189 |
| | | | | |
| | Income before income taxes | U.S. dollars (millions) (note 2) | | |
| | | Current | Deferred | Total |
| 2006: | | | | |
| Japanese | \$2,689 | \$ 883 | \$ 325 | \$1,208 |
| Foreign | 4,246 | 1,840 | (348) | 1,492 |
| | \$6,935 | \$2,723 | \$ (23) | \$2,700 |

The significant components of deferred income tax (benefit) expense for each of the years in the three-year period ended March 31, 2006 are as follows:

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|---|-------------------|----------|----------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Deferred tax (benefit) expense (exclusive of the effects of the other component listed below) | ¥109,931 | ¥115,519 | ¥(2,756) | \$(23) |
| Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates | 3,491 | — | — | — |
| | ¥113,422 | ¥115,519 | ¥(2,756) | \$(23) |

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 year ended March 31, 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, 2006 differs from the Japanese statutory income tax rate for the following reasons:

| | 2004 | 2005 | 2006 |
|--|-------|-------|-------|
| Statutory income tax rate | 41.0% | 40.0% | 40.0% |
| Valuation allowance provided for current year operating losses of subsidiaries | 2.6 | 0.5 | 0.3 |
| Difference in statutory tax rates of foreign subsidiaries | (1.4) | (1.9) | (2.4) |
| Reversal of valuation allowance due to utilization of operating loss carryforwards | (1.6) | (1.1) | (0.8) |
| Research and development credit | (3.8) | (2.3) | (3.1) |
| Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates | 0.5 | — | — |
| Tax authority assessment relating to prior years* | — | 1.8 | — |
| Other adjustments relating to prior years | — | — | 3.1 |
| Other | 2.1 | 3.6 | 1.8 |
| Effective tax rate | 39.4% | 40.6% | 38.9% |

* 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, 2005 and 2006 are presented below:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|---|-------------------|------------|--|
| | 2005 | 2006 | 2006 |
| Deferred tax assets: | | | |
| Inventories | ¥ 24,475 | ¥ 30,012 | \$ 255 |
| Allowance for dealers and customers | 131,262 | 141,141 | 1,202 |
| Foreign tax credit | 11,565 | 913 | 8 |
| Operating loss carryforwards | 58,697 | 75,131 | 640 |
| Minimum pension liabilities adjustment | 152,036 | 68,566 | 584 |
| Other accrued pension liabilities | 99,471 | 56,584 | 482 |
| Other | 131,233 | 190,335 | 1,619 |
| Total gross deferred tax assets | 608,739 | 562,682 | 4,790 |
| Less valuation allowance | 59,737 | 70,239 | 598 |
| Net deferred tax assets | 549,002 | 492,443 | 4,192 |
| Deferred tax liabilities: | | | |
| Inventories | (14,322) | (11,018) | (94) |
| Property, plant and equipment, excluding lease transactions | (63,614) | (67,263) | (573) |
| Lease transactions | (328,554) | (357,578) | (3,044) |
| Undistributed earnings of subsidiaries and affiliates | (34,252) | (75,429) | (642) |
| Net unrealized gains on marketable equity securities | (25,266) | (44,580) | (380) |
| Other | (82,129) | (87,324) | (742) |
| Total gross deferred tax liabilities | (548,137) | (643,192) | (5,475) |
| Net deferred tax (liability) asset | ¥ 865 | ¥(150,749) | \$(1,283) |

Deferred income tax assets and liabilities at March 31, 2005 and 2006 are reflected in the consolidated balance sheets under the following captions:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--------------------------------------|-------------------|------------|--|
| | 2005 | 2006 | 2006 |
| Current assets—Deferred income taxes | ¥ 214,059 | ¥ 198,033 | \$ 1,686 |
| Other assets | 129,162 | 37,686 | 321 |
| Other current liabilities | (273,795) | (271,108) | (2,308) |
| Other liabilities | (68,561) | (115,360) | (982) |
| Net deferred tax (liability) asset | ¥ 865 | ¥(150,749) | \$(1,283) |

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, 2005 and 2006. The net change in the total valuation allowance for the years ended March 31, 2004 was increase of ¥6,686 million, for the year

ended March 31, 2005 was decrease of ¥11,989 million, and for the year ended March 31, 2006 was increase of ¥10,502 million (\$89 million). The valuation allowance primarily relates

to valuation allowance for deferred tax assets associated with net operating loss carryforwards incurred by certain foreign subsidiaries.

At March 31, 2006, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of ¥224,982 million (\$1,915 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 | ¥ 127 | \$ 1 |
| 1 to 5 years | 15,431 | 131 |
| 5 to 15 years | 29,791 | 254 |
| Indefinite periods | 179,633 | 1,529 |
| | ¥224,982 | \$1,915 |

At March 31, 2005 and 2006, Honda did not recognize deferred tax liabilities of ¥47,340 million and ¥60,703 million (\$517million), respectively, for certain portions of the undistributed earnings of the Company's foreign subsidiaries because such portions were considered permanently

reinvested. At March 31, 2005 and 2006, the undistributed earnings not subject to deferred tax liabilities were ¥1,895,285 million and ¥2,676,892 million (\$22,788 million), respectively.

10. Dividends and Legal Reserves

The Company law of Japan enforced on May 1, 2006 provides that earnings in an amount equal to 10% of dividends of retained earnings shall be appropriated as a capital surplus or a legal reserve on the date of distribution of retained earnings until an aggregated amount of capital surplus and a legal reserve equals 25% of stated capital. The Japanese Commercial Code, effective until the enforcement of the Company law of Japan, provided that earnings in an amount equal to at least 10% of appropriations of retained earnings that were paid in cash shall be appropriated as a legal reserve until an aggregated amount of capital surplus and the legal reserve equaled 25% of stated capital. Certain foreign

subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Dividends and appropriations to the legal reserves charged to retained earnings during the years in the three-year period ended March 31, 2006 represent dividends paid out during those years and the related appropriations to the legal reserves. Dividends per share for each of the years in the three-year period ended March 31, 2006 were ¥35, ¥51 and ¥77 (\$0.66), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥60 (\$0.51) per share aggregating ¥54,784 million (\$466 million) to be proposed in June 2006.

