

Remarks by S. Aoki
Honda Information Meeting -- November 19, 2001

Good afternoon everyone. It is good to see you again.

As someone who lived in New York for several years and has worked with the financial community over several decades, I would like to add my concern and support for all of you. I value the role you play and appreciate your commitment in these challenging times.

In my presentation today, I will first briefly review Honda's financial results for the first half of our fiscal year ended September 30, 2001. Then, I will review our business operations based on our three product lines – motorcycles, automobiles and power products – including a look at the opportunities and challenges in each region.

Looking at our 6-month financial results, as you can see, net sales, operating income and net income for 6-months period set record high. Earning per common share increased to 178.30 yen -- surpassing the 125.11 yen for the same period of last year.

Now, let's look at the increase and decrease factors related to operating income. As you can see, changes in revenue and a positive model mix contributed to increased operating income by 36.2 billion yen and cost reduction contributed by 22 billion yen. On the other hand, increases in SG&A and R&D expenses negatively affected operating income by 30.8 billion yen and 16.2 billion yen, respectively. Positive Currency effects and Currency translation increased operating income by 69.6 billion yen and 33 billion yen, respectively.

Reviewing our business operations by segment.

In our motorcycle business in the fiscal first half, total unit sales of motorcycles increased 10.3 percent, to 2.8 million units due to higher sales in North America and Asia outside of Japan.

Net sales of Honda's motorcycle business increased 13.2 percent, to 443.4 billion yen, and operating income totaled 29.2 billion yen, an increase of 14.9 percent. Operating margin improved by 0.1 point to 6.6 percent compared to the corresponding period of the previous fiscal year.

Honda introduced new 50cc models and big scooters in the Japanese market. However, due to a decline in sales of business bikes, unit sales in Japan dropped slightly to 216,000 units. In North America, the company expanded sales to 254,000 units, with an emphasis on locally produced large motorcycles.

In Europe, though sales of scooters in Italian market went positively, mainly due to a big drop in the large motorcycle category in Germany, total unit sales declined 5.8% to 162,000 units.

In "Other" regions, particularly in Asia, production and sales increases were achieved in India and also in Southeast Asia markets by offering cleaner 4-stroke sporty family models in the large motorcycle markets such as Indonesia and Thailand.

In China, production of Honda brand models is in development at our new joint venture company during this fiscal year.

Further, the company has successfully maintained motorcycle sales in Brazil in South America.

Overall, unit sales in our "Other" region for the fiscal first half were 2.1 million, up 12.8 percent from the fiscal half of last year.

Turning now to our automobile business, total unit sales of automobile during the fiscal first half were 1.2 million units, a 3.7% increase from the same period last year.

Net sales of automobile totaled 2,839.5 billion yen, up 15.6% and operating income was 267.9 billion yen. Operating margin improved to 9.4%.

Reviewing our automobile business by regions, first in Japan, you can see that

industry demand peaked in 1990 with 7.7 million units. However, after a steady decline it is now flat at the 6 million-unit level -- and we predict that the current industry demand will not increase for the coming few years. Despite severe circumstances, Honda has steadily increased its sales for the past 10 years. In this fiscal first half, sales of the Stream, Step Wagon minivan and the Fit small car were very strong and increased Japanese sales to 421,000 units.

In North America, propelled by higher sales of the Civic and Acura MDX, auto sales reached 655,000 units for the fiscal first half, up 1.1% from the same period of last year.

Industry demand in the U.S. will exceed 16 million units this year, with the help of such programs as "0% financing" offered by a number of major automakers. However, industry demand in 2002 is expected to decline to the 15 million-unit level or even lower as a rebound from such sales promotion efforts this year. Considering these circumstances, we have revised our business plan and lowered our sales target by 10,000 units from our original plan expecting sales to decline for the rest of this fiscal.

In Europe, the Civic 5-door model shows strong sales in the U.K. However, sales of the Accord and HR-V were lower than a year ago and Honda's overall sales in Southern Europe were declined. This resulted in total European sales of 84,000 units, a decline of 12.5% from last year.

Looking at the current status of our European operation, this May, we announced our plan to revamp our European operation. This included launches of new models, the increased capacity utilization at our U.K. plants and re-construction of our dealer networks. Here you can see what we have challenged during the fiscal first half and our plans for the rest of the fiscal year. However, the severe business environment continues and we have yet to see the recovery of European auto sales. Thus, we will continue to focus on reforming our profit structure by enhancing cost reduction measures -- such as increasing procurement of components from continental Europe.

Now, looking at the "Other" region, sales of both the Civic in Southeast Asia and the Accord in China were very strong. However declined sales in Taiwan and

Australia lowered total unit sales in the Other region to 128,000 units, a drop of 4.5% from last year.

In power product business, we sold 191,000 units in Japan. In North America, unit sales increased to 736,000 units due to increased sales of general-purpose engines, water pumps and electric generators. In Europe and the Other region, sales fell to 375,000 and 408,000 units, respectively. In total, worldwide sales decreased by 6.2% to 1,7 million units.

Net sales increased 3.1% to 131.3 billion yen, however, due to lower sales of power products and weak profitability of recreation business, and operating loss amounted to 1.5 billion yen.

Turning to financial services, net sales increased 18.9% to 98.7 billion yen. Operating income increased to 19.5 billion yen and operating margin increased to 19.8%.

Finally, we would like to discuss the annual financial projection for the current fiscal year.

Unit sales of motorcycles are expected to increase by 17.2% for a total of 6 million units, automobiles by 3.9% to 2.68 million units and power products by 13.3% to 4.4 million units.

Based on these sales targets, as you can see, we project net sales to increase by 10.9% amounting to 7,170 billion yen, operating income by 35.1%, income before income taxes by 32.5% and net income by 42.1%. Net sales, operating income and net income would post record high for the year.

Here, you can see the analysis of this increase in operating income. Changes in revenue and model mix, as well as cost reduction will be the positive factors, amounting to 26 billion yen and 46 billion yen, respectively.

On the other hand, as negative factors, we foresee increases in SG&A expenses by 50.4 billion yen, and increases in R&D expenses by 37.1 billion yen.

Currency-related factors will also be positive to operating income, namely currency effects of 113.6 billion yen and 45 billion as currency translation.

Exchange rates are projected at 118 yen to the U.S. dollar and 105 yen to the euro, meaning the depreciation of the yen by 11 yen to the US dollar and 7 yen to the euro, compared to the previous fiscal year.

Capital expenditure for the current fiscal is projected to increase by 8.5% to 310 billion yen, depreciation by 11.5% to 190 billion yen and research and development expenses by 10.5% to 390 billion yen.

I thank you for your attention and in a moment, we will welcome any questions you may have. Thank you.