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Third-
Quarter
Report

Period Ended December 31, 1997

HONDA

Consolidated Financial Summary (Unaudited)

Financial Highlights

Honda Motor Co., Ltd., and Subsidiaries

For the three months and nine months ended December 31, 1996 and 1997

	Millions of yen				Thousands of U.S. dollars	
	Three months		Nine months		Three months	Nine months
	1996	1997	1996	1997	1997	1997
Net sales and other operating revenue.....	¥1,333,959	¥1,554,822	¥3,812,543	¥4,349,489	\$11,950,976	\$33,431,891
Operating income.....	100,585	127,062	261,197	356,528	976,649	2,740,415
Income before income taxes.....	96,819	122,045	259,224	344,605	938,086	2,648,770
Net income.....	61,918	65,203	156,824	191,697	501,176	1,473,459
	Yen				U.S. dollars	
Net income per						
Common Share						
Basic.....	¥ 63.55	¥ 66.92	¥160.96	¥196.75	\$0.51	\$1.51
Diluted.....	63.54	66.91	160.94	196.72	0.51	1.51
American Share						
Basic.....	127.10	133.84	321.92	393.50	1.03	3.02
Diluted.....	127.08	133.82	321.88	393.44	1.03	3.02

Unit Sales Breakdown

	Thousands of units			
	Three months		Nine months	
	1996	1997	1996	1997
MOTORCYCLES				
Japan.....	119	112	456	440
North America.....	31	33	85	85
Europe.....	54	78	196	257
Others.....	1,003	1,132	3,183	3,349
Total.....	1,207	1,355	3,920	4,131
AUTOMOBILES				
Japan.....	208	209	574	574
North America.....	253	285	692	807
Europe.....	42	59	152	186
Others.....	55	48	186	173
Total.....	558	601	1,604	1,740
POWER PRODUCTS				
Japan.....	42	46	132	156
North America.....	161	219	536	695
Europe.....	134	166	329	406
Others.....	187	227	631	594
Total.....	524	658	1,628	1,851

Net Sales Breakdown

	Millions of yen			
	Three months		Nine months	
	1996	1997	1996	1997
MOTORCYCLE BUSINESS				
Japan.....	¥ 27,517 (17.6%)	¥ 26,105 (14.4%)	¥ 102,397 (20.6%)	¥ 101,746 (18.3%)
North America.....	14,437 (9.2%)	18,443 (10.1%)	48,240 (9.7%)	51,587 (9.3%)
Europe.....	27,854 (17.8%)	37,961 (20.9%)	91,814 (18.5%)	118,699 (21.3%)
Others.....	86,881 (55.4%)	99,379 (54.6%)	254,255 (51.2%)	284,687 (51.1%)
Total.....	¥ 156,689 (100.0%)	¥ 181,888 (100.0%)	¥ 496,706 (100.0%)	¥ 556,719 (100.0%)
AUTOMOBILE BUSINESS				
Japan.....	¥ 416,129 (38.3%)	¥ 413,114 (32.9%)	¥1,172,961 (38.4%)	¥1,103,057 (32.0%)
North America.....	510,863 (47.0%)	651,928 (51.9%)	1,369,678 (44.9%)	1,755,676 (50.9%)
Europe.....	85,559 (7.9%)	119,004 (9.5%)	297,611 (9.7%)	361,970 (10.5%)
Others.....	74,311 (6.8%)	71,347 (5.7%)	212,893 (7.0%)	230,194 (6.6%)
Total.....	¥1,086,862 (100.0%)	¥1,255,393 (100.0%)	¥3,053,143 (100.0%)	¥3,450,897 (100.0%)
OTHERS				
Japan.....	¥ 30,033 (33.2%)	¥ 29,567 (25.2%)	¥ 80,885 (30.8%)	¥ 88,072 (25.8%)
North America.....	40,495 (44.8%)	64,471 (54.8%)	124,924 (47.6%)	180,889 (52.9%)
Europe.....	8,634 (9.6%)	10,001 (8.5%)	24,958 (9.5%)	27,246 (8.0%)
Others.....	11,246 (12.4%)	13,502 (11.5%)	31,927 (12.1%)	45,666 (13.3%)
Total.....	¥ 90,408 (100.0%)	¥ 117,541 (100.0%)	¥ 262,694 (100.0%)	¥ 341,873 (100.0%)
TOTAL				
Japan.....	¥ 473,679 (35.5%)	¥ 468,786 (30.2%)	¥1,356,243 (35.6%)	¥1,292,875 (29.7%)
North America.....	565,795 (42.4%)	734,842 (47.3%)	1,542,842 (40.5%)	1,988,152 (45.7%)
Europe.....	122,047 (9.1%)	166,966 (10.7%)	414,383 (10.9%)	507,915 (11.7%)
Others.....	172,438 (13.0%)	184,228 (11.8%)	499,075 (13.0%)	560,547 (12.9%)
Total.....	¥1,333,959 (100.0%)	¥1,554,822 (100.0%)	¥3,812,543 (100.0%)	¥4,349,489 (100.0%)

