

July 26, 2006

**HONDA MOTOR CO., LTD. REPORTS  
CONSOLIDATED FINANCIAL RESULTS  
FOR THE FISCAL FIRST QUARTER  
ENDED JUNE 30, 2006**

Tokyo, July 26, 2006--- Honda Motor Co., Ltd. today announced its consolidated financial results for the fiscal first quarter ended June 30, 2006.

**First Quarter Results**

Honda's consolidated net income for the fiscal first quarter ended June 30, 2006 totaled JPY 143.4 billion (USD 1,244 million), an increase of 29.6% from the corresponding period in 2005. Basic net income per Common share for the quarter amounted to JPY 78.46 (USD 0.68), compared to JPY 59.87 for the corresponding period in 2005. One of Honda's American Depository Shares represents one Common Share.

The Company did a two-for-one stock split for the Company's common stock effective July 1, 2006. Concurrently, Honda's common stock-to-ADR exchange ratio was changed from one share of common stock to two ADRs, to one share of common stock to one ADR. Basic net income per common share and ADR were calculated based on the number of common shares after the stock split.

Consolidated net sales and other operating revenue (herein referred to as "revenue") for the quarter amounted to JPY 2,599.7 billion (USD 22,559 million), an increase of 14.8% from the corresponding period in 2005. Revenue was mainly increased in automobile business in North America and Latin America. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the corresponding period in 2005, revenue for the quarter would have increased by approximately 7.8%.

Consolidated operating income for the quarter totaled JPY 203.5 billion (USD 1,766 million), an increase of 19.4% compared to the corresponding period in 2005. This increase in operating income was primarily due to the positive impact of increased profit attributable to higher revenue, decreased research and development (R&D) expenses and currency effects caused by the depreciation of the Japanese yen, which offset the negative impact of the

change in model mix, the soaring raw material costs and increased selling, general and administrative (SG&A) expenses.

Consolidated income before income taxes and equity in income of affiliates for the quarter totaled JPY 186.9 billion (USD 1,623 million), an increase of 29.6% from the corresponding period in 2005.

Equity in income of affiliates, which is mainly attributable to increased sales in automobile business in China, amounted to JPY 30.1 billion (USD 262 million) for the quarter, an increase of 42.8% from the corresponding period in 2005.

### Business Segment

With respect to Honda's sales for the fiscal first quarter by business segment, unit sales of motorcycles totaled 2,380 thousand units, a decrease of 7.8% from the corresponding period in 2005. Unit sales in Japan was 89 thousand units, a decrease of 6.3%. Overseas unit sales was 2,291 thousand units, a decrease of 7.8%\*, due mainly to a decrease in unit sales of parts for local production at Honda's affiliates accounted for under the equity method in Indonesia which was caused by a decline in the market environment due mainly to a rise of interest rate, offsetting healthy unit sales in Latin America. Revenue from unaffiliated customers increased 17.8%, to JPY 310.1 billion (USD 2,691 million) from the corresponding period in 2005, due mainly to the positive impacts of the currency translation effects and the change in model mix, offsetting the negative impact of decreased unit sales. Operating income increased by 27.4 % to JPY 13.1 billion (USD 114 million) from the corresponding period in 2005, due mainly to the positive impacts of the increased profits attributable to higher revenue, the change in sales price in Latin America and the currency effects caused by the depreciation of the Japanese yen, offsetting the negative impact of the increased SG&A 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. Accordingly, these unit sales are not included in the financial results and forecasts. Such products amounted to approximately 500 thousand units for the quarter.

Honda's unit sales of automobiles was 896 thousand units, increased by 6.7% from the corresponding period in 2005. In Japan, unit sales decreased 6.6% to 156 thousand units. Overseas unit sales increased 10.0% to 740 thousand units, due mainly to the increased unit

sales in North America attributable to good sales of, for example, the *Civic* and the *Fit* and the increase in unit sales of parts for local production at Honda's affiliates accounted for under the equity method in China. Revenue from unaffiliated customers increased 13.5% to JPY 2,095.6 billion (USD 18,185 million) from the corresponding period in 2005, due to the positive impacts of the currency translation effects and the increased unit sales. Operating income increased 12.7% to JPY 150.0 billion (USD 1,302 million) from the corresponding period in 2005, due mainly to the positive impact of the increased profit attributable to higher revenue, the change in sales price in North America, the decreased R&D expenses and the currency effects caused by the depreciation of the Japanese yen, which offset the negative impact of the change in model mix, the soaring raw material costs and the increased SG&A expenses.

Revenue from unaffiliated customers in financial services business increased 30.9% to JPY 89.9 billion (USD 781 million) from the corresponding period in 2005, due mainly to the positive impacts of the currency translation effects and the growth of automobile business in North America. Operating income increased 47.4% to JPY 29.2 billion (USD 254 million) from the corresponding period in 2005, due mainly to the positive impact of the decreased SG&A expenses due to the reversal of the allowance for losses on lease residual values and credit losses, which was attributable to the increase in used-car prices, the increased profit attributable to higher revenue due to the increased finance subsidiaries-receivables from growth of business and the currency effects caused by the depreciation of the Japanese yen, which offset negative impact of increased funding costs.

Honda's unit sales of power products was 1,724 thousand units, up by 16.3 % from the corresponding period in 2005. In Japan, unit sales totaled 137 thousand units, an increase of 13.2%. Overseas unit sales was 1,587 thousand units, an increased of 16.6%, due mainly to the positive impact of increased unit sales of general-purpose engines in North America and Europe. Revenue from unaffiliated customers in power product and other businesses increased by 20.0% to JPY 103.9 billion (USD 902 million) from the corresponding period in 2005, due mainly to the positive impacts of the currency translation effects and the increased unit sales of power products. Operating income was JPY 11.0 billion (USD 96 million), an increase of 56.9% from the corresponding period in 2005, due mainly to the positive impact of the increased profit attributable to higher revenue and the currency effects caused by the depreciation of the Japanese yen, which offset the negative impact of the increased SG&A expenses.

### Geographical Segment

With respect to Honda's sales for the fiscal first quarter by geographical segment, in Japan, revenue for domestic and exports sales was JPY 1,109.2 billion (USD 9,626 million), up by 4.6% compared to the corresponding period in 2005, due primarily to the positive impact of the increased revenue from exports in automobile business, which offset the negative impact of the decreased unit sales in domestic automobile business. Operating income was JPY 48.9 billion (USD 425 million) from the corresponding period in 2005, up by 3.7%, due primarily to the positive impact of the increased profit attributable to higher revenue, the decreased R&D expenses and the currency effects caused by the depreciation of the Japanese yen, which offset the negative impact of the change in model mix, the soaring raw material costs and the increased SG&A expenses.

In North America, revenue increased by 17.6% to JPY 1,467.9 billion (USD 12,738 million) from the corresponding period in 2005, due mainly to the positive impact of the increased revenue in all of Honda's business segments, particularly motorcycle, automobile, financial services, and power product and other business, and the currency translation effects. Operating income increased by 57.4% to JPY 114.4 billion (USD 993 million) from the corresponding period in 2005, due primarily to the positive impact of the increased profit attributable to higher revenue, the change in sales price in automobile business, the decreased SG&A expenses and the currency effects caused by the depreciation of the Japanese yen, which offset the negative impact of the change in model mix, the soaring raw material costs and the increased sales incentives.

In Europe, revenue increased by 9.3% to JPY 325.1 billion (USD 2,821 million) compared to the corresponding period in 2005, due primarily to the positive impact of the increased revenue in automobile business and the currency translation effects. Operating income decreased by 49.5% to JPY 6.4 billion (USD 56 million) from the corresponding period in 2005, due mainly to the negative impact of the change in model mix and the increased SG&A expenses, which offset the positive impact of the currency effects caused by the depreciation of the Japanese yen.

In Asia, revenue increased by 24.2% to JPY 287.5 billion (USD 2,495 million) from the corresponding period in 2005, due primarily to the positive impacts of the increased revenue in automobile business and the currency translation effects. Operating income increased by 1.4% to JPY 19.4 billion (USD 169 million) from the corresponding period in 2005, due

mainly to the positive impact of the increased profit attributable to higher revenue and the currency effects caused by the depreciation of the Japanese yen, which offset the negative impact of the increased SG&A expenses.

In Asia, in addition to subsidiaries, many affiliates accounted for under the equity method manufacture and sell Honda-brand products. Operating income does not include income from these affiliates. Income from these affiliates is recorded as equity in income of affiliates and reflected in net income.

