

Risk Factors

Relating to Honda's Industry

1. Honda may be adversely affected by market conditions

Honda conducts its operations in Japan and throughout the world, including North America, Europe and Asia. A continued economic slowdown, recession or sustained loss of consumer confidence in these markets, which may be caused by rising fuel prices or other factors, could trigger a decline in demand for automobiles, motorcycles and power products that may adversely affect Honda's results of operations.

2. Prices for automobiles, motorcycles and power products can be volatile

Prices for automobiles, motorcycles and power products in certain markets may experience sharp changes over short periods of time. This volatility is caused by many factors, including fierce

competition, which is increasing, short-term fluctuations in demand from underlying economic conditions, changes in tariffs, import regulations and other taxes, shortages of certain supplies, high material prices and sales incentives by Honda or other manufacturers or dealers. There can be no assurance that such price volatility will not continue or intensify or that price volatility will not occur in markets that to date have not experienced such volatility. Overcapacity within the industry has increased and will likely continue to increase if the economic downturn continues in Honda's major markets or worldwide, leading, potentially, to further increased price pressure. Price volatility in any or all of Honda's markets could adversely affect Honda's results of operations in a particular period.

Risks Relating Honda's Business Generally

Currency and Interest Rate Risks

1. Honda's operations are subject to currency fluctuations

Honda has manufacturing operations throughout the world, including Japan, and exports products and components to various countries. Honda purchases materials and sells its products in foreign currencies. Therefore, currency fluctuations may affect Honda's pricing of products sold and materials purchased. Accordingly, currency fluctuations have an effect on Honda's results of operations and financial condition, as well as Honda's competitiveness, which will over time affect its results. Since Honda exports many products and components from Japan and generates a substantial portion of its revenues in currencies other than the Japanese yen, Honda's results of operations would be adversely affected by an appreciation of the Japanese yen against other currencies, in particular the U.S. dollar.

2. Honda's hedging of currency and interest rate risk exposes Honda to other risks

Although it is impossible to hedge against all currency or interest rate risk, Honda uses derivative financial instruments in order to reduce the substantial effects of currency fluctuations and interest rate exposure on our cash flow and financial condition. These instruments include foreign currency forward contracts, currency swap agreements and currency option contracts, as well as interest rate swap agreements. Honda has entered into, and

expects to continue to enter into, such hedging arrangements. As with all hedging instruments, there are risks associated with the use of such instruments. While limiting to some degree our risk fluctuations in currency exchange and interest rates by utilizing such hedging instruments, Honda potentially forgoes benefits that might result from other fluctuations in currency exchange and interest rates. Honda is also exposed to the risk that its counterparties to hedging contracts will default on their obligations. Honda manages exposure to counterparty credit risk by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. However, any default by such counterparties might have an adverse effect on Honda.

Legal and Regulatory Risks

1. The automobile, motorcycle and power product industries are subject to extensive environmental and other governmental regulation

Regulations regarding vehicle emission levels, fuel economy, noise and safety and noxious substances, as well as levels of pollutants from production plants, are extensive within the automobile, motorcycle and power product industries. These regulations are subject to change, and are often made more restrictive. The costs to comply with these regulations can be significant to Honda's operations.

Risk Factors

2. Honda is reliant on the protection and preservation of its intellectual property

Honda owns or otherwise has rights in a number of patents and trademarks relating to the products it manufactures, which have been obtained over a period of years. These patents and trademarks have been of value in the growth of Honda's business and may continue to be of value in the future. Honda does not regard any of its businesses as being dependent upon any single patent or related group of patents. However, an inability to protect this intellectual property generally, or the illegal breach of some or a large group of Honda's intellectual property rights, would have an adverse effect on Honda's operations.

3. Honda is subject to legal proceedings

Honda is subject to a number of suits, investigations and/or proceedings under relevant laws and regulations of various jurisdictions. A negative outcome in one or more of these pending legal proceedings could adversely affect Honda's business, financial condition or results of operations.

Risks Relating to Honda's Operations

1. Honda's financial services business conducts business under highly competitive conditions in an industry with inherent risks

Honda's financial services business offers various financing plans designed to increase the opportunity for sales of its products and to generate financing income. However, customers can also obtain financing for the lease or purchase of Honda's products through a variety of other sources that compete with our financing services, including commercial banks and finance and leasing companies. The financial services offered by us also involve risks relating to residual value, credit risk and cost of capital. Competition for customers and/or these risks may affect Honda's results of operations in the future.

2. Honda relies on various suppliers for the provision of certain raw materials and components

Honda purchases raw materials, and certain components and parts, from numerous external suppliers, and relies on some key suppliers for some items and the raw materials it uses in the manufacture of its products. Honda's ability to continue to obtain these supplies in an efficient and cost-effective manner is subject to a number of factors, some of which are not within Honda's control.

These factors include the ability of its suppliers to provide a continued source of supply and Honda's ability to compete with other users in obtaining the supplies. Loss of a key supplier in particular may affect our production and increase our costs.

3. Honda conducts its operations in various regions of the world

Honda conducts its businesses worldwide, and in several countries, Honda conducts businesses through joint ventures with local entities, in part due to the legal and other requirements of those countries. These businesses are subject to various regulations, including the legal and other requirements of each country. If these regulations or the business conditions or policies of these local entities change, it may have an adverse effect on Honda's business, financial condition or results of operations.

4. Honda may be adversely affected by wars, use of force by foreign countries, terrorism, multinational conflicts, natural disasters, epidemics and labor strikes

Honda conducts its businesses worldwide, and its operations may variously be subject to wars, use of force by foreign countries, terrorism, multinational conflicts, natural disasters, epidemics, labor strikes and other events beyond our control which may delay or disrupt Honda's local operations in the affected regions, including the purchase of raw materials and parts, the manufacture, sales and distribution of products and the provision of services. Delays or disruptions in one region may in turn affect our global operations. If such delay or disruption occurs and continues for a long period of time, Honda's business, financial condition or results of operations may be adversely affected.

5. Honda may be adversely affected by inadvertent disclosure of confidential information

Although Honda maintains internal controls through established procedures to keep confidential information including personal information of its customers and relating parties, such information may be inadvertently disclosed. If this occurs, Honda may be subject to, and may be adversely affected by, claims for damages from the customers or parties affected. Also, inadvertent disclosure of confidential business or technical information to third parties may result in a loss of Honda's competitiveness.