11. Pension and Other Postretirement Benefits

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

Retirement benefits for directors, excluding certain benefits, are provided in accordance with management policy. There are occasions where officers other than directors receive special lump-sum payments at retirement. Such payments are charged to income as paid since amounts vary with circumstances and it is impractical to compute a liability for future payments.

In January 2003, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 03-2 "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" ("EITF 03-2"). EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund ("EPF") plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the separation process of the substitutional portion from the entire EPF plan (which includes a corporation portion) upon completion of the transfer to the government of the substitutional portion of the

benefit obligation and related plan assets. The separation process is considered the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy.

As stipulated in the Japanese Welfare Pension Insurance Law, the "Honda Employees' Pension Fund (a confederated welfare pension fund, the "Fund")", of which the Company and a part of its domestic subsidiaries and affiliates accounted for under the equity method were members, has obtained approval from the Japanese Minister of Health, Labor and Welfare for exemption from benefits obligations related to past employee service with respect to the substitutional portion of the Fund on July 1, 2005 and completed its transfer on March 9, 2006. Previously on April 1, 2004, the Company received approval of exemption from the obligation for benefits related to future employee services with respect to the fund. As a result, the Company recognized a gain of ¥228,681 million, which is the difference between the settled accumulated benefit obligation and the assets transferred to the government; a gain of ¥56,448 million for the derecognition of previous accrued salary progression; and settlement loss of ¥147,113 million for the related unrecognized loss. Collectively, the Company recognized a net gain of ¥138,016 million (\$1,175 million) for the fiscal year ended March 31, 2006.

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 | |
| | 2005 | 2006 | 2005 | 2006 |
| Change in benefit obligations: | | | | |
| Benefit obligations at beginning of year | ¥(1,618,402) | ¥(1,641,593) | ¥(212,393) | ¥(301,379) |
| Service cost | (40,963) | (41,271) | (17,560) | (25,121) |
| Interest cost | (32,368) | (31,788) | (14,445) | (18,838) |
| Plan participants' contributions | (352) | (94) | (681) | (111) |
| Actuarial gain (loss) | 18,383 | 9,198 | (42,687) | (22,421) |
| Benefits paid | 32,109 | 33,957 | 2,501 | 2,949 |
| Amendment | — | 20,652 | (8,684) | (1,584) |
| Transfer of the substitutional portion | — | 517,614 | — | — |
| Foreign exchange translation | — | — | (7,430) | (28,911) |
| Benefit obligations at end of year | (1,641,593) | (1,133,325) | (301,379) | (395,416) |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 794,543 | 842,542 | 194,849 | 257,165 |
| Actual return on plan assets | 33,559 | 98,450 | 28,743 | 27,240 |
| Employer contributions | 46,197 | 37,687 | 29,058 | 49,912 |
| Plan participants' contributions | 352 | 94 | 681 | 111 |
| Benefits paid | (32,109) | (33,957) | (2,501) | (2,949) |
| Transfer of the substitutional portion | — | (232,485) | — | — |
| Foreign exchange translation | — | — | 6,335 | 26,596 |
| Fair value of plan assets at end of year | 842,542 | 712,331 | 257,165 | 358,075 |
| Funded status | (799,051) | (420,994) | (44,214) | (37,341) |
| Unrecognized actuarial loss (gain) | 607,399 | 354,172 | 81,240 | 100,047 |
| Unrecognized net transition obligations | 5,726 | 3,733 | 332 | 317 |
| Unrecognized prior service cost (benefit) | (62,089) | (75,797) | 6,764 | 8,345 |
| Net amount recognized | (248,015) | (138,886) | 44,122 | 71,368 |
| Adjustments to recognize additional minimum liabilities (note 8): | | | | |
| Intangible assets | — | — | (311) | (316) |
| Amount included in accumulated other comprehensive income (loss) | (377,864) | (171,158) | (2,949) | (299) |
| Prepaid (accrued) pension cost recognized in the consolidated balance sheets | ¥ (625,879) | ¥(310,044) | ¥ 40,862 | ¥ 70,753 |
| Pension plans with accumulated benefit obligations in excess of plan assets: | | | | |
| Projected benefit obligations | ¥(1,630,982) | ¥(1,117,157) | ¥ (52,334) | ¥ (70,415) |
| Accumulated benefit obligations | (1,460,030) | (1,007,022) | (33,749) | (45,686) |
| Fair value of plan assets | 833,539 | 696,128 | 29,685 | 40,114 |