In other regions, revenue increased by 51.3% to JPY 176.9 billion (USD 1,535 million) compared to the corresponding period in 2005, due mainly to the positive impact of the increased revenue in all of Honda's business segments and the currency translation effects. Operating income increased by 11.6% to JPY 15.2 billion (USD 132 million) from the corresponding period in 2005, due mainly to the positive impact of the increased profit attributable to higher revenue and currency effects caused by the depreciation of the Japanese yen, offsetting the negative impact of the increased SG&A expenses.

## **Consolidated Statements of Cash Flows for the Fiscal First Quarter**

Cash and cash equivalents at end of the period from April 1, 2006 through June 30, 2006 decreased by JPY 10.2 billion (USD 89 million) from March 31, 2006, to JPY 737.0 billion (USD 6,396 million). The reasons for the increases or decreases for each cash flow activity are as follows.

### *Cash flows from operating activities*

Net cash provided by operating activities amounted to JPY 169.4 billion (USD 1,470 million) for the fiscal first quarter ended June 30, 2006, due mainly to net income and decrease in trade accounts and notes receivable, which offset decrease in accrued expenses. Cash inflows from operating activities increased by JPY 59.4 billion (USD 516 million) compared with the corresponding period in 2005.

### *Cash flows from investing activities*

Net cash used in investing activities amounted to JPY 377.4 billion (USD 3,276 million), due mainly to capital expenditures and acquisitions of finance subsidiaries-receivables, which offset collections of finance subsidiaries-receivables. Cash outflows from investing activities increased by JPY 188.8 billion (USD 1,638 million) compared with the corresponding period of in 2005.

### *Cash flows from financing activities*

Net cash provided by financing activities amounted to JPY 196.6 billion (USD 1,706 million), which arose due to proceeds from long-term debt and increase in short-term debt, which offset repayment of long-term debt and cash dividends paid. Cash inflows from financing activities increased by JPY 173.5 billion (USD 1,506 million) compared with the corresponding period in 2005.

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 fiscal first quarter ended June 30, 2005 to include such cash dividends in operating activities, instead of investing activities, to achieve a comparable presentation for all periods presented herein.

## **Forecasts for the Fiscal Year Ending March 31, 2007**

### **FY2007 Forecasts for Consolidated Results**

#### **First half ending September 30, 2006**

	<u>Yen (billions)</u>	<u>Changes from FY 2006</u>
Net sales and other operating revenue	5,270	+14.5%
Operating income	370	+11.1%
Income before income taxes and equity in income of affiliates	360	+14.8%
Net income	275	+12.5%

#### **Fiscal year ending March 31, 2007**

	<u>Yen (billions)</u>	<u>Changes from FY 2006</u>
Net sales and other operating revenue	10,700	+8.0%
Operating income	750	-13.7%
Income before income taxes and equity in income of affiliates	735	-9.8%
Net income	550	-7.9%
Basic net income per Common share	300.97	—

#### Explanatory note:

The Company did a two-for-one stock split for the Company's common stock effective July 1, 2006. Basic net income per common share was calculated based on the number of common shares after the stock split.

## **FY2007 Forecasts for Unconsolidated Results**

### **First half ending September 30, 2006**

	<u>Yen (billions)</u>	<u>Changes from FY 2006</u>
Net sales	1,875	+3.9%
Operating income	70	-42.2%
Ordinary income	135	-14.1%
Net income	113	-34.9%

### **Fiscal year ending March 31, 2007**

	<u>Yen (billions)</u>	<u>Changes from FY 2006</u>
Net sales	3,950	+5.1%
Operating income	160	-33.3%
Ordinary income	280	-13.0%
Net income	220	-27.1%

These forecasts are based on the assumption that the average exchange rates for the Japanese yen to the U.S. dollar and the Euro for the first half of the year ending September 30, 2006 will be JPY 114 and JPY 144, for the second half of the year ending March 31, 2007, JPY 110 and JPY 135, and for the full year ending March 31, 2007, JPY 112 and JPY 139, respectively.

This announcement contains "forward-looking statements" as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on management's assumptions and beliefs taking into account information currently available to it. Therefore, please be advised that Honda's actual results could materially differ from those described in these forward-looking statements as a result of numerous factors, including general economic conditions in Honda's principal markets and foreign exchange rates between the Japanese yen and the U.S. dollar, the Euro and other major currencies, as well as other factors detailed from time to time. The various factors for increases and decreases in income have been classified in accordance with a method that Honda considers reasonable.

**[1] Unit Sales Breakdown**

	Unit (thousands)	
	Three months ended Jun. 30, 2005	Three months ended Jun. 30, 2006
<b>MOTORCYCLES</b>		
Japan	95	<b>89</b>
	(95)	<b>(89)</b>
North America	85	<b>89</b>
	(48)	<b>(53)</b>
Europe	116	<b>105</b>
	(114)	<b>(102)</b>
Asia	2,099	<b>1,809</b>
	(2,099)	<b>(1,809)</b>
Other Regions	186	<b>288</b>
	(181)	<b>(285)</b>
<hr/> Total	<hr/> 2,581	<hr/> 2,380
	(2,537)	<b>(2,338)</b>
<b>AUTOMOBILES</b>		
Japan	167	<b>156</b>
North America	420	<b>456</b>
Europe	72	<b>71</b>
Asia	133	<b>153</b>
Other Regions	48	<b>60</b>
<hr/> Total	<hr/> 840	<hr/> 896
<b>POWER PRODUCTS</b>		
Japan	121	<b>137</b>
North America	790	<b>971</b>
Europe	258	<b>382</b>
Asia	244	<b>162</b>
Other Regions	69	<b>72</b>
<hr/> Total	<hr/> 1,482	<hr/> 1,724

## Explanatory notes:

1. The geographical breakdown of unit sales is based on the location of unaffiliated customers.
2. Figures in brackets represent unit sales of motorcycles only.

**[2] Net Sales Breakdown**

For the three months ended June 30, 2005 and 2006

	Yen (millions)			
	Three months ended Jun. 30, 2005		Three months ended Jun. 30, 2006	
<b>MOTORCYCLE BUSINESS</b>				
Japan	26,532	(10.1%)	26,876	(8.7%)
North America	51,089	(19.4%)	56,363	(18.2%)
Europe	66,378	(25.2%)	65,009	(21.0%)
Asia	75,295	(28.6%)	82,970	(26.7%)
Other Regions	43,893	(16.7%)	78,928	(25.4%)
Total	263,187	(100.0%)	310,146	(100.0%)
<b>AUTOMOBILE BUSINESS</b>				
Japan	344,302	(18.7%)	329,898	(15.7%)
North America	1,071,257	(58.0%)	1,256,417	(60.0%)
Europe	168,043	(9.1%)	190,888	(9.1%)
Asia	174,746	(9.5%)	200,464	(9.6%)
Other Regions	87,623	(4.7%)	117,939	(5.6%)
Total	1,845,971	(100.0%)	2,095,606	(100.0%)
<b>FINANCIAL SERVICES BUSINESS</b>				
Japan	5,114	(7.4%)	5,407	(6.0%)
North America	59,641	(86.8%)	79,156	(88.0%)
Europe	2,471	(3.6%)	2,795	(3.1%)
Asia	435	(0.6%)	626	(0.7%)
Other Regions	1,092	(1.6%)	2,004	(2.2%)
Total	68,753	(100.0%)	89,988	(100.0%)
<b>POWER PRODUCT &amp; OTHER BUSINESSES</b>				
Japan	28,169	(32.5%)	33,911	(32.6%)
North America	30,927	(35.7%)	37,457	(36.0%)
Europe	18,094	(20.9%)	20,665	(19.9%)
Asia	5,760	(6.6%)	7,956	(7.7%)
Other Regions	3,718	(4.3%)	3,995	(3.8%)
Total	86,668	(100.0%)	103,984	(100.0%)
<b>TOTAL</b>				
Japan	404,117	(17.8%)	396,092	(15.2%)
North America	1,212,914	(53.6%)	1,429,393	(55.0%)
Europe	254,986	(11.3%)	279,357	(10.8%)
Asia	256,236	(11.3%)	292,016	(11.2%)
Other Regions	136,326	(6.0%)	202,866	(7.8%)
Total	2,264,579	(100.0%)	2,599,724	(100.0%)

Explanatory notes:

1. The geographical breakdown of net sales is based on the location of unaffiliated customers.
2. Net sales of power product & other businesses include revenue from sales of power products and relevant parts, leisure businesses and trading.