To Our Shareholders

■ Third-Quarter Results

Honda's consolidated net income for the fiscal third quarter, ended December 31, 1997, was ¥65.2 billion (\$501 million), an increase of 5.3% from the corresponding period last year. Net income per Common Share for the quarter amounted to ¥66.92 (\$0.51)—¥66.91 (\$0.51) on a fully diluted basis—compared with ¥63.55 and ¥63.54, respectively, for the third quarter of 1996. Each of Honda's American Shares represents two Common Shares.

Consolidated net sales and other operating revenue for the quarter under review was ¥1,554.8 billion (\$11,951 million), an increase of 16.6% from the corresponding quarter one year ago. Strong gains in automobile sales, particularly in North America and Europe, were the primary contributors to this growth.

Consolidated operating income for the quarter totaled ¥127.0 billion (\$977 million), improving 26.3% from the third quarter of the previous fiscal year. This increase was due primarily to higher revenue and the Company's continued cost-cutting efforts, together with the positive effects of the depreciation of the yen.

Consolidated income before income taxes for the quarter increased 26.1%, to ¥122.0 billion (\$938 million).

■ Review of Operations

Reviewing the third quarter by business segment, Honda's motorcycle unit sales increased 12.3%, to 1,355,000 units, due mainly to increased sales in overseas countries. In particular, motorcycle sales increased in India and Brazil, offsetting lower sales in Thailand. Revenue from Honda's motorcycle business increased 16.1%, to ¥181.8 billion (\$1,398 million). This increase was primarily the result of higher sales and improved product mix, as well as the depreciation of the yen.

Sales of automobiles totaled 601,000 units and revenue amounted to ¥1,255.3 billion (\$9,649 million) during the three-month period, increasing 7.7% and 15.5%, respectively. Automobile sales grew in North America and Europe, with favorable sales of the CR-V being the major contributing factor to these increases.

Unit sales of power products expanded 25.6% from the corresponding period last year, totaling 658,000 units. Revenue from other businesses, including the power-product business, increased 30.0%, totaling ¥117.5 billion (\$903 million). Honda's overall sales of power products during the quarter were favorable. In particular, sales of general-purpose engines and lawn mowers in North America contributed to this advance. In addition, an increase in revenue from Honda's financial services strongly supported this increase.

■ Nine-Month Results

Consolidated net income for the fiscal nine months ended December 31, 1997, was ¥191.6 billion (\$1,473 million), an increase of 22.2% from the corresponding period last year. Net income per Common Share for the fiscal nine months amounted to ¥196.75 (\$1.51)—¥196.72 (\$1.51) on a fully diluted basis—compared with ¥160.96 (¥160.94 on a fully diluted basis) for the corresponding period a year ago. Each of Honda's American Shares represents two Common Shares.