| | U.S. dollars (millions) (note2) | |
|--|------------------------------------|---------------|
| | Japanese plans | Foreign plans |
| | 2006 | 2006 |
| Change in benefit obligations: | | |
| Benefit obligations at beginning of year | \$(13,975) | \$(2,566) |
| Service cost | (351) | (214) |
| Interest cost | (271) | (160) |
| Plan participants' contributions | (1) | (1) |
| Actuarial gain (loss) | 79 | (191) |
| Benefits paid | 289 | 25 |
| Amendment | 176 | (13) |
| Transfer of substitutional portion | 4,406 | — |
| Foreign exchange translation | — | (246) |
| Benefit obligations at end of year | (9,648) | (3,366) |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 7,172 | 2,189 |
| Actual return on plan assets | 838 | 232 |
| Employer contributions | 321 | 425 |
| Plan participants' contributions | 1 | 1 |
| Benefits paid | (289) | (25) |
| Transfer of substitutional portion | (1,979) | — |
| Foreign exchange translation | — | 226 |
| Fair value of plan assets at end of year | 6,064 | 3,048 |
| Funded status | (3,584) | (318) |
| Unrecognized actuarial loss (gain) | 3,015 | 852 |
| Unrecognized net transition obligations | 32 | 3 |
| Unrecognized prior service cost (benefit) | (645) | 71 |
| Net amount recognized | (1,182) | 608 |
| Adjustments to recognize additional minimum liabilities (note 8): | | |
| Intangible assets | — | (3) |
| Amount included in accumulated other comprehensive income (loss) | (1,457) | (3) |
| Prepaid (accrued) pension cost recognized in the consolidated balance sheets | \$ (2,639) | \$ 602 |
| Pension plans with accumulated benefit obligations in excess of plan assets: | | |
| Projected benefit obligations | \$ (9,510) | \$ (599) |
| Accumulated benefit obligations | (8,573) | (389) |
| Fair value of plan assets | 5,926 | 341 |

Pension expense for each of the years in the three-year period ended March 31, 2006 included the following:

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|--|-------------------|----------|-----------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Japanese plans: | | | | |
| Service cost-benefits earned during the year | ¥49,309 | ¥40,963 | ¥41,271 | \$351 |
| Interest cost on projected benefit obligations | 30,741 | 32,368 | 31,788 | 271 |
| Expected return on plan assets | (32,041) | (33,589) | (33,102) | (282) |
| Net amortization and deferral | 38,058 | 27,921 | 23,441 | 200 |
| | ¥86,067 | ¥67,663 | ¥63,398 | \$540 |
| Foreign plans: | | | | |
| Service cost-benefits earned during the year | ¥13,022 | ¥17,560 | ¥25,121 | \$214 |
| Interest cost on projected benefit obligations | 12,164 | 14,445 | 18,838 | 160 |
| Expected return on plan assets | (12,947) | (17,418) | (21,013) | (179) |
| Net amortization and deferral | 2,069 | 2,576 | 4,831 | 41 |
| | ¥14,308 | ¥17,163 | ¥27,777 | \$236 |

Weighted-average assumptions used to determine benefit obligation at March 31, 2005 and 2006 were as follows:

| | 2005 | 2006 |
|-------------------------|----------|-----------------|
| Japanese plans: | | |
| Discount rate | 2.0% | 2.0% |
| Rate of salary increase | 2.3% | 2.2% |
| Foreign plans: | | |
| Discount rate | 5.4–6.3% | 4.9–5.8% |
| Rate of salary increase | 3.5–6.7% | 3.5–5.2% |

Weighted-average assumptions used to determine net periodic benefit cost for each of the years in the three-year period ended March 31, 2006 were as follows:

| | 2004 | 2005 | 2006 |
|-----------------------------------|----------|----------|-----------------|
| Japanese plans: | | | |
| Discount rate | 2.0% | 2.0% | 2.0% |
| Rate of salary increase | 2.3% | 2.3% | 2.3% |
| Expected long-term rate of return | 4.0% | 4.0% | 4.0% |
| Foreign plans: | | | |
| Discount rate | 5.5–7.0% | 5.8–6.8% | 5.4–6.3% |
| Rate of salary increase | 4.0–6.7% | 3.5–6.7% | 3.5–6.7% |
| Expected long-term rate of return | 6.8–8.5% | 6.8–8.5% | 6.8–8.0% |

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 plans.

Plan Assets

Honda's domestic and foreign pension plan weighted-average asset allocations at March 31, 2005 and 2006, by asset category are as follows:

| | 2005 | 2006 |
|-------------------|------|------|
| Japanese plans: | | |
| Equity securities | 37% | 48% |
| Debt securities | 23% | 37% |
| Other | 40% | 15% |
| | 100% | 100% |
| Foreign plans: | | |
| Equity securities | 68% | 65% |
| Debt securities | 24% | 24% |
| Other | 8% | 11% |
| | 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, 2005 and 2006 were ¥1,468,115 million and ¥1,019,764 million (\$8,681 million), respectively. The accumulated benefit obligation for all foreign defined benefit plans at March 31, 2005 and 2006 were ¥225,853 million and ¥303,509 million (\$2,584 million), respectively.

Cash flows

Honda expects to contribute ¥33,281 million (\$283 million) to its domestic pension plans and ¥40,178 million (\$342 million) to its foreign pension plans in the year ending March 31, 2007.

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 |
| 2007 | ¥ 31,365 | ¥ 3,880 | \$ 267 | \$ 33 |
| 2008 | 38,559 | 4,448 | 328 | 38 |
| 2009 | 41,663 | 5,150 | 355 | 44 |
| 2010 | 45,484 | 6,190 | 387 | 53 |
| 2011 | 46,061 | 7,223 | 392 | 61 |
| 2012-2016 | 263,490 | 63,666 | 2,243 | 542 |

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

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

12. Supplemental Disclosures of Cash Flow Information

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|--------------------------------|-------------------|----------|-----------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Cash paid during the year for: | | | | |
| Interest | ¥ 91,207 | ¥ 99,475 | ¥134,609 | \$1,146 |
| Income taxes | 203,029 | 159,041 | 282,986 | 2,409 |

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 by offsetting with capital surplus of ¥190 million and unappropriated retained earnings of ¥ 216,181 million based on the resolution of board of directors.

During the year ended March 31, 2006, the Company reissued certain of its treasury stock at fair value of ¥802 million (\$7 million) to the minority shareholder of subsidiary, which the Company made a wholly owned subsidiary, and the Company retired shares totaling 11,000,000 shares at a cost of ¥66,224 million (\$564 million) by offsetting with capital surplus of ¥2 million (\$0 million) and unappropriated retained earnings of ¥ 66,221 million (\$564 million) based on the resolution of board of directors.