### [3] Consolidated Financial Summary

For the three months ended June 30, 2005 and 2006

#### Financial Highlights

	Yen (millions)		
	Three months ended Jun. 30, 2005	% Change	Three months ended Jun. 30, 2006
Net sales and other operating revenue	2,264,579	14.8%	<b>2,599,724</b>
Operating income	170,393	19.4%	<b>203,521</b>
Income before income taxes and equity in income of affiliates	144,308	29.6%	<b>186,984</b>
Net income	110,666	29.6%	<b>143,402</b>

	Yen	
Basic net income per Common share	59.87	<b>78.46</b>
American depository share	59.87	<b>78.46</b>

	U.S. Dollar (millions)
	Three months ended Jun. 30, 2006
Net sales and other operating revenue	<b>22,559</b>
Operating income	<b>1,766</b>
Income before income taxes and equity in income of affiliates	<b>1,623</b>
Net income	<b>1,244</b>

	U.S. Dollar
Basic net income per Common share	<b>0.68</b>
American depository share	<b>0.68</b>

Explanatory note:

The Company did a two-for-one stock split for the Company's common stock effective July 1, 2006. Concurrently, Honda's common stock-to-ADR exchange ratio was changed from one share of common stock to two ADRs, to one share of common stock to one ADR. Basic net income per common stock and ADR were calculated based on the number common shares after the stock split.

**[4] Consolidated Statements of Income and Retained Earnings**

For the three months ended June 30, 2005 and 2006

	Yen (millions)	
	Three months ended Jun. 30, 2005 ( Unaudited )	Three months ended Jun. 30, 2006 ( Unaudited )
<b>Net sales and other operating revenue</b>	2,264,579	<b>2,599,724</b>
<b>Operating costs and expenses:</b>		
Cost of sales	1,591,130	<b>1,861,266</b>
Selling, general and administrative	380,476	<b>418,622</b>
Research and development	122,580	<b>116,315</b>
<b>Operating income</b>	170,393	<b>203,521</b>
<b>Other income:</b>		
Interest	5,361	<b>10,134</b>
Other	900	<b>1,026</b>
<b>Other expenses:</b>		
Interest	3,734	<b>3,738</b>
Other	28,612	<b>23,959</b>
<b>Income before income taxes and equity in income of affiliates</b>	144,308	<b>186,984</b>
<b>Income tax (benefit) expense:</b>		
Current	61,221	<b>67,133</b>
Deferred	(6,436)	<b>6,642</b>
<b>Income before equity in income of affiliates</b>	89,523	<b>113,209</b>
<b>Equity in income of affiliates</b>	21,143	<b>30,193</b>
<b>Net income</b>	110,666	<b>143,402</b>
<b>Retained earnings:</b>		
Balance at beginning of period	3,809,383	<b>4,267,886</b>
Cash dividends	34,220	<b>54,784</b>
Transfer to legal reserves	828	<b>1,521</b>
Balance at end of period	3,885,001	<b>4,354,983</b>
	Yen	
<b>Basic net income per</b>		
Common share	59.87	<b>78.46</b>
American depositary share	59.87	<b>78.46</b>

**[5] Consolidated Balance Sheets**

<b>Assets</b>	Yen (millions)			Yen (millions)	
	Mar. 31, 2006 ( Audited )	Jun. 30, 2006 ( Unaudited )	change	Jun. 30, 2005 ( Unaudited )	change
<b>Current assets:</b>					
Cash and cash equivalents	747,327	<b>737,069</b>	(10,258)	725,568	11,501
Trade accounts and notes receivable	963,320	<b>827,621</b>	(135,699)	707,150	120,471
Finance subsidiaries-receivables, net	1,230,912	<b>1,365,847</b>	134,935	1,133,552	232,295
Inventories	1,036,304	<b>1,066,515</b>	30,211	928,871	137,644
Deferred income taxes	198,033	<b>190,172</b>	(7,861)	200,999	(10,827)
Other current assets	450,002	<b>479,370</b>	29,368	354,138	125,232
<b>Total current assets</b>	<b>4,625,898</b>	<b>4,666,594</b>	40,696	<b>4,050,278</b>	616,316
<b>Finance subsidiaries-receivables, net</b>	<b>2,982,425</b>	<b>3,066,310</b>	83,885	<b>2,729,969</b>	336,341
<b>Investments and advances:</b>					
Investments in and advances to affiliates	408,993	<b>430,265</b>	21,272	373,791	56,474
Other, including marketable equity securities	298,460	<b>259,790</b>	(38,670)	276,744	(16,954)
<b>Total investments and advances</b>	<b>707,453</b>	<b>690,055</b>	(17,398)	<b>650,535</b>	39,520
<b>Property, plant and equipment, at cost:</b>					
Land	384,447	<b>398,287</b>	13,840	366,898	31,389
Buildings	1,149,517	<b>1,193,018</b>	43,501	1,041,197	151,821
Machinery and equipment	2,562,507	<b>2,595,768</b>	33,261	2,283,632	312,136
Construction in progress	115,818	<b>157,820</b>	42,002	120,485	37,335
	<b>4,212,289</b>	<b>4,344,893</b>	132,604	<b>3,812,212</b>	532,681
Less accumulated depreciation and amortization	2,397,022	<b>2,478,294</b>	81,272	2,214,438	263,856
<b>Net property, plant and equipment</b>	<b>1,815,267</b>	<b>1,866,599</b>	51,332	<b>1,597,774</b>	268,825
<b>Other assets</b>	<b>440,638</b>	<b>434,791</b>	(5,847)	<b>470,988</b>	(36,197)
<b>Total assets</b>	<b>10,571,681</b>	<b>10,724,349</b>	152,668	<b>9,499,544</b>	1,224,805

[5] Consolidated Balance Sheets – continued

Liabilities and Stockholders' Equity	Yen (millions)			Yen (millions)	
	Mar. 31, 2006 ( Audited )	Jun. 30, 2006 ( Unaudited )	change	Jun. 30, 2005 ( Unaudited )	change
<b>Current liabilities:</b>					
Short-term debt	693,557	<b>791,631</b>	98,074	719,020	72,611
Current portion of long-term debt	657,645	<b>726,137</b>	68,492	559,298	166,839
Trade payables:					
Notes	31,698	<b>28,266</b>	(3,432)	26,410	1,856
Accounts	1,099,902	<b>1,036,212</b>	(63,690)	928,184	108,028
Accrued expenses	930,115	<b>855,592</b>	(74,523)	894,876	(39,284)
Income taxes payable	110,160	<b>79,760</b>	(30,400)	74,237	5,523
Other current liabilities	466,332	<b>471,912</b>	5,580	466,552	5,360
<b>Total current liabilities</b>	<b>3,989,409</b>	<b>3,989,510</b>	101	<b>3,668,577</b>	320,933
<b>Long-term debt, excluding current portion</b>	<b>1,879,000</b>	<b>1,955,221</b>	76,221	<b>1,698,201</b>	257,020
<b>Other liabilities</b>	<b>577,522</b>	<b>578,721</b>	1,199	<b>717,163</b>	(138,442)
<b>Total liabilities</b>	<b>6,445,931</b>	<b>6,523,452</b>	77,521	<b>6,083,941</b>	439,511
<b>Stockholders' equity:</b>					
Common stock	86,067	<b>86,067</b>	—	86,067	—
Capital surplus	172,529	<b>172,529</b>	—	172,531	(2)
Legal reserves	35,811	<b>37,332</b>	1,521	35,516	1,816
Retained earnings	4,267,886	<b>4,354,983</b>	87,097	3,885,001	469,982
Accumulated other comprehensive income (loss)					
Adjustments from foreign currency translation	(375,777)	<b>(391,474)</b>	(15,697)	(571,454)	179,980
Net unrealized gains on marketable equity securities	62,710	<b>55,315</b>	(7,395)	35,438	19,877
Net unrealized gains (losses) on derivative instruments	(64)	<b>(204)</b>	(140)	—	(204)
Minimum pension liabilities adjustments	(94,056)	<b>(94,100)</b>	(44)	(202,713)	108,613
<b>Total Accumulated other comprehensive loss, net</b>	<b>(407,187)</b>	<b>(430,463)</b>	(23,276)	<b>(738,729)</b>	308,266
Treasury Stock	(29,356)	<b>(19,551)</b>	9,805	(24,783)	5,232
<b>Total stockholders' equity</b>	<b>4,125,750</b>	<b>4,200,897</b>	75,147	<b>3,415,603</b>	785,294
<b>Total liabilities and stockholders' equity</b>	<b>10,571,681</b>	<b>10,724,349</b>	152,668	<b>9,499,544</b>	1,224,805