Consolidated net sales and other operating revenue for the fiscal nine months under review totaled ¥4,349.4 billion (\$33,432 million), an increase of 14.1% from the corresponding period last year. This increase in revenue resulted primarily from higher unit sales of automobiles in North America and Europe. The depreciation of the yen also had a positive effect. The yen averaged ¥120.99 to US\$1 on the Tokyo foreign exchange market during the fiscal nine-month period under review, 9.2% lower than during the corresponding period last year.

Consolidated operating income for the nine months increased 36.5%, amounting to ¥356.5 billion (\$2,740 million). In addition to higher revenue, Honda's ongoing cost reduction efforts and the positive impact of the depreciation of the yen were also major factors to this increase.

Consolidated income before income taxes for the fiscal nine months ended December 31, 1997, amounted to ¥344.6 billion (\$2,649 million), up 32.9% from the corresponding period last year.

The Company's consolidated income statement data for the fiscal nine months ended December 31, 1996, included a pre-tax gain of ¥10.4 billion and an after-tax gain of ¥5.0 billion on the nonmonetary exchange of common shares of The Bank of Tokyo, Ltd. (BOT), held by Honda for common shares of The Bank of Tokyo-Mitsubishi, Ltd.

■ Nine-Month Review of Operations

Reviewing the nine-month period by business segment, motorcycle unit sales rose 5.4% from a year ago, totaling 4,131,000 units and revenue increased 12.1%, amounting to ¥556.7 billion (\$4,279 million). Increased motorcycle sales in Europe and Latin America were the primary contributors to these increases.

Honda's overall automobile unit sales was 1,740,000, 8.5% higher than the corresponding period last year. The automobile business revenue for the fiscal nine months increased 13.0%, totaling ¥3,450.8 billion (\$26,525 million). Strong sales in North America and Europe, notably of the CR-V sports utility vehicle and the Civic 4-door model in the United States, contributed to these increases.

Unit sales of power products totaled 1,851,000 units, an increase of 13.7% from the corresponding period of the previous year. Honda's other businesses—including power products and financial services—registered a 30.1% increase in revenue, amounting to ¥341.8 billion (\$2,628 million). Revenues generated from the Company's power-product business and financial services showed steady increases.



Nobuhiko Kawamoto,
President and Chief Executive Officer

North America

■ Sleek Honda minivan concept vehicle provides glimpse of the future

The Honda MV-99 concept vehicle minivan, to be introduced in the fall of 1998 as a 1999 model, provides a clear indication of the shape and size of the new production minivan.

The one-of-a-kind MV-99—with its front wheel-drive, V-6 engine and dual sliding doors—has an interior designed to offer a glimpse into the future when new technologies could turn the common minivan into an executive shuttle and mobile office on wheels.

The Honda MV-99 was designed and conceived by Honda Research and Development Americas. It was a collaborative effort by Honda R&D operations around the world and will be built at a new second assembly line currently under construction at Honda of Canada Manufacturing, near Toronto.



The MV-99 concept vehicle minivan

■ **Year 2001 Target: 1 Million Auto Production Capacity**
Honda plans to increase its annual auto production in North America to one million units by the year 2001—an increase of 21%—without building a new plant.

Improved efficiency at Honda's three auto plants in the United States and Canada, as well as the addition of a second line at the Canada plant, will account for this increase in production capacity.

Europe

■ New Civic Aero deck is unveiled at Bologna Show

The new Civic Aero deck, the fifth variant of the Honda Civic range, was premiered at the Bologna Show. Like previous Honda Aero deck models, the new Civic version is sporty yet provides a truly versatile package capable of meeting a wide range of consumer needs.

A broad choice of models including a firecracker 1.8 VTI model further distinguishes the Aero deck from obvious class rivals. The expansive range will appeal to owners of larger D-segment cars, as well as to those owning other C-sector vehicles. In this respect, the Civic Aero deck goes some way toward occupying the gap arising from the departed Accord Aero deck.

