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First Quarter Report
Period Ended June 30, 1998

HONDA

Consolidated Financial Summary (Unaudited)

Financial Highlights

Honda Motor Co., Ltd. and Subsidiaries
For the three months ended June 30, 1997 and 1998

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Net sales and other operating revenue	¥1,418,751	¥1,595,372	\$11,314,695
Operating income	110,116	143,637	1,018,702
Income before income taxes	108,025	137,741	976,887
Net income	62,250	78,221	554,759
	Yen		U.S. dollars
Net income per			
Common Share Basic	¥ 63.89	¥ 80.27	\$0.57
Diluted	63.88	80.27	0.57
American Share Basic	127.78	160.54	1.14
Diluted	127.76	160.54	1.14

Unit Sales Breakdown

	Thousands of units	
	1997	1998
MOTORCYCLES		
Japan	164	131
North America	26	29
Europe	106	127
Others	1,014	702
Total	1,310	989
AUTOMOBILES		
Japan	185	163
North America	265	287
Europe	61	68
Others	62	53
Total	573	571
POWER PRODUCTS		
Japan	62	42
North America	251	375
Europe	131	273
Others	140	174
Total	584	864

Explanatory Note: The geographical breakdown of unit sales is based on the location of affiliated and unaffiliated customers.

Net Sales Breakdown

	Millions of yen			
	1997		1998	
MOTORCYCLE BUSINESS				
Japan	¥ 39,453	(19.7%)	¥ 31,836	(16.4%)
North America	20,228	(10.1%)	21,678	(11.2%)
Europe	52,049	(25.9%)	64,906	(33.4%)
Others	88,951	(44.3%)	75,915	(39.0%)
Total	¥ 200,681	(100.0%)	¥ 194,335	(100.0%)
AUTOMOBILE BUSINESS				
Japan	¥ 350,110	(31.5%)	¥ 319,802	(25.2%)
North America	568,798	(51.2%)	717,130	(56.4%)
Europe	116,751	(10.5%)	153,297	(12.1%)
Others	75,799	(6.8%)	80,986	(6.3%)
Total	¥1,111,458	(100.0%)	¥1,271,215	(100.0%)
OTHERS				
Japan	¥ 28,510	(26.7%)	¥ 23,732	(18.3%)
North America	51,689	(48.5%)	80,102	(61.7%)
Europe	10,606	(10.0%)	15,722	(12.1%)
Others	15,807	(14.8%)	10,266	(7.9%)
Total	¥ 106,612	(100.0%)	¥ 129,822	(100.0%)
TOTAL				
Japan	¥ 418,073	(29.5%)	¥ 375,370	(23.5%)
North America	640,715	(45.2%)	818,910	(51.3%)
Europe	179,406	(12.6%)	233,925	(14.7%)
Others	180,557	(12.7%)	167,167	(10.5%)
Total	¥1,418,751	(100.0%)	¥1,595,372	(100.0%)

Explanatory Note: The geographical breakdown of net sales is based on the location of affiliated and unaffiliated customers.

To Our Shareholders

■ Performance Highlights

Honda's consolidated net income for the fiscal first quarter, ended June 30, 1998, was ¥78.2 billion (\$555 million), representing a 25.7% increase from the corresponding quarter last year. Net income per Common Share, both on basic and fully diluted bases, for the first quarter amounted to ¥80.27 (\$0.57), compared with ¥63.89 (¥63.88 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 quarter under review totaled ¥1,595.3 billion (\$11,315 million), increasing 12.4% from the corresponding quarter a year ago. The increase in revenue was primarily due to favorable sales of automobiles in North America and Europe.

Consolidated operating income increased 30.4% to ¥143.6 billion (\$1,019 million). In addition to higher revenue, the Company's continued cost-cutting efforts and the depreciation of the yen contributed to this increase.

Consolidated income before income taxes for the quarter amounted to ¥137.7 billion (\$977 million), increasing 27.5% from the first quarter of the previous fiscal year.

■ Review of Operations

Reviewing Honda's sales for the first quarter by business segment, motorcycle unit sales declined 24.5%, totaling 989,000 units, while revenue from the motorcycle business declined 3.2% to ¥194.3 billion (\$1,378 million). Motorcycle sales declined in Japan and other Asian countries, especially in Indonesia and China. Motorcycle sales in Europe and Brazil, however, showed favorable growth.

Unit sales of automobiles decreased 0.3%, to 571,000 units, mainly owing to lower sales in Japan and Southeast Asia, while revenue from the automobile business amounted to ¥1,271.2 billion (\$9,016 million), a 14.4% increase from the corresponding quarter last year. This increase in revenue was predominately attributable to favorable sales of Honda's automobiles in North America and Europe. Increased sales of the Civic sedan and the CR-V in the United States, and strong sales of the CR-V and a new model Civic Aero deck in Europe, were major factors in this increase. The depreciation of the yen also contributed to the increase in revenue.