**[6] Consolidated Statements of Cash Flows**

	Yen (millions)	
	Three months ended	Three months ended
	Jun. 30, 2005 ( Unaudited )	Jun. 30, 2006 ( Unaudited )
<b>Cash flows from operating activities:</b>		
Net income	110,666	143,402
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,908	75,138
Deferred income taxes	(6,436)	6,642
Equity in income of affiliates	(21,143)	(30,193)
Cash dividends from affiliates	9,527	3,325
Provision for credit and lease residual losses on finance subsidiaries-receivables	11,147	4,882
Loss (gain) on derivative instruments, net	13,299	17,851
Decrease (increase) in assets:		
Trade accounts and notes receivable	89,642	141,231
Inventories	(57,219)	(30,461)
Other current assets	(3,259)	(30,857)
Other assets	(27,930)	(10,357)
Increase (decrease) in liabilities:		
Trade accounts and notes payable	(71,343)	(45,837)
Accrued expenses	(34,902)	(74,419)
Income taxes payable	8,077	(29,993)
Other current liabilities	33,403	20,206
Other liabilities	(14,424)	6,437
Other, net	15,990	2,413
<b>Net cash provided by operating activities</b>	<b>110,003</b>	<b>169,410</b>
<b>Cash flows from investing activities:</b>		
Increase in investments and advances	(3,534)	334
Decrease in investments and advances	128	187
Payment for purchase of available-for-sale securities	(80)	(1,537)
Proceeds from sales of available-for-sale securities	5,373	—
Payment for purchase of held-to-maturity securities	(4,298)	—
Proceeds from purchase of held-to-maturity securities	—	6,535
Capital Expenditures	(64,524)	(111,072)
Proceeds from sales of property, plant and equipment	2,634	4,160
Acquisitions of finance subsidiaries-receivables	(794,525)	(788,380)
Collections of finance subsidiaries-receivables	443,622	512,150
Proceeds from sales of finance subsidiaries-receivables	226,547	148
<b>Net cash used in investing activities</b>	<b>(188,657)</b>	<b>(377,475)</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term debt	(57,030)	89,811
Proceeds from long-term debt	237,700	316,068
Repayment of long-term debt	(118,049)	(145,794)
Cash dividends paid	(34,220)	(54,784)
Increase (decrease) in commercial paper classified as long-term debt	(28)	(32)
Payment for purchase of treasury stock, net	(5,342)	(8,647)
<b>Net cash provided by financing activities</b>	<b>23,031</b>	<b>196,622</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>7,653</b>	<b>1,185</b>
<b>Net change in cash and cash equivalents</b>	<b>(47,970)</b>	<b>(10,258)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>773,538</b>	<b>747,327</b>
<b>Cash and cash equivalents at end of period</b>	<b>725,568</b>	<b>737,069</b>

## [7] Segment Information

### 1. Business Segment Information

#### For the three months ended June 30, 2005

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product & Other Businesses	Total	Eliminations	Consolidated
Net sales and other operating revenue:							
Unaffiliated customers	263,187	1,845,971	68,753	86,668	2,264,579	—	2,264,579
Intersegment	—	—	779	3,970	4,749	(4,749)	—
Total	263,187	1,845,971	69,532	90,638	2,269,328	(4,749)	2,264,579
Cost of sales, SG&A and R&D expenses	252,871	1,712,782	49,679	83,603	2,098,935	(4,749)	2,094,186
Operating income	10,316	133,189	19,853	7,035	170,393	—	170,393
Assets	856,993	4,269,798	4,515,515	249,334	9,891,640	(392,096)	9,499,544
Depreciation and amortization	6,280	46,457	134	2,037	54,908	—	54,908
Capital expenditures	8,690	54,078	316	1,440	64,524	—	64,524

#### For the three months ended June 30, 2006

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product & Other Businesses	Total	Eliminations	Consolidated
Net sales and other operating revenue:							
Unaffiliated customers	310,146	2,095,606	89,988	103,984	2,599,724	—	2,599,724
Intersegment	—	—	907	4,426	5,333	(5,333)	—
Total	310,146	2,095,606	90,895	108,410	2,605,057	(5,333)	2,599,724
Cost of sales, SG&A and R&D expenses	297,006	1,945,523	61,637	97,370	2,401,536	(5,333)	2,396,203
Operating income	13,140	150,083	29,258	11,040	203,521	—	203,521
Assets	979,563	4,800,348	5,204,163	285,704	11,269,778	(545,429)	10,724,349
Depreciation and amortization	8,429	64,156	210	2,343	75,138	—	75,138
Capital expenditures	11,470	84,471	275	1,838	98,054	—	98,054

#### Explanatory notes:

- Business segment is based on Honda's business organization and the similarity of the principal products included within each segment as well as the relevant markets for such products:
- Principal products of each segment.

Business	Principal products
Motorcycle business	Motorcycles, all-terrain vehicles (ATVs), personal watercrafts and relevant parts
Automobile business	Automobiles and relevant parts
Financial services business	Financial and insurance services
Power product & other businesses	Power products and relevant parts, and others

- Corporate assets, which are accounted for under assets, are included in Eliminations and amounted to JPY 418,133 million for the year ended June 30, 2005 and JPY 316,984 million for the year ended June 30, 2006, which consist primarily of cash and cash equivalents and marketable securities held by parent company.

## 2. Geographical Segment Information

### For the three months ended June 30, 2005

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Eliminations	Consolidated
Net sales and other operating revenue:								
Sales to unaffiliated customers	478,867	1,215,830	253,208	203,812	112,862	2,264,579	—	2,264,579
Transfers between geographical segments	581,557	32,689	44,129	27,770	4,093	690,238	(690,238)	—
Total	1,060,424	1,248,519	297,337	231,582	116,955	2,954,817	(690,238)	2,264,579
Cost of sales, SG&A and R&D expenses	1,013,204	1,175,765	284,573	212,411	103,322	2,789,275	(695,089)	2,094,186
Operating income	<u>47,220</u>	<u>72,754</u>	<u>12,764</u>	<u>19,171</u>	<u>13,633</u>	<u>165,542</u>	<u>4,851</u>	<u>170,393</u>
Assets	2,479,971	5,382,150	642,108	574,228	225,685	9,304,142	195,402	9,499,544

### For the three months ended June 30, 2006

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Eliminations	Consolidated
Net sales and other operating revenue:								
Sales to unaffiliated customers	489,135	1,433,544	277,512	229,343	170,190	2,599,724	—	2,599,724
Transfers between geographical segments	620,146	34,382	47,615	58,195	6,735	767,073	(767,073)	—
Total	1,109,281	1,467,926	325,127	287,538	176,925	3,366,797	(767,073)	2,599,724
Cost of sales, SG&A and R&D expenses	1,060,321	1,353,442	318,677	268,101	161,707	3,162,248	(766,045)	2,396,203
Operating income	<u>48,960</u>	<u>114,484</u>	<u>6,450</u>	<u>19,437</u>	<u>15,218</u>	<u>204,549</u>	<u>(1,028)</u>	<u>203,521</u>
Assets	2,695,723	6,213,476	788,775	751,208	343,534	10,792,716	(68,367)	10,724,349

#### Explanatory notes:

- The geographical segments are based on the location where sales are originated.
- 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
- Corporate assets, which are accounted for under assets, are included in Eliminations and amounted to JPY 418,133 million for the year ended June 30, 2005 and JPY 316,984 million for the year ended June 30, 2006, which consist primarily of cash and cash equivalents and marketable securities held by parent company.