■ 1998 Touring Car Driver Lineup is Announced

Team Honda Sport has revealed its 1998 lineup for touring car drivers for the United Kingdom and Germany. James Thompson, of England, will be joined by Dutchman Peter Kox in the British Auto Trader RAC Series, while Gabriele Tarquini will move to Germany to join Danish star Tom Kristenden in the ADAC Super Touring Wagen Meisterchaft Series. To complete the new look in Germany, JAS Engineering from Italy has been assigned to run the operation.

Kox spent 1997 racing in the FIA GT Championship with BMW McLaren. He is a past winner of the Spa 24 hours and runner-up in the ADAC Championship.

Japan

■ Honda's exhaust emissions control devices pass standards

Honda has developed an exhaust emissions control device for 50cc and 100cc 2-stroke engines which passes the emissions standards to be implemented in Japan.

The newly developed purification system reduces toxic substances in the combustion process by changing the carburetor setting and making the mixture thinner. Furthermore,

by installing a newly developed oxidizing catalyzer in the muffler, the amount of CO emissions is reduced to less than half, the amount of HC is reduced to less than one-third and NOx is reduced to less than half compared with conventional 2-stroke engines.

The environmentally friendly emission control devices for 2-cycle engines will be gradually installed into Honda products, starting with the new scooter NH series' Lead model.

■ U.S.-built Civic natural gas vehicle to be sold in Japan

The natural gas-powered Civic GX, to be built at the East Liberty, Ohio, auto plant and sold to fleets in the United States beginning this spring, will also be exported to Japan for sale beginning in June. The Civic GX will be the cleanest internal combustion engine vehicle ever made, with nearly zero pollution emissions. Compared with a gasoline-powered car, the GX will also emit 20% less carbon dioxide—a greenhouse gas that contributes to the potential for global warming.

Other

■ New Honda plants in China and Turkey

Honda has announced a new joint venture project in the People's Republic of China, just ahead of production start-up at another joint venture plant in Turkey.

In China, the Company has signed a basic agreement with Guangzhou Auto Group Corp. and Dongfeng Motor Corp. The project would utilize the existing production facility of the former Guangzhou Peugeot joint venture to produce the Honda Accord in 1999, with an initial volume of 30,000 units.

Meanwhile, Honda's joint venture factory with Anadolu Endustri Holding A.S. started production in December 1997. For the first stage of this 50-50 partnership, 750 people will be employed building 10,000 Civic 4-door models per year.

Consolidated Balance Sheets

Honda Motor Co., Ltd., and Subsidiaries
December 31, 1996 and March 31 and December 31, 1997

	Millions of yen		
	Dec. 31, 1996 (Unaudited)	Mar. 31, 1997 (Audited)	Dec. 31, 1997 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents.....	¥ 384,381	¥ 359,148	¥ 264,709
Trade receivables.....	273,359	381,774	328,543
Finance subsidiaries—receivables.....	327,994	389,017	461,535
Inventories	535,738	551,152	571,771
Deferred income taxes	142,666	125,428	139,848
Prepaid expenses and other current assets.....	149,012	154,730	199,837
Total current assets	<u>1,813,130</u>	<u>1,961,249</u>	<u>1,966,243</u>
Finance subsidiaries—receivables	612,922	750,891	1,003,519
Investments and advances	399,576	376,602	370,460
Property, plant and equipment, at cost:			
Land	266,582	269,719	277,466
Buildings	659,362	681,552	719,349
Machinery and equipment	1,580,819	1,643,506	1,665,915
Construction in progress	92,169	91,045	119,731
	<u>2,598,932</u>	<u>2,685,822</u>	<u>2,782,461</u>
Less accumulated depreciation	1,615,543	1,649,340	1,691,308
Net property, plant and equipment	<u>983,389</u>	<u>1,036,482</u>	<u>1,091,153</u>
Other assets	55,306	66,070	69,679
	<u>¥3,864,323</u>	<u>¥4,191,294</u>	<u>¥4,501,054</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings	¥ 559,212	¥ 496,760	¥ 597,152
Trade payables	489,635	599,677	599,740
Accrued expenses	357,105	385,409	434,967
Income taxes	88,331	126,030	69,796
Other current liabilities.....	199,105	200,826	186,915
Total current liabilities	<u>1,693,388</u>	<u>1,808,702</u>	<u>1,888,570</u>
Long-term debt	620,324	734,255	800,482
Other liabilities	126,319	226,595	221,199
Deferred income taxes	83,990	33,312	33,316
Total liabilities	<u>¥2,524,021</u>	<u>¥2,802,864</u>	<u>¥2,943,567</u>
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares, par value ¥50 or without par value; issued 974,309,827 shares in December 1996, 974,326,267 shares in March 1997 and 974,342,256 shares in December 1997.....	86,022	86,028	86,035
Capital surplus	171,911	171,910	171,911
Legal reserves	25,668	25,668	26,404
Retained earnings	1,386,400	1,450,744	1,625,142
Adjustments from foreign currency translation.....	(354,881)	(320,440)	(311,866)
Net unrealized gains on marketable equity securities.....	43,522	34,218	19,559
Minimum pension liabilities adjustments	(18,340)	(59,698)	(59,698)
Total stockholders' equity	<u>¥1,340,302</u>	<u>¥1,388,430</u>	<u>¥1,557,487</u>
	<u>¥3,864,323</u>	<u>¥4,191,294</u>	<u>¥4,501,054</u>