Unit sales of power products increased 47.9%, to 864,000 units, primarily due to increased sales in North America and Europe. Honda's other businesses, including its power product business, generated revenue of ¥129.8 billion (\$921 million), increasing 21.8% from the corresponding period last year. Strong sales of general-purpose engines in the United States and Europe as well as an increase in Honda's financial services revenue were the major factors contributing to this increase.

September 1998



Hiroyuki Yoshino
President and Chief Executive Officer

North America:

- **The 1999 Acura 3.2TL—A New Benchmark for Boldness, Style and Power**

Featuring striking new styling, a responsive 225-horsepower V-6 engine, an advanced chassis, outstanding suspension and an extensive list of standard features, the new Acura TL is destined to become the new benchmark for the performance luxury category. Offered exclusively with a new 3.2 liter, 24-valve, VTEC V-6 engine, this dramatic new luxury sedan combines the most powerful engine in its class with a completely new platform that elevates handling responsiveness, quietness, roominess and luxury. The TL is now manufactured exclusively in America.



The new Acura TL

Japan:

- **Honda Introduces its New Safety Body for Small Cars and Mini-Vehicles**

Honda has created new body-safety technology allowing even small cars and mini-vehicles to meet world safety standards. A three-step system to reduce the G-force generated by an impact on the vehicles' bodies enables these small cars and mini-vehicles to pass Honda's stringent in-house safety tests, which include 55km/h head-on and 64km/h offset barrier tests. The technology meets Honda's safety standards, which are consistent with the world's highest standards, including the four-star ranking standard of the US New Car Assessment Program. Honda will be incorporating this technology into its new RV mini-vehicle model scheduled to be launched this coming autumn.

- **Civic Natural Gas Vehicle Rolls Out in Japan**
In June, Honda launched its natural gas-powered Civic in Japan. The Civic NGV, which was introduced to the United States market last April, is virtually pollution-free. Over the next three years, Honda will produce 1,000 natural gas-powered Civic GXs per year at its East Liberty plant in Ohio. Honda will export 100 vehicles per year to Japan, with the balance to be sold in the United States.

- **Honda Introduces its GXH50/GXV50 4-Stroke Multipurpose Engine Series**

Honda has released the world's smallest and lightest 2.5 PS-rated power GXH50/GXV50 engine series. These economical 4-stroke multipurpose engines already meet the exhaust gas emission

standards set by the Environmental Protection Agency (EPA) and the California Air Resources Board (CARB).

The GXH50/GXV50 engine series is distinguished by its sleeveless uniblock cylinder case and light-weight single-cam-lobe OHV resin camshaft. The adoption of aluminum sintered connecting rods, and a highly rigid plastic cover enables this high-speed, high-power 4-stroke engine to be the lightest in its category and hence the best power source for hand-held equipment. Calling upon Honda's extensive know-how in 4-stroke engines, this engine series not only meets the 1997 EPA standards, but is already in compliance with the requirements set by CARB for the year 2000. This low-maintenance, easy-to-start engine series is thus not only very economical, but impressively environment-friendly.

Europe:

▪ **New European Accord Aims for Top of the Class**
In June, Honda announced the imminent release of a completely new Accord which is set to redefine standards in the European mid-range car class when it goes on sale this autumn. The new Accord will provide low-emission technology, unprecedented recyclability and a host of refinements in chassis dynamics, safety and packaging that will ensure a class-leading combination of performance, comfort and drivability. Mass production of the new car started in July at Honda's car plant in Swindon, the U.K. The Accord will be available as a 4-door saloon from launch and as a 5-door hatchback from the spring of 1999. Topping the range will be

a sporty, high performance Type-R version.

With a lineup of technologically advanced engines—all aluminum, 16-valve petrol units from 1.6 to 2.2 liters—the Accord will offer significantly better performance and economy than most of its similar-sized competitors. The two larger units will employ low-emission technology and will easily surpass the proposed Euro 2000 emission standards. All engines will comply with the D3 standards. A 2.0-liter direct-injection diesel engine will be added to the lineup next year.



The new European Accord

Consolidated Balance Sheets

Honda Motor Co., Ltd. and Subsidiaries
June 30, 1997, and March 31 and June 30, 1998