### 3. Overseas Sales

#### For the three months ended June 30, 2005

	Yen (millions)				
	North America	Europe	Asia	Other Regions	Total
Overseas sales	1,212,914	254,986	256,236	136,326	1,860,462
Consolidated sales					2,264,579
Overseas sales ratio to consolidated sales	53.6%	11.3%	11.3%	6.0%	82.2%

#### For the three months ended June 30, 2006

	Yen (millions)				
	North America	Europe	Asia	Other Regions	Total
Overseas sales	1,429,393	279,357	292,016	202,866	2,203,632
Consolidated sales					2,599,724
Overseas sales ratio to consolidated sales	55.0%	10.7%	11.2%	7.9%	84.8%

#### Explanatory notes:

- The geographical segments are based on the location where sales are originated.
- 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

**[8] (A) Consolidated Balance Sheets**  
**Divided into non-financial services businesses and finance subsidiaries**

	Yen (millions)			Yen (millions)	
	Mar. 31, 2006	Jun. 30, 2006	Change	Jun. 30, 2005	Change
<b>Assets</b>					
<b>&lt;Non-financial services businesses&gt;</b>					
Current Assets:	3,788,184	<b>3,699,333</b>	(88,851)	3,393,584	305,749
Cash and cash equivalents	727,735	<b>718,303</b>	(9,432)	707,748	10,555
Trade accounts and notes receivable	504,101	<b>420,601</b>	(83,500)	373,631	46,970
Inventories	1,036,304	<b>1,066,515</b>	30,211	928,871	137,644
Other current assets	1,520,044	<b>1,493,914</b>	(26,130)	1,383,334	110,580
Investments and advances	955,338	<b>946,378</b>	(8,960)	872,848	73,530
Property, plant and equipment, net	1,795,173	<b>1,846,144</b>	50,971	1,578,242	267,902
Other assets	225,575	<b>204,755</b>	(20,820)	275,633	(70,878)
<b>Total assets</b>	<b>6,764,270</b>	<b>6,696,610</b>	(67,660)	<b>6,120,307</b>	<b>576,303</b>
<b>&lt;Finance Subsidiaries&gt;</b>					
Cash and cash equivalents	19,592	<b>18,766</b>	(826)	17,820	946
Finance subsidiaries-short-term receivables, net	1,240,581	<b>1,390,784</b>	150,203	1,148,423	242,361
Finance subsidiaries-long-term receivables, net	2,982,832	<b>3,067,389</b>	84,557	2,731,113	336,276
Other assets	765,053	<b>727,224</b>	(37,829)	618,159	109,065
<b>Total assets</b>	<b>5,008,058</b>	<b>5,204,163</b>	196,105	<b>4,515,515</b>	<b>688,648</b>
Eliminations	(1,200,647)	<b>(1,176,424)</b>	24,223	(1,136,278)	(40,146)
<b>Total assets</b>	<b>10,571,681</b>	<b>10,724,349</b>	152,668	<b>9,499,544</b>	<b>1,224,805</b>
<b>Liabilities and Stockholders' Equity</b>					
<b>&lt;Non-financial services businesses&gt;</b>					
Current liabilities:	2,355,999	<b>2,229,538</b>	(126,461)	2,235,044	(5,506)
Short-term debt	171,122	<b>190,908</b>	19,786	242,665	(51,757)
Current portion of long-term debt	9,138	<b>10,077</b>	939	5,628	4,449
Trade payables	1,144,159	<b>1,075,568</b>	(68,591)	966,761	108,807
Accrued expenses	763,879	<b>696,994</b>	(66,885)	751,097	(54,103)
Other current liabilities	267,701	<b>255,991</b>	(11,710)	268,893	(12,902)
Long-term debt, excluding current portion	34,396	<b>33,303</b>	(1,093)	21,178	12,125
Other liabilities	575,034	<b>576,267</b>	1,233	712,772	(136,505)
<b>Total liabilities</b>	<b>2,965,429</b>	<b>2,839,108</b>	(126,321)	<b>2,968,994</b>	<b>(129,886)</b>
<b>&lt;Finance Subsidiaries&gt;</b>					
Short-term debt	1,369,177	<b>1,420,579</b>	51,402	1,293,620	126,959
Current portion of long-term debt	653,276	<b>720,827</b>	67,551	555,876	164,951
Accrued expenses	181,140	<b>170,426</b>	(10,714)	151,460	18,966
Long-term debt, excluding current portion	1,858,362	<b>1,935,664</b>	77,302	1,690,258	245,406
Other liabilities	392,316	<b>380,544</b>	(11,772)	352,089	28,455
<b>Total liabilities</b>	<b>4,454,271</b>	<b>4,628,040</b>	173,769	<b>4,043,303</b>	<b>584,737</b>
Eliminations	(973,769)	<b>(943,696)</b>	30,073	(928,356)	(15,340)
<b>Total liabilities</b>	<b>6,445,931</b>	<b>6,523,452</b>	77,521	<b>6,083,941</b>	<b>439,511</b>
Common stock	86,067	<b>86,067</b>	—	86,067	—
Capital surplus	172,529	<b>172,529</b>	—	172,531	(2)
Legal reserves	35,811	<b>37,332</b>	1,521	35,516	1,816
Retained earnings	4,267,886	<b>4,354,983</b>	87,097	3,885,001	469,982
Accumulated other comprehensive income (loss)	(407,187)	<b>(430,463)</b>	(23,276)	(738,729)	308,266
Treasury stock	(29,356)	<b>(19,551)</b>	9,805	(24,783)	5,232
<b>Total stockholders' equity</b>	<b>4,125,750</b>	<b>4,200,897</b>	75,147	<b>3,415,603</b>	<b>785,294</b>
<b>Total liabilities and stockholders' equity</b>	<b>10,571,681</b>	<b>10,724,349</b>	152,668	<b>9,499,544</b>	<b>1,224,805</b>

**[8] (B) Consolidated Statements of Cash Flows**  
**Divided into non-financial services businesses and finance subsidiaries**  
**For the three months ended June 30, 2005 and 2006**

For the three months ended June 30, 2005

	Yen (millions)	
	Non-financial services businesses	Finance subsidiaries
<b>Cash flows from operating activities:</b>		
Net Income	106,776	3,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,774	134
Deferred income taxes	19,842	(26,278)
Equity in income of affiliates	(21,041)	—
Cash dividends from affiliates	9,527	—
Loss (gain) on derivative instruments, net	(796)	14,095
Decrease (increase) in trade accounts and notes receivable	49,426	41,661
Decrease (increase) in inventories	(57,219)	—
Increase (decrease) in trade payables	(67,798)	—
Other, net	(17,357)	2,868
Net cash provided by operating activities	<u>76,134</u>	<u>36,382</u>
<b>Cash flows from investing activities:</b>		
* Decrease (increase) in investments and advances	(46,138)	—
Capital expenditures	(64,208)	(316)
Proceeds from sales of property, plant and equipment	2,543	91
Decrease (increase) in finance subsidiaries-receivables	—	(131,409)
Net cash used in investing activities	<u>(107,803)</u>	<u>(131,634)</u>
<b>Free cash flow (Cash flows from operating and investing activities)</b>	<u>(31,669)</u>	<u>(95,252)</u>
<b>Free cash flow of Non-financial services businesses excluding the decrease in loans to Finance subsidiaries (Note)</b>	10,445	—
<b>Cash flows from financing activities:</b>		
* Increase (decrease) in short-term debt	15,241	(24,928)
* Proceeds from long-term debt	2,424	243,849
* Repayment of long-term debt	(3,922)	(121,764)
Proceeds from issuance of common stock	—	—
Cash dividends paid	(34,232)	—
Increase (decrease) in commercial paper classified as long-term debt	—	(28)
Payment for purchase of treasury stock, net	(5,342)	—
Net cash provided by (used in) financing activities	<u>(25,831)</u>	<u>97,129</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>7,354</u>	<u>299</u>
<b>Net change in cash and cash equivalents</b>	<u>(50,146)</u>	<u>2,176</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>757,894</u>	<u>15,644</u>
<b>Cash and cash equivalents at end of period</b>	<u>707,748</u>	<u>17,820</u>

**[8] (B) Consolidated Statements of Cash Flows – continued**  
**Divided into non-financial services businesses and finance subsidiaries**  
**For the three months ended June 30, 2005 and 2006**