13. Accumulated Other Comprehensive Income (Loss)

The components and related changes in accumulated other comprehensive income (loss) for each of the years in the three-year period ended March 31, 2006 are as follows:

| | Yen (millions) | | | U.S. dollars (millions) (note 2) |
|---|-------------------|------------|-------------------|--|
| | 2004 | 2005 | 2006 | 2006 |
| Adjustments from foreign currency translation: | | | | |
| Balance at beginning of year | ¥(469,472) | ¥(665,413) | ¥(624,937) | \$(5,321) |
| Adjustments for the year | (195,941) | 40,476 | 249,160 | 2,122 |
| Balance at end of year | (665,413) | (624,937) | (375,777) | (3,199) |
| Net unrealized gains on marketable equity securities: | | | | |
| Balance at beginning of year | 14,820 | 36,066 | 33,744 | 288 |
| Realized (gain) loss on marketable equity securities | — | 1,346 | (841) | (8) |
| Increase (decrease) in net unrealized gains on marketable equity securities | 21,246 | (3,668) | 29,807 | 254 |
| Balance at end of year | 36,066 | 33,744 | 62,710 | 534 |
| Net unrealized gains (losses) on derivative instruments: | | | | |
| Balance at beginning of year | — | — | — | — |
| Realized (gain) loss on derivative instruments | — | — | (38) | (0) |
| Increase (decrease) in net unrealized gains on derivative instruments | — | — | (26) | (0) |
| Balance at end of year | — | — | (64) | (0) |

| | 2004 | Yen (millions) 2005 | 2006 | U.S. dollars (millions) (note 2) 2006 |
|--|------------|---------------------------|-------------------|--|
| Minimum pension liabilities adjustment: | | | | |
| Balance at beginning of year | (308,513) | (225,226) | (202,741) | (1,726) |
| Adjustments for the year | 83,287 | 22,485 | 108,685 | 925 |
| Balance at end of year | (225,226) | (202,741) | (94,056) | (801) |
| Total accumulated other comprehensive income (loss): | | | | |
| Balance at beginning of year | (763,165) | (854,573) | (793,934) | (6,759) |
| Adjustments for the year | (91,408) | 60,639 | 386,747 | 3,293 |
| Balance at end of year | ¥(854,573) | ¥(793,934) | ¥(407,187) | \$(3,466) |

The tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments are as follows:

| | Before-tax amount | Yen (millions) Tax (expense) or benefit (note 9) | Net-of-tax amount |
|--|----------------------|--|----------------------|
| 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 |
| 2006: | | | |
| Adjustments from foreign currency translation | ¥ 301,737 | ¥ (52,577) | ¥ 249,160 |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | 49,675 | (19,868) | 29,807 |
| Reclassification adjustments for gains realized in net income | (1,395) | 554 | (841) |
| Net unrealized gains (losses) | 48,280 | (19,314) | 28,966 |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding gains (losses) arising during the year | (43) | 17 | (26) |
| Reclassification adjustments for gains realized in net income | (64) | 26 | (38) |
| Net unrealized gains (losses) | (107) | 43 | (64) |
| Minimum pension liabilities adjustment | 191,207 | (82,522) | 108,685 |
| Other comprehensive income (loss) | ¥ 541,117 | ¥(154,370) | ¥ 386,747 |

| | U.S. dollars (millions) (note 2) | | |
|---|-------------------------------------|---|----------------------|
| | Before-tax amount | Tax (expense) or benefit (note 9) | Net-of-tax amount |
| 2006: | | | |
| Adjustments from foreign currency translation | \$2,570 | \$ (448) | \$2,122 |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | 423 | (169) | 254 |
| Reclassification adjustments for gains realized in net income | (13) | 5 | (8) |
| Net unrealized gains (losses) | 410 | (164) | 246 |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding gains (losses) arising during the year | 0 | 0 | 0 |
| Reclassification adjustments for gains realized in net income | 0 | 0 | 0 |
| Net unrealized gains (losses) | 0 | 0 | 0 |
| Minimum pension liabilities adjustment | 1,627 | (702) | 925 |
| Other comprehensive income (loss) | \$4,607 | \$(1,314) | \$3,293 |

14. Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 2005 and 2006 are as follows:

| | Yen (millions) | | | | U.S. dollars (millions) (note 2) | |
|--------------------------------------|--------------------|-------------------------|--------------------|-------------------------|--|-------------------------|
| | 2005 | | 2006 | | 2006 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Finance subsidiaries—receivables (a) | ¥2,433,240 | ¥2,407,745 | ¥2,843,819 | ¥2,813,023 | \$24,209 | \$23,947 |
| Marketable equity securities | 93,004 | 93,004 | 141,846 | 141,846 | 1,208 | 1,208 |
| Held-to-maturity securities | 34,054 | 33,692 | 43,767 | 43,428 | 373 | 370 |
| Convertible preferred stocks | | | | | | |
| Host contracts | 7,791 | 7,791 | 8,943 | 8,943 | 76 | 76 |
| Embedded derivatives | 19,685 | 19,685 | 13,991 | 13,991 | 119 | 119 |
| | 27,476 | 27,476 | 22,934 | 22,934 | 195 | 195 |
| Convertible notes (b) | | | | | | |
| Host contracts | 7,038 | 7,038 | 8,156 | 8,156 | 69 | 69 |
| Embedded derivatives | 58,882 | 58,882 | 48,479 | 48,479 | 413 | 413 |
| | 65,920 | 65,920 | 56,635 | 56,635 | 482 | 482 |
| Debt | (2,863,919) | (2,878,341) | (3,230,202) | (3,237,471) | (27,498) | (27,560) |
| Foreign exchange instruments (c) | | | | | | |
| Asset position | ¥ 28,030 | ¥ 28,030 | ¥ 4,477 | ¥ 4,477 | \$ 38 | \$ 38 |
| Liability position | (14,018) | (14,018) | (35,979) | (35,979) | (306) | (306) |
| Net | ¥ 14,012 | ¥ 14,012 | ¥ (31,502) | ¥ (31,502) | \$ (268) | \$ (268) |
| Interest rate instruments (d) | | | | | | |
| Asset position | ¥ 27,353 | ¥ 27,353 | ¥ 36,334 | ¥ 36,334 | \$ 309 | \$ 309 |
| Liability position | (2,550) | (2,550) | (2) | (2) | (0) | (0) |
| Net | ¥ 24,803 | ¥ 24,803 | ¥ 36,332 | ¥ 36,332 | \$ 309 | \$ 309 |