	Millions of yen		
	June 30, 1997 (Unaudited)	March 31, 1998 (Audited)	June 30, 1998 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents.....	¥ 243,265	¥ 337,294	¥ 229,593
Trade receivables.....	343,085	422,642	405,878
Finance subsidiaries–receivables.....	388,057	632,348	778,625
Inventories	524,994	600,908	607,417
Deferred income taxes	130,527	132,697	144,169
Other current assets	166,632	171,513	225,808
Total current assets	<u>1,796,560</u>	<u>2,297,402</u>	<u>2,391,490</u>
Finance subsidiaries–receivables	844,887	923,353	1,109,012
Investments and advances	424,954	364,188	346,379
Property, plant and equipment, at cost:			
Land	264,594	284,370	288,236
Buildings	659,304	748,112	770,829
Machinery and equipment	1,573,413	1,744,799	1,791,180
Construction in progress	121,213	102,499	125,134
	2,618,524	2,879,780	2,975,379
Less accumulated depreciation	1,610,609	1,715,800	1,777,733
Net property, plant and equipment	<u>1,007,915</u>	<u>1,163,980</u>	<u>1,197,646</u>
Other assets	58,055	66,342	79,521
	<u>¥4,132,371</u>	<u>¥4,815,265</u>	<u>¥5,124,048</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings	¥ 546,935	¥ 730,176	¥1,001,503
Trade payables	558,794	718,668	631,266
Accrued expenses	373,750	473,912	464,131
Income taxes	74,618	93,293	100,233
Other current liabilities.....	180,040	196,740	231,489
Total current liabilities	<u>1,734,137</u>	<u>2,212,789</u>	<u>2,428,622</u>
Long-term debt	720,521	677,750	618,610
Other liabilities	264,575	316,812	334,126
Total liabilities	<u>¥2,719,233</u>	<u>¥3,207,351</u>	<u>¥3,381,358</u>
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares, par value ¥50 or without par value; issued 974,352,929 shares in June 1997, 974,414,215 shares in March 1998 and 974,414,215 shares in June 1998.....	86,031	86,067	86,067
Capital surplus	171,911	171,914	171,914
Legal reserves	26,069	26,404	27,084
Retained earnings	1,504,799	1,694,070	1,762,841
Adjustments from foreign currency translation.....	(361,778)	(314,885)	(248,055)
Net unrealized gains on marketable equity securities.....	45,804	21,135	19,630
Minimum pension liabilities adjustment.....	(59,698)	(76,791)	(76,791)
Accumulated other comprehensive income	(375,672)	(370,541)	(305,216)
Total stockholders' equity	<u>¥1,413,138</u>	<u>¥1,607,914</u>	<u>¥1,742,690</u>
	<u>¥4,132,371</u>	<u>¥4,815,265</u>	<u>¥5,124,048</u>

Consolidated Statements of Income and Retained Earnings (Unaudited)

Honda Motor Co., Ltd. and Subsidiaries
For the three months ended June 30, 1997 and 1998

	Millions of yen	
	Three months ended June 30, 1997	Three months ended June 30, 1998
Net sales and other operating revenue	¥1,418,751	¥1,595,372
Operating costs and expenses:		
Cost of sales.....	990,489	1,101,006
Selling, general and administrative.....	246,241	278,449
Research and development	71,905	72,280
Operating income	110,116	143,637
Other income:		
Interest and other.....	5,343	4,128
Other expenses:		
Interest	5,964	7,933
Other.....	1,470	2,091
Income before income taxes	108,025	137,741
Income taxes	51,959	63,847
Income before equity in income of affiliates	56,066	73,894
Equity in income of affiliates	6,184	4,327
Net income	62,250	78,221
Retained earnings:		
Balance at beginning of period.....	1,450,744	1,694,070
Cash dividends paid.....	(7,794)	(8,770)
Transfer to legal reserves	(401)	(680)
Balance at end of period	¥1,504,799	¥1,762,841
Depreciation	¥34,633	¥41,410
Capital expenditures	59,127	54,568
	Yen	
Net income per		
Common Share		
Basic	¥ 63.89	¥ 80.27
Diluted	63.88	80.27
American Share		
Basic	127.78	160.54
Diluted	127.76	160.54

Investor Information

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. Certain reclassifications have been made to consolidated balance sheets of the fiscal year ended March 31, 1998, and the fiscal three months ended June 30, 1997, to conform to the presentation used for the three months ended June 30, 1998.
3. Net income per Common Share amounts are computed based on Statement of Financial Accounting Standards (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.
4. The average exchange rate for the fiscal first quarter ended June 30, 1998 was ¥135.74=U.S.\$1. The average exchange rate for the corresponding period last year was ¥119.68=U.S.\$1, a difference of ¥16.06 as compared with this year's first quarter.
5. The United States dollar amounts have been translated from yen solely for the convenience of the reader at the rate of ¥141.0=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, 1998.
6. One American Share represents two shares of Common Stock.
7. The Company adopted the provision of Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" in the first quarter ended June 30, 1998. The following table represents components of the Company's comprehensive income. Other comprehensive income consists of changes in adjustments from foreign currency translation, net unrealized gains on marketable equity securities and minimum pension liabilities adjustment.

(Millions of yen)

	Three months ended June 30, 1998	Three months ended June 30, 1997
Net income	¥78,221	¥62,250
Other comprehensive income	65,325	(29,752)
Comprehensive income	143,546	32,498

Transfer Agent for Common Stock
The Chuo Trust & Banking Co., Ltd.
7-1, Kyobashi 1-chome,
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,
NY 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, Paris and Swiss stock exchanges

Total Shares of Common Stock Issued and
Outstanding
974,414,215 (as of June 30, 1998)

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