**For the three months ended June 30, 2006**

	Yen (millions)	
	Non-financial services businesses	Finance subsidiaries
<b>Cash flows from operating activities:</b>		
Net Income	123,054	20,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,928	210
Deferred income taxes	5,185	1,457
Equity in income of affiliates	(30,193)	—
Cash dividends from affiliates	3,325	—
Loss (gain) on derivative instruments, net	22,823	(4,972)
Decrease (increase) in trade accounts and notes receivable	91,631	52,944
Decrease (increase) in inventories	(30,461)	—
Increase (decrease) in trade payables	(47,306)	—
Other, net	(92,775)	(11,257)
Net cash provided by operating activities	<u>120,211</u>	<u>58,743</u>
<b>Cash flows from investing activities:</b>		
* Decrease (increase) in investments and advances	25,206	—
Capital expenditures	(110,797)	(275)
Proceeds from sales of property, plant and equipment	4,040	120
Decrease (increase) in finance subsidiaries-receivables	—	(292,022)
Net cash used in investing activities	<u>(81,551)</u>	<u>(292,177)</u>
<b>Free cash flow(Cash flows from operating and investing activities)</b>	<u>38,660</u>	<u>(233,434)</u>
<b>Free cash flow of Non-financial services businesses excluding the decrease in loans to Finance subsidiaries (Note)</b>	11,360	—
<b>Cash flows from financing activities:</b>		
* Increase (decrease) in short-term debt	13,553	55,413
* Proceeds from long-term debt	5,196	310,875
* Repayment of long-term debt	(4,617)	(141,226)
Proceeds from issuance of common stock	—	7,613
Cash dividends paid	(54,797)	—
Increase (decrease) in commercial paper classified as long-term debt	—	(32)
Payment for purchase of treasury stock, net	(8,647)	—
Net cash provided by (used in) financing activities	<u>(49,312)</u>	<u>232,643</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	1,220	(35)
<b>Net change in cash and cash equivalents</b>	(9,432)	(826)
<b>Cash and cash equivalents at beginning of period</b>	727,735	19,592
<b>Cash and cash equivalents at end of period</b>	<u>718,303</u>	<u>18,766</u>

Explanatory notes:

- The cash flows derived from non-financial services businesses loans to finance subsidiaries were included in the items of “Decrease (increase) in investments and advances” of Non financial services businesses, and “Increase (decrease) in short-term debt”, “Proceeds from long-term debt” and “Repayment of long-term debt” of Finance subsidiaries (marked by \*). Free cash flow of Non financial services businesses excluding the decrease in loans to finance subsidiaries are stated for the readers' information.  
Loans from non-financial services businesses to finance subsidiaries increased by JPY 42,114 million for the fiscal first quarter ended June 30, 2005, and decreased by JPY 27,300 million for the fiscal first quarter ended June 30, 2006.
- 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.

## Explanatory notes:

1. Consolidated subsidiaries  
Number of consolidated subsidiaries: 389
2. Affiliated companies  
Number of affiliated companies: 100
3. Changes of consolidated subsidiaries and affiliated companies  
Consolidated subsidiaries:  
Newly formed consolidated subsidiaries: 53  
Reduced through reorganization: 3  
Affiliated companies:  
Newly formed affiliated companies: 4  
Reduced through reorganization: 19
4. The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, since the Company has listed its shares as American Depositary Receipts on the New York Stock Exchange and files reports with the U.S. Securities and Exchange Commission.
5. The average exchange rates for the fiscal first quarter ended June 30, 2006 were ¥114.50=U.S.\$1 and ¥143.78=euro 1. The average exchange rates for the corresponding period last year were ¥107.69=U.S.\$1 and ¥135.57=euro 1.
6. United States dollar amounts have been translated from yen solely for the convenience of the reader at the rate of ¥115.24=U.S.\$1, the mean of the telegraphic transfer selling exchange rate and the telegraphic transfer buying exchange rate prevailing on the Tokyo foreign exchange market on June 30, 2006.
7. The Company's Common Stock-to-ADR exchange rate was changed from two shares of Common Stock to one ADR to one share of Common Stock to two ADRs, effective January 10, 2002.  
Also, the Company decided to change of ratio of its ADR to Honda's underlying Shares.  
As a result, one American Share which represented one-half of one Share represented one Share and the change of ratio of ADR was handled by Honda's depository, JPMorgan Chase Bank, and the first trading date with the new ratio was Monday, July 3, 2006.
8. 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 the fiscal first quarter ended June 30, 2005 and 2006 were JPY 3,734 million and JPY 4,381 million, respectively.
9. Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or market.
10. 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.
11. Honda does not amortize goodwill but instead is tested for impairment at least annually.
12. 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.
13. Honda applies hedge accounting for some of its forward foreign currency exchange contracts between the Company and its subsidiaries.
14. The allowance for credit losses for finance-subsiaries receivables is maintained at an amount management deems adequate to cover estimated losses on finance receivables. The allowance is based on management's evaluation

of many factors, including current economic trends, industry experience, inherent risks in the portfolio and the borrower's ability to pay.

15. 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.
16. Provisions for retirement benefits are provided based on the fair value of both projected benefit obligations and plan assets at the end of the fiscal year to cover for employees' retirement benefits. If the provisions for retirement benefits are less than the unfunded accumulated benefit obligations, accrued pension cost is adjusted as an additional minimum pension liability that is at least equal to the unfunded accumulated benefit obligation. Unrecognized net transition obligation has been amortized over approximately 19 years since the fiscal year ended March 31, 1990. Unrecognized prior service cost (benefit) is amortized by using the straight-line method and the estimated average remaining service years of employees. Unrecognized actuarial loss is amortized if unrecognized net gain or loss exceeds ten percent of the greater of the projected benefit obligation or the market-related value of plan assets by using the straight-line method and the estimated average remaining service years of employees.
17. Our warranty expense accruals are costs for general warranties on product we sell, products recalls and service actions outside the general warranties. 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.
18. 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 received one additional share of common stock for each share on July 1, 2006. Information pertaining to earnings per share included in the accompanying consolidated financial statements for all periods presented have been adjusted to retroactively reflect the stock split.

**Notes to Consolidated balance sheets:**

1. The allowance for doubtful trade accounts and notes receivable, and the allowance for credit losses for finance subsidiaries-receivables are as follows: Yen (millions)

	<u>Mar.31, 2006</u>	<u>Jun. 30, 2006</u>	<u>Jun. 30, 2005</u>
The allowance for doubtful trade accounts and notes receivables	10,689	<b>8,957</b>	10,350
The allowance for credit losses for finance subsidiaries-receivables	32,950	<b>34,424</b>	33,058

2. Net book value of property, plant and equipment which were subject to specific mortgages securing indebtedness are as follows: Yen (millions)

	<u>Mar.31, 2006</u>	<u>Jun. 30, 2006</u>	<u>Jun. 30, 2005</u>
Property, plant and equipment	22,592	<b>32,238</b>	7,653
A finance subsidiary pledged as collateral finance subsidiaries-receivables	8,993	<b>6,451</b>	6,120

3. Honda has entered into various guarantee and indemnification agreements which are primarily for employee bank loans to costs for their housing costs are as follows: Yen (millions)

	<u>Mar.31, 2006</u>	<u>Jun. 30, 2006</u>	<u>Jun. 30, 2005</u>
Bank loans of employees for their housing costs	46,737	<b>44,828</b>	52,135

If an employee defaults on his/her loan payments, Honda is required to perform its obligation under the guarantee. The undiscounted maximum amount of Honda's obligation to make future payments in the event of defaults were shown as above. As of June 30, 2006, no amount has been accrued for any possible estimated losses under the guarantee obligations, as it is probable that the employees will be able to make all scheduled payments.

**Reclassifications:**

Certain reclassifications have been made consolidated financial statements to conform to the presentation used for the fiscal first quarter ended June 30, 2006. In the fiscal first quarter ended June 30, 2006, management has classified cash dividends from affiliates in operating activities in the consolidated statements of cash flows.