(a) The carrying amounts of finance subsidiaries-receivables at March 31, 2005 and 2006 in the table exclude ¥1,716,130 million and ¥1,996,686 million (\$16,997 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, 2005 and 2006 in the table also include ¥504,345 million and ¥627,168 million (\$5,338 million) of finance receivables classified as trade receivables and other assets in the consolidated balance sheets.

(b) In relation to a portion of the above convertible notes, a subsidiary entered into a forward sale contract during the year ended March 31, 2006. The carrying amount and estimated fair value of the derivative financial instrument is ¥5,462 million (\$46 million), asset position, at March 31, 2006.

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

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|---------------------------|-------------------|-----------|--|
| | 2005 | 2006 | 2006 |
| Other current assets | ¥ 643 | ¥ 4,477 | \$ 38 |
| Other assets | 27,387 | — | — |
| Other current liabilities | (14,018) | (35,113) | (299) |
| Other liabilities | — | (866) | (7) |
| | ¥14,012 | ¥(31,502) | \$(268) |

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

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|---------------------------|-------------------|---------|--|
| | 2005 | 2006 | 2006 |
| Other current assets | ¥ 161 | ¥ 3,101 | \$ 26 |
| Other assets | 27,192 | 33,233 | 283 |
| Other current liabilities | (2,462) | — | — |
| Other liabilities | (88) | (2) | (0) |
| | ¥24,803 | ¥36,332 | \$309 |

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.

Held-to-maturity securities

The fair value of held-to-maturity security 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.

15. Risk Management Activities and Derivative Financial Instruments

Honda is a party 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 of Honda 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, 2005 were ¥692,841 million, ¥214,211 million and ¥505,272 million, respectively and totaled ¥1,412,324 million. At March 31, 2006, foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding were ¥898,125 million (\$7,646 million), ¥176,548 million (\$1,503 million) and ¥584,358 million (\$4,975 million), respectively and totaled ¥1,659,031 million (\$14,123 million).

Cash flow hedge

In the year ended March 31, 2006, the Company adopted hedge accounting for certain foreign currency forward contracts related to forecasted foreign currency transactions between the Company and its subsidiaries. Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income (loss). The amounts are reclassified into earnings in the same period when forecasted hedged transactions affect earnings. The amount recognized in other comprehensive income (loss) was ¥64 million (\$0 million) loss in the fiscal year ended March 31, 2006. All amounts recorded in other

comprehensive income (loss) as year-end are expected to be recognized in earnings within the next twelve months. The period that hedges the changes in cash flows related to the risk of foreign currency rate is at most around 2 months.

There are no derivative financial instruments where hedge accounting has been discontinued due to the forecasted transaction no longer being probable. The Company excludes financial instruments' time value component from the assessment of hedge effectiveness, of which amount was ¥421 million (\$4 million) loss. There are no derivative financial instruments that have been assessed as being ineffectiveness.

16. Commitments and Contingent Liabilities

At March 31, 2006, Honda had commitments for purchases of property, plant and equipment of approximately ¥53,304 million (\$454 million).

Honda has entered into various guarantee and indemnification agreements. At March 31, 2005 and 2006, Honda has guaranteed ¥69,574 million and ¥46,737 million (\$398 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

Derivative financial instruments not designated as accounting hedges

Changes in the fair value of derivative financial instruments not designated as accounting hedges are recognized in earnings in the period of the change.

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, 2005 and 2006, the notional principal amounts of interest rate swap agreements were ¥3,227,405 million and ¥3,857,748 million (\$32,840 million), respectively.

to make future payments in the event of defaults is ¥69,574 million and ¥46,737 million (\$398 million), respectively, at March 31, 2005 and 2006. As of March 31, 2006, 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, 2006 are as follow:

| | Yen (millions) | | U.S. dollars (millions) (note 2) |
|--|-------------------|------------------|--|
| | 2005 | 2006 | 2006 |
| Balance at beginning of year | ¥278,153 | ¥268,429 | \$2,285 |
| Warranty claims paid during the period | (138,368) | (126,834) | (1,080) |
| Liabilities accrued for warranties issued during the period | 124,892 | 125,732 | 1,070 |
| Changes in liabilities for pre-existing warranties during the period | (3,770) | 332 | 3 |
| Foreign currency translation | 7,522 | 16,288 | 139 |
| | ¥268,429 | ¥283,947 | \$2,417 |

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

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

17. Leases

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

Future minimum lease payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year at March 31, 2006 are as follows:

| Years ending March 31 | Yen (millions) | U.S. dollars (millions) (note 2) |
|------------------------------|-------------------|--|
| 2007 | ¥ 25,087 | \$ 214 |
| 2008 | 19,060 | 162 |
| 2009 | 13,997 | 119 |
| 2010 | 10,852 | 92 |
| 2011 | 9,394 | 80 |
| After five years | 40,826 | 348 |
| Total minimum lease payments | ¥119,216 | \$1,015 |

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2006 were ¥43,441 million, ¥44,619 million and ¥46,102 million (\$392 million), respectively.