Explanatory Notes:

1. The Company prepares its consolidated financial statements in conformity with United States generally accepted accounting principles since the Company has issued American Depositary Receipts listed on the New York Stock Exchange and files reports with the U.S. Securities and Exchange Commission.
2. In accordance with EITF91-5, the Company's consolidated income statement data for the nine months ended December 31, 1996 included a pre-tax gain of ¥10,471 million and an after-tax gain of ¥5,026 million on the nonmonetary exchange of common shares of the Bank of Tokyo, Ltd., (BOT) for common shares of The Bank of Tokyo-Mitsubishi, Ltd., due to a merger of BOT and The Mitsubishi Bank, Limited, on April 1, 1996. The unrealized holding gain on the Company's investment in BOT shares was previously included in a separate component of stockholders' equity as of March 31, 1996.
3. Certain reclassifications have been made to consolidated balance sheets of the fiscal year ending March 31, 1997 and the fiscal nine months ended December 31, 1996 to conform to the presentation used for the nine months ended December 31, 1997.
4. Net income per common share amounts are computed based on Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings per Share." Basic net income per common share is computed based on the weighted average number of common shares outstanding during each period. For the Company, the computation of fully diluted net income per common share is similar to the computation of basic net income per common share except for the assumption that convertible bonds of the Company were converted into common stock. All prior-period net income per common share amounts have been restated to conform with SFAS No. 128.
5. The average exchange rate for the fiscal third quarter ended December 31, 1997 was ¥125.33=US\$1. The average exchange rate for the corresponding period last year was ¥112.86=US\$1, a difference of ¥12.47 as compared with this year's third quarter. The average rate for the fiscal nine months ended December 31, 1997 was ¥120.99=US\$1, a difference of ¥11.15 as compared with ¥109.84=US\$1 in the nine months last year.
6. The United States dollar amounts have been translated from yen solely for the convenience of the reader at the rate of ¥130.10=US\$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 December 30, 1997.
7. One American Share represents two shares of Common Stock.

Transfer Agent for Common Stock
The Chuo Trust & Banking Co., Ltd.
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Chuo-ku, Tokyo 104-0031, Japan

**Depositary and Transfer Agent
for American Depositary Receipts**
Morgan Guaranty Trust Company of New York
60 Wall Street,
New York, New York 10260-0060, U.S.A.

Stock Exchange Listings in Japan
Tokyo, Osaka, Nagoya, Sapporo, Niigata, Kyoto,
Hiroshima and Fukuoka

Stock Exchange Listings Overseas
New York, London, Zurich, Basle, Geneva and Paris

**Total Shares of Common Stock Issued and
Outstanding**
974,342,256 (as of December 31, 1997)

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