## CONSOLIDATED FINANCIAL SUMMARY FOR THE FIRST QUARTER ENDED JUNE 30, 2006

Unit (thousands), Yen (billions)	First Quarter Results				Fiscal Year Results		Fiscal Year Forecasts	
	3 months ended Jun. 30, 2005	3 months ended Jun. 30, 2006	change	%	Year ended Mar. 31, 2006	Year ending Mar. 31, 2007	change	%
Net sales and other operating revenue	2,264.5	2,599.7	335.1	14.8%	9,907.9	10,700.0	792.0	8.0%
Operating income	170.3	203.5	33.1	19.4%	868.9	750.0	-118.9	-13.7%
<as a percentage of net sales>	< 7.5% >	< 7.8% >			< 8.8% >	< 7.0% >		
Income before income taxes and equity in income of affiliates	144.3	186.9	42.6	29.6%	814.6	735.0	-79.6	-9.8%
<as a percentage of net sales>	< 6.4% >	< 7.2% >			< 8.2% >	< 6.9% >		
Equity in income of affiliates	21.1	30.1	9.0	42.8%	99.6	103.0	3.3	3.4%
<as a percentage of net sales>	< 0.9% >	< 1.1% >			< 1.0% >	< 1.0% >		
Net income	110.6	143.4	32.7	29.6%	597.0	550.0	-47.0	-7.9%
<as a percentage of net sales>	< 4.9% >	< 5.5% >			< 6.0% >	< 5.1% >		
Remarks	Net sales, operating income, income before income taxes and net income set record high for all fiscal first quarters Equity in income of affiliates set record high for all quarters				Net sales to set record high Equity in income of affiliates to set record high			
Change Factors in Operating income			33.1				-118.9	
Change in revenue, model mix, etc.			9.1				174.7	
Cost reduction, including the effect of raw material cost fluctuations			-10.9				-18.0	
Change in SG&A expenses			-19.0				-67.7	
Change in R&D expenses			6.2				-34.7	
Currency effects			47.7				-35.2	
Change in average rates			(28.7)				(-34.6)	
Translation effects			(19.0)				(-0.6)	
Gain on Daiko-Henryo*			—				-138.0	
Change Factors in Other income/expenses			9.5				39.2	
Change in derivative instruments			-3.9				-10.8	
Others			13.4				50.1	
Honda's average rates USD=	JPY 108		JPY 114		JPY 113	JPY 112 (1H: 114, 2H: 110)		
Honda's average rates EUR=	JPY 136		JPY 144		JPY 138	JPY 139 (1H: 144, 2H: 135)		
Capital expenditures	64.5		98.0		457.8	570.0		
Depreciation and amortization	54.9		75.1		262.2	290.0		
Research and development expenses	122.5		116.3		510.3	545.0		
Unit sales in motorcycle business	2,581	2,380	-201	-7.8%	10,271	10,820	549	5.3%
(motorcycles only)	(2,537)	(2,338)	(-199)	(-7.8%)	(9,960)	(10,505)	(545)	(5.5%)
Japan	95	89	-6	-6.3%	368	370	2	0.5%
(motorcycles only)	(95)	(89)	(-6)	(-6.3%)	(368)	(370)	(2)	(0.5%)
North America	85	89	4	4.7%	615	610	-5	-0.8%
(motorcycles only)	(48)	(53)	(5)	(10.4%)	(332)	(320)	(-12)	(-3.6%)
Europe	116	105	-11	-9.5%	353	335	-18	-5.1%
(motorcycles only)	(114)	(102)	(-12)	(-10.5%)	(340)	(323)	(-17)	(-5.0%)
Asia	2,099	1,809	-290	-13.8%	7,907	8,300	393	5.0%
(motorcycles only)	(2,099)	(1,809)	(-290)	(-13.8%)	(7,906)	(8,300)	(394)	(5.0%)
Other Regions	186	288	102	54.8%	1,028	1,205	177	17.2%
(motorcycles only)	(181)	(285)	(104)	(57.5%)	(1,014)	(1,192)	(178)	(17.6%)
Unit sales in automobile business	840	896	56	6.7%	3,391	3,720	329	9.7%
Japan	167	156	-11	-6.6%	696	720	24	3.4%
North America	420	456	36	8.6%	1,682	1,770	88	5.2%
Europe	72	71	-1	-1.4%	291	320	29	10.0%
Asia	133	153	20	15.0%	521	675	154	29.6%
Other Regions	48	60	12	25.0%	201	235	34	16.9%
Unit sales in power product business	1,482	1,724	242	16.3%	5,876	6,030	154	2.6%
Japan	121	137	16	13.2%	487	550	63	12.9%
North America	790	971	181	22.9%	2,827	2,760	-67	-2.4%
Europe	258	382	124	48.1%	1,477	1,465	-12	-0.8%
Asia	244	162	-82	-33.6%	717	945	228	31.8%
Other Regions	69	72	3	4.3%	368	310	-58	-15.8%

In this chart, "change" is calculated on the comparison with the corresponding period of previous year.

\*Gain on the return of the substitutional portion of the Employees' Pension Funds to the Japanese government (Daiko-Henryo)

Notes:

- Unit sales are the total of sales of completed products of Honda and its consolidated subsidiaries, and sales of parts for local production at Honda's affiliates accounted for under the equity method.
- 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. Accordingly, these unit sales are not included in the financial results and forecasts.

This announcement contains "forward-looking statements" of Honda. Such statements are based on management's assumptions and beliefs taking into account information currently available to it. Therefore, please be advised that Honda's actual results could materially differ from those described in these forward-looking statements as a result of numerous factors, including general economic conditions in Honda's principal markets and foreign exchange rates between the Japanese yen and the U.S. dollar, the Euro and other major currencies, as well as other factors detailed from time to time. The various factors for increases and decreases in income have been classified in accordance with a method that Honda considers reasonable.

**UNCONSOLIDATED FINANCIAL FORECASTS  
FOR THE FISCAL YEAR ENDING MARCH 31, 2007**  
(Parent company only)

Unit (thousands), Yen (billions)	Results for the fiscal year ended Mar. 31, 2006	Forecasts for the fiscal year ending Mar. 31, 2007		
			change	%
Net sales	3,757.0	3,950.0	192.9	5.1%
Domestic	1,205.1	1,240.0	34.8	2.9%
Export	2,551.9	2,710.0	158.0	6.2%
Operating income	239.8	160.0	-79.8	-33.3%
<as a percentage of net sales>	< 6.4% >	< 4.1% >		
Ordinary income	321.9	280.0	-41.9	-13.0%
<as a percentage of net sales>	< 8.6% >	< 7.1% >		
Net income	301.7	220.0	-81.7	-27.1%
<as a percentage of net sales>	< 8.0% >	< 5.6% >		
Remarks	Net sales to set record high			
Change Factors in Operating income			-79.8	
Change in revenue, model mix, etc			-6.2	
Cost reduction, including the effect of raw material cost fluctuations			15.0	
Change in SG&A expenses, excluding R&D expenses			-6.2	
Change in R&D expenses			-57.0	
Currency effects			-25.5	
Change Factors in Other income / expenses			37.9	
Change in derivative instruments			0.9	
Others			37.1	
Honda's average rates USD=	JPY 113	JPY 112 (1H: 114, 2H: 110)		
Honda's average rates EUR=	JPY 138	JPY 139 (1H: 144, 2H: 135)		
Capital expenditures	88.3	180.0		
Motorcycle production-related	4.1	8.0		
Automobile production-related	35.0	76.0		
Power product production-related	1.1	2.0		
Others	47.9	94.0		
Depreciation and amortization	59.9	64.0		
Research and development expenses	480.0	537.0		
Interest bearing debt	21.0			
Unit sales in motorcycle business (motorcycles only)	1,109 ( 804 )	1,080 ( 780 )	-29 ( -24 )	-2.6% ( -3.1% )
Domestic (motorcycles only)	369 ( 369 )	370 ( 370 )	— ( — )	0.3% ( 0.3% )
Export (motorcycles only)	740 ( 435 )	710 ( 410 )	-30 ( -25 )	-4.1% ( -5.9% )
Unit sales in automobile business	1,278	1,375	96	7.6%
Domestic	716	730	13	1.9%
Registration vehicles	467	450	-17	-3.8%
Mini vehicles	248	280	31	12.5%
Export	561	645	83	14.8%
Unit sales in power product business	6,251	6,150	-101	-1.6%
Domestic	484	550	65	13.6%
Export	5,767	5,600	-167	-2.9%

In this chart, "change" is calculated on the comparison with the corresponding period of previous year.

Note: Interest bearing debt primarily comprises of funds received from subsidiaries by means of the Cash Management System.

This announcement contains "forward-looking statements" of Honda. Such statements are based on management's assumptions and beliefs taking into account information currently available to it. Therefore, please be advised that Honda's actual results could materially differ from those described in these forward-looking statements as a result of numerous factors, including general economic conditions in Honda's principal markets and foreign exchange rates between the Japanese yen and the U.S. dollar, the Euro and other major currencies, as well as other factors detailed from time to time. The various factors for increases and decreases in profit have been classified in accordance with a method that Honda considers reasonable.