18. Allowances for Trade Receivable and Finance Subsidiaries-receivables

The allowances for trade receivable and finance subsidiaries-receivables for the years ended March 31, 2004, 2005 and 2006 are set forth in the following table:

| | Yen (millions) | | | | | Balance at end of period |
|---|--------------------------------------|--|--|--|---------------------------|--------------------------------|
| | Balance at beginning of period | Additions Charged to costs and expenses | Deductions Bad debts written off | Net increase (decrease) in unearned income | Translation difference | |
| 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 |

| | Yen (millions) | | | | | |
|---|--------------------------------|-------------------------------|-----------------------|--|------------------------|--------------------------|
| | 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, 2006: | | | | | | |
| Trade receivable | | | | | | |
| Allowance for doubtful accounts | ¥ 9,710 | ¥ 3,825 | ¥ 3,320 | ¥ — | ¥ 474 | ¥ 10,689 |
| Finance subsidiaries-receivables | | | | | | |
| Allowance for credit losses | ¥ 30,926 | ¥28,155 | ¥29,373 | ¥ — | ¥ 3,242 | ¥ 32,950 |
| Allowance for losses on lease residual values | 34,025 | 7,998 | 7,974 | — | 3,725 | 37,774 |
| Unearned interest income and fees | 182,755 | — | — | 5,336 | 15,558 | 203,649 |
| | ¥247,706 | ¥36,153 | ¥37,347 | ¥ 5,336 | ¥22,525 | ¥274,373 |

| | 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, 2006: | | | | | | |
| Trade receivable | | | | | | |
| Allowance for doubtful accounts | \$ 83 | \$ 33 | \$ 28 | \$— | \$ 3 | \$ 91 |
| Finance subsidiaries-receivables | | | | | | |
| Allowance for credit losses | \$ 263 | \$240 | \$250 | \$— | \$ 28 | \$ 281 |
| Allowance for losses on lease residual values | 290 | 68 | 68 | — | 32 | 322 |
| Unearned interest income and fees | 1,556 | — | — | 45 | 132 | 1,733 |
| | \$2,109 | \$308 | \$318 | \$45 | \$192 | \$2,336 |

19. Subsequent Event

Stock Split

On April 26, 2006, the Board of Directors declared a two-for-one stock split of the Company's common stock. All shareholders of record on June 30, 2006 will receive one additional share of common stock for each share on July 1, 2006. Information pertaining to shares and earnings per share has not been restated in the accompanying consolidated financial statements and notes to the consolidated financial statements to reflect this split. This information will be presented effective after the stock split is made.



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, 2005 and 2006, 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, 2006. 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, 2005 and 2006 and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006 in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 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

June 23, 2006

Selected Quarterly Financial Data (Unaudited and Not Reviewed)

| | Yen (millions except per share amounts) | | | | | | | |
|--------------------------------|---|------------|------------|------------|---------------------------|-------------------|-------------------|-------------------|
| | Year ended March 31, 2005 | | | | Year ended March 31, 2006 | | | |
| | I | II | III | IV | I | II | III | IV |
| Net sales and | | | | | | | | |
| other operating revenue | ¥2,073,153 | ¥2,093,578 | ¥2,133,820 | ¥2,349,554 | ¥2,264,579 | ¥2,337,670 | ¥2,472,006 | ¥2,833,741 |
| Operating income | 159,993 | 172,932 | 157,636 | 140,359 | 170,393 | 162,694 | 194,986 | 340,832 |
| Income before income taxes | 174,080 | 165,587 | 187,996 | 129,142 | 144,308 | 169,392 | 166,097 | 334,820 |
| Net income | 114,262 | 127,122 | 150,760 | 94,053 | 110,666 | 133,708 | 133,146 | 219,513 |
| Net income per common share: | | | | | | | | |
| Basic | ¥121.65 | ¥135.70 | ¥161.78 | ¥101.43 | ¥119.75 | ¥144.89 | ¥144.81 | ¥239.78 |
| Diluted | 121.65 | 135.70 | 161.78 | 101.43 | 119.75 | 144.89 | 144.81 | 239.78 |
| Net income | | | | | | | | |
| per American depository share: | | | | | | | | |
| Basic | 60.82 | 67.85 | 80.89 | 50.71 | 59.87 | 72.44 | 72.40 | 119.89 |
| Diluted | 60.82 | 67.85 | 80.89 | 50.71 | 59.87 | 72.44 | 72.40 | 119.89 |
| Tokyo Stock Exchange: | | | | | | | | |
| (TSE) (in yen) | | | | | | | | |
| High | ¥5,320 | ¥5,640 | ¥5,520 | ¥5,700 | ¥5,670 | ¥6,620 | ¥7,140 | ¥7,500 |
| Low | 4,370 | 4,890 | 4,830 | 5,230 | 5,020 | 5,380 | 6,140 | 6,100 |
| New York Stock Exchange: | | | | | | | | |
| (NYSE) (in U.S. dollars) | | | | | | | | |
| High | \$24.85 | \$25.40 | \$26.10 | \$27.30 | \$26.00 | \$29.08 | \$29.70 | \$31.74 |
| Low | 19.25 | 22.56 | 23.55 | 24.92 | 23.75 | 24.06 | 26.50 | 27.10 |

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

*2 On April 26, 2006, the Board of Directors declared a two-for-one stock split of the Company's common stock. All shareholders of record on June 30, 2006 will receive one additional share of common stock for each share on July 1, 2006. Information pertaining to shares and earnings per share has not been restated in the accompanying consolidated financial statements and notes to the consolidated financial statements to reflect this split. This information will be presented effective after the stock split is made.