## SUPPLEMENT 1 FOR CONSOLIDATED FINANCIAL SUMMARY

Unit (thousands), Yen (billions)					Year ended	3 months ended	change	%
	First Quarter Results	Second Quarter Results	Third Quarter Results	Fourth Quarter Results	Mar. 31, 2006 Results	Jun. 30, 2006 Results		
Net sales and other operating revenue	2,264.5	2,337.6	2,472.0	2,833.7	9,907.9	2,599.7	335.1	14.8%
Japan	404.1	446.2	397.9	445.7	1,694.0	396.0	-8.0	-2.0%
Overseas	1,860.4	1,891.4	2,074.0	2,387.9	8,213.9	2,203.6	343.1	18.4%
Operating income	170.3	162.6	194.9	340.8	868.9	203.5	33.1	19.4%
Income before income taxes and equity in income of affiliates	144.3	169.3	166.0	334.8	814.6	186.9	42.6	29.6%
Equity in income of affiliates	21.1	26.0	29.6	22.7	99.6	30.1	9.0	42.8%
Net income	110.6	133.7	133.1	219.5	597.0	143.4	32.7	29.6%
Honda's average rates USD=	JPY 108	JPY 111	JPY 117	JPY 117	JPY 113	JPY 114	JPY 6	5.3%
Honda's average rates EUR=	JPY 136	JPY 136	JPY 140	JPY 141	JPY 138	JPY 144	JPY 8	5.6%
Honda's transaction rates USD=	JPY 106	JPY 108	JPY 112	JPY 116	JPY 110	JPY 116	JPY 10	8.6%
Honda's transaction rates EUR=	JPY 136	JPY 137	JPY 134	JPY 135	JPY 135	JPY 139	JPY 3	2.2%
Capital expenditures	64.5	105.2	132.8	155.2	457.8	98.0	33.5	52.0%
Depreciation and amortization	54.9	58.0	63.8	85.4	262.2	75.1	20.2	36.8%
Research and development expenses	122.5	124.4	124.7	138.5	510.3	116.3	-6.2	-5.1%
Unit sales in motorcycle business								
Total	2,581	2,489	2,788	2,413	10,271	2,380	-201	-7.8%
(motorcycles only)	(2,537)	(2,403)	(2,705)	(2,315)	(9,960)	(2,338)	(-199)	(-7.8%)
Japan	95	104	76	93	368	89	-6	-6.3%
(motorcycles only)	(95)	(104)	(76)	(93)	(368)	(89)	(-6)	(-6.3%)
North America	85	159	160	211	615	89	4	4.7%
(motorcycles only)	(48)	(80)	(83)	(121)	(332)	(53)	(5)	(10.4%)
Europe	116	78	61	98	353	105	-11	-9.5%
(motorcycles only)	(114)	(74)	(58)	(94)	(340)	(102)	(-12)	(-10.5%)
Asia	2,099	1,833	2,225	1,750	7,907	1,809	-290	-13.8%
(motorcycles only)	(2,099)	(1,833)	(2,225)	(1,749)	(7,906)	(1,809)	(-290)	(-13.8%)
Other Regions	186	315	266	261	1,028	288	102	54.8%
(motorcycles only)	(181)	(312)	(263)	(258)	(1,014)	(285)	(104)	(57.5%)
Unit sales in automobile business								
Total	840	834	816	901	3,391	896	56	6.7%
Japan	167	183	156	190	696	156	-11	-6.6%
North America	420	394	434	434	1,682	456	36	8.6%
Europe	72	73	59	87	291	71	-1	-1.4%
Asia	133	134	117	137	521	153	20	15.0%
Other Regions	48	50	50	53	201	60	12	25.0%
Unit sales in power product business								
Total	1,482	1,141	1,134	2,119	5,876	1,724	242	16.3%
Japan	121	118	110	138	487	137	16	13.2%
North America	790	464	445	1,128	2,827	971	181	22.9%
Europe	258	266	357	596	1,477	382	124	48.1%
Asia	244	197	122	154	717	162	-82	-33.6%
Other Regions	69	96	100	103	368	72	3	4.3%
Interest bearing debt	2,976.5	3,093.8	3,204.6	3,230.2		3,472.9	496.4	16.7%
Non-financial services businesses	269.4	196.3	220.7	214.6		234.2	-35.1	-13.1%
Finance subsidiaries	3,539.7	3,709.7	3,783.2	3,880.8		4,077.0	537.3	15.2%
Eliminations	-832.7	-812.3	-799.3	-865.2		-838.3	-5.6	--
Total Asset	9,499.5	9,882.6	10,250.3	10,571.6		10,724.3	1,224.8	12.9%
Total stockholders' equity	3,415.6	3,626.6	3,818.7	4,125.7		4,200.8	785.2	23.0%
Basic net income per Common share	JPY 59.87	JPY 72.45	JPY 72.41	JPY 119.89	JPY 324.33	JPY 78.46	JPY 18.59	31.1%

In this chart, "change" is calculated on the comparison with the corresponding period of previous year.

Notes :

- The geographical breakdown of unit sales is based on the location of unaffiliated customers.
- Unit sales are the total of sales of completed products of Honda and its consolidated subsidiaries, and sales of parts for local production at Honda's affiliates accounted for under the equity method.
- 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. Accordingly, these unit sales are not included in the financial results and forecasts.
- The Company did a two-for-one stock split for the Company's common stock effective July 1, 2006. Basic net income per common share was calculated based on the number of common shares after the stock split.

## SUPPLEMENT 2 FOR CONSOLIDATED FINANCIAL SUMMARY

Unit (thousands), Yen (billions)	First Quarter Results	Second Quarter Results	Third Quarter Results	Fourth Quarter Results	Year ended Mar. 31, 2006 Results	3 months ended Jun. 30, 2006 Results	change	%
<b>Net sales and other operating revenue</b>								
<b>Business segments</b>								
Motorcycle business	263.1	287.7	283.4	391.4	1,225.8	310.1	46.9	17.8%
Automobile business	1,845.9	1,892.6	2,015.8	2,250.1	8,004.6	2,095.6	249.6	13.5%
Financial services business	69.5	76.2	81.0	84.0	310.9	90.8	21.3	30.7%
Power product & other businesses	90.6	85.3	95.0	111.5	382.5	108.4	17.7	19.6%
Eliminations	-4.7	-4.3	-3.4	-3.4	-16.0	-5.3	-0.5	—
<b>Geographical segments</b>								
Japan	1,060.4	1,078.6	1,119.0	1,179.6	4,437.8	1,109.2	48.8	4.6%
North America	1,248.5	1,263.4	1,478.9	1,625.3	5,616.3	1,467.9	219.4	17.6%
Europe	297.3	266.9	271.6	353.5	1,189.5	325.1	27.7	9.3%
Asia	231.5	231.2	248.7	285.8	997.3	287.5	55.9	24.2%
Other Regions	116.9	146.7	146.6	161.3	571.6	176.9	59.9	51.3%
Eliminations	-690.2	-649.4	-793.0	-772.0	-2,904.8	-767.0	-76.8	—
Consolidated	2,264.5	2,337.6	2,472.0	2,833.7	9,907.9	2,599.7	335.1	14.8%
<b>Operating income</b>								
<b>Business segments</b>								
Motorcycle business	10.3	29.6	13.4	60.5	113.9	13.1	2.8	27.4%
Automobile business	133.1	101.0	151.0	243.0	628.3	150.0	16.8	12.7%
Financial services business	19.8	24.7	22.0	23.9	90.5	29.2	9.4	47.4%
Power product & other businesses	7.0	7.2	8.4	13.2	35.9	11.0	4.0	56.9%
Eliminations	—	—	—	—	—	—	—	—
<b>Geographical segments</b>								
Japan	47.2	62.9	75.9	184.8	370.9	48.9	1.7	3.7%
North America	72.7	68.5	106.7	105.8	353.9	114.4	41.7	57.4%
Europe	12.7	0.8	2.8	9.8	26.3	6.4	-6.3	-49.5%
Asia	19.1	15.8	17.2	12.7	64.9	19.4	0.2	1.4%
Other Regions	13.6	15.1	16.6	11.6	57.1	15.2	1.5	11.6%
Eliminations	4.8	-0.6	-24.4	15.7	-4.4	-1.0	-5.8	—
Consolidated	170.3	162.6	194.9	340.8	868.9	203.5	33.1	19.4%

In this chart, "change" is calculated on the comparison with the corresponding period of previous year.

Note: The geographical segments of Net sales and other operating revenue and Operating income are based on the location where sales are originated.