Net Sales and Operating Income by Business Segment

| Years ended March 31 | Yen (millions) | | | | |
|--|----------------|------------|------------|------------|-------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| Motorcycle Business: | | | | | |
| Net sales and other operating revenue (Unaffiliated customers) | ¥ 947,900 | ¥ 978,095 | ¥ 996,290 | ¥1,097,754 | ¥1,225,812 |
| Operating income | 68,315 | 57,230 | 42,433 | 69,332 | 113,974 |
| Operating income/Net sales | 7.2% | 5.9% | 4.3% | 6.3% | 9.3% |
| Automobile Business: | | | | | |
| Net sales and other operating revenue (Unaffiliated customers) | 5,929,742 | 6,440,094 | 6,592,024 | 6,963,635 | 8,004,694 |
| Operating income | 512,911 | 551,392 | 438,891 | 452,382 | 628,372 |
| Operating income/Net sales | 8.6% | 8.6% | 6.7% | 6.5% | 7.9% |
| Financial Services Business: | | | | | |
| Net sales and other operating revenue (Unaffiliated customers) | 201,906 | 237,958 | 242,696 | 255,741 | 306,869 |
| Operating income | 76,365 | 107,813 | 108,438 | 89,901 | 90,585 |
| Operating income/Net sales | 37.8% | 45.3% | 44.7% | 35.2% | 29.5% |
| Power Product & Other Businesses: | | | | | |
| Net sales and other operating revenue (Unaffiliated customers) | 282,890 | 315,352 | 331,590 | 332,975 | 370,621 |
| Operating income | 3,611 | 8,092 | 10,382 | 19,305 | 35,974 |
| Operating income/Net sales | 1.3% | 2.6% | 3.1% | 5.8% | 9.7% |
| Total: | | | | | |
| Net sales and other operating revenue (Unaffiliated customers) | ¥7,362,438 | ¥7,971,499 | ¥8,162,600 | ¥8,650,105 | ¥9,907,996 |
| Operating income | 661,202 | 724,527 | 600,144 | 630,920 | 868,905 |
| Operating income/Net sales | 9.0% | 9.1% | 7.4% | 7.3% | 8.8% |

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

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

*3 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

| | 1996 | 1997 | 1998 | 1999 |
|---|------------|------------|------------|------------|
| Sales, income, and dividends | | | | |
| Net sales and other operating revenue | ¥4,252,250 | ¥5,293,302 | ¥5,999,738 | ¥6,231,041 |
| Operating income | 138,741 | 397,328 | 456,852 | 540,978 |
| Income before income taxes and equity in income of affiliates | 115,134 | 390,722 | 443,351 | 520,511 |
| Income taxes | 58,281 | 189,044 | 201,278 | 229,624 |
| Equity in income of affiliates | 13,948 | 19,490 | 18,552 | 14,158 |
| Net income | 70,801 | 221,168 | 260,625 | 305,045 |
| As percentage of sales | 1.7% | 4.2% | 4.3% | 4.9% |
| Cash dividends paid during the period | 13,638 | 13,640 | 16,563 | 20,463 |
| Research and development | 220,573 | 251,128 | 285,863 | 311,632 |
| Interest expense | 30,601 | 27,514 | 27,655 | 27,890 |
| Assets, long-term debt, and stockholders' equity | | | | |
| Total assets | ¥3,516,113 | ¥4,191,294 | ¥4,815,265 | ¥5,034,247 |
| Long-term debt | 656,461 | 734,255 | 677,750 | 673,084 |
| Total stockholders' equity | 1,144,540 | 1,388,430 | 1,607,914 | 1,763,855 |
| Depreciation | | | | |
| | 125,007 | 141,351 | 153,337 | 177,666 |
| Capital expenditures | | | | |
| | 150,489 | 217,782 | 309,517 | 237,080 |
| Per common share | | | | |
| Net income: | | | | |
| Basic | ¥ 72.68 | ¥ 227.00 | ¥ 267.49 | ¥ 313.05 |
| Diluted | 72.63 | 226.97 | 267.45 | 313.05 |
| Cash dividends paid during the period | 14 | 14 | 17 | 21 |
| Stockholders' equity | 1,174.73 | 1,425.04 | 1,650.14 | 1,810.20 |
| Per American depositary share | | | | |
| Net income: | | | | |
| Basic | 36.34 | 113.50 | 133.74 | 156.52 |
| Diluted | 36.31 | 113.48 | 133.72 | 156.52 |
| Cash dividends paid during the period | 7.0 | 7.0 | 8.5 | 10.5 |
| Stockholders' equity | 587.36 | 712.52 | 825.07 | 905.10 |
| Sales progress | | | | |
| Sales amounts:* | | | | |
| Japan | ¥1,540,463 | ¥1,826,284 | ¥1,710,813 | ¥1,556,333 |
| | 36% | 35% | 29% | 25% |
| Overseas | 2,711,787 | 3,467,018 | 4,288,925 | 4,674,708 |
| | 64% | 65% | 71% | 75% |
| Total | ¥4,252,250 | ¥5,293,302 | ¥5,999,738 | ¥6,231,041 |
| | 100% | 100% | 100% | 100% |
| Unit sales: | | | | |
| Motorcycles | 5,488 | 5,325 | 5,257 | 4,295 |
| Automobiles | 1,887 | 2,184 | 2,343 | 2,333 |
| Power Products | 2,268 | 2,521 | 2,857 | 3,412 |
| Number of employees | | | | |
| | 96,800 | 101,100 | 109,400 | 112,200 |
| Exchange rate (yen amounts per U.S. dollar) | | | | |
| Rates for the period-end | ¥ 106 | ¥ 124 | ¥ 132 | ¥ 121 |
| Average rates for the period | 96 | 113 | 123 | 128 |

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

Notes:

(1) The amounts for the fiscal year ended March 31, 2006, have been translated into U.S. dollars at the rate of ¥117.47=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2006.

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

(3) 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 sales amount from such sales for fiscal 2002 amounted to ¥5,468 million.

| | | | | | | Yen (millions) | U.S. dollars (millions) |
|------------|------------|------------|------------|------------|------------|-------------------|----------------------------|
| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2006 |
| ¥6,098,840 | ¥6,463,830 | ¥7,362,438 | ¥7,971,499 | ¥8,162,600 | ¥8,650,105 | ¥ 9,907,996 | \$84,345 |
| 418,639 | 401,438 | 661,202 | 724,527 | 600,144 | 630,920 | 868,905 | 7,397 |
| 416,063 | 384,976 | 551,342 | 609,755 | 641,927 | 656,805 | 814,617 | 6,935 |
| 170,434 | 178,439 | 231,150 | 245,065 | 252,740 | 266,665 | 317,189 | 2,700 |
| 16,786 | 25,704 | 42,515 | 61,972 | 75,151 | 96,057 | 99,605 | 847 |
| 262,415 | 232,241 | 362,707 | 426,662 | 464,338 | 486,197 | 597,033 | 5,082 |
| 4.3% | 3.6% | 4.9% | 5.4% | 5.7% | 5.6% | 6.0% | |
| 20,463 | 22,412 | 24,360 | 30,176 | 33,541 | 47,797 | 71,061 | 605 |
| 334,036 | 352,829 | 395,176 | 436,863 | 448,967 | 467,754 | 510,385 | 4,345 |
| 18,920 | 21,400 | 16,769 | 12,207 | 10,194 | 11,655 | 11,902 | 101 |
| ¥4,898,428 | ¥5,667,409 | ¥6,940,795 | ¥7,681,291 | ¥8,328,768 | ¥9,316,970 | ¥10,571,681 | \$89,995 |
| 574,566 | 368,173 | 716,614 | 1,140,182 | 1,394,612 | 1,559,500 | 1,879,000 | 15,996 |
| 1,930,373 | 2,230,291 | 2,573,941 | 2,629,720 | 2,874,400 | 3,289,294 | 4,125,750 | 35,122 |
| 172,139 | 170,342 | 194,944 | 220,874 | 213,445 | 225,752 | 262,225 | 2,232 |
| 222,891 | 285,687 | 303,424 | 316,991 | 287,741 | 373,980 | 457,841 | 3,898 |
| | | | | | | Yen | U.S. dollars |
| ¥ 269.31 | ¥ 238.34 | ¥ 372.23 | ¥ 439.43 | ¥ 486.91 | ¥ 520.68 | ¥ 648.67 | \$ 5.52 |
| 269.31 | 238.34 | 372.23 | 439.43 | 486.91 | 520.68 | 648.67 | 5.52 |
| 21 | 23 | 25 | 31 | 35 | 51 | 77 | 0.66 |
| 1,981.07 | 2,288.87 | 2,641.55 | 2,734.69 | 3,054.90 | 3,556.49 | 4,518.53 | 38.47 |
| 134.65 | 119.17 | 186.11 | 219.71 | 243.45 | 260.34 | 324.33 | 2.76 |
| 134.65 | 119.17 | 186.11 | 219.71 | 243.45 | 260.34 | 324.33 | 2.76 |
| 10.5 | 11.5 | 12.5 | 15.5 | 17.5 | 25.5 | 38.5 | 0.33 |
| 990.53 | 1,144.43 | 1,320.77 | 1,367.34 | 1,527.45 | 1,778.24 | 2,259.26 | 19.23 |
| | | | | | | Yen (millions) | U.S. dollars (millions) |
| ¥1,612,191 | ¥1,740,340 | ¥1,868,746 | ¥1,748,706 | ¥1,628,493 | ¥1,699,205 | ¥1,694,044 | \$14,421 |
| 26% | 27% | 25% | 22% | 20% | 20% | 17% | |
| 4,486,649 | 4,723,490 | 5,493,692 | 6,222,793 | 6,534,107 | 6,950,900 | 8,213,952 | 69,924 |
| 74% | 73% | 75% | 78% | 80% | 80% | 83% | |
| ¥6,098,840 | ¥6,463,830 | ¥7,362,438 | ¥7,971,499 | ¥8,162,600 | ¥8,650,105 | ¥9,907,996 | \$84,345 |
| 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| | | | | | | Thousands | |
| 4,436 | 5,118 | 6,095 | 8,080 | 9,206 | 10,482 | 10,271 | |
| 2,473 | 2,580 | 2,666 | 2,888 | 2,983 | 3,242 | 3,391 | |
| 4,057 | 3,884 | 3,926 | 4,584 | 5,047 | 5,300 | 5,876 | |
| 112,400 | 114,300 | 120,600 | 126,900 | 131,600 | 137,827 | 144,785 | |
| ¥ 106 | ¥ 124 | ¥ 133 | ¥ 120 | ¥ 106 | ¥ 107 | ¥ 117 | |
| 112 | 111 | 125 | 122 | 113 | 108 | 113 | |

(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 depositary share information has been restated for all periods presented to reflect this four-for-one ADR split.

(6) 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.

Operating income prior to fiscal 2003 has been presented to conform with the reclassifications mentioned above.

(7) On April 26, 2006, the Board of Directors declared a two-for-one stock split of the Company's common stock. All shareholders of record on June 30, 2006 will receive one additional share of common stock for each share on July 1, 2006. Information pertaining to shares and earnings per share has not been restated in the accompanying consolidated financial statements and notes to the consolidated financial statements to reflect this split. This information will be presented effective after the stock split is made.