

First Quarter Report

Period Ended June 30, 1999

HONDA

Consolidated Financial Summary (Unaudited)

Financial Highlights

Honda Motor Co., Ltd. and Subsidiaries
For the three months ended June 30, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Net sales and other operating revenue	¥1,595,372	¥1,516,668	\$12,524,096
Operating income	143,637	124,997	1,032,180
Income before income taxes	137,741	121,062	999,686
Net income	78,221	72,862	601,668
	Yen		U.S. dollars
Net income per			
Common share: Basic	¥ 80.27	¥ 74.78	\$0.62
Diluted	80.27	74.78	0.62
American share: Basic	160.54	149.56	1.24
Diluted	160.54	149.56	1.24

Unit Sales Breakdown

	Thousands of units	
	1998	1999
MOTORCYCLES		
Japan	131	106
North America	29	25
Europe	127	121
Others	702	795
Total	989	1,047
AUTOMOBILES		
Japan	163	159
North America	287	308
Europe	68	56
Others	53	52
Total	571	575
POWER PRODUCTS		
Japan	42	48
North America	375	474
Europe	273	318
Others	174	200
Total	864	1,040

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

Net Sales Breakdown

	Millions of yen			
	1998		1999	
MOTORCYCLE BUSINESS				
Japan	¥ 31,836	(16.4%)	¥ 25,487	(16.8%)
North America	21,678	(11.2%)	15,631	(10.3%)
Europe	64,906	(33.4%)	56,698	(37.5%)
Others	75,915	(39.0%)	53,502	(35.4%)
Total	¥ 194,335	(100.0%)	¥ 151,318	(100.0%)
AUTOMOBILE BUSINESS				
Japan	¥ 319,802	(25.2%)	¥ 318,828	(26.0%)
North America	717,130	(56.4%)	713,039	(58.1%)
Europe	153,297	(12.1%)	114,863	(9.4%)
Others	80,986	(6.3%)	80,996	(6.5%)
Total	¥1,271,215	(100.0%)	¥1,227,726	(100.0%)
OTHERS				
Japan	¥ 23,732	(18.3%)	¥ 25,007	(18.2%)
North America	80,102	(61.7%)	88,847	(64.6%)
Europe	15,722	(12.1%)	14,757	(10.7%)
Others	10,266	(7.9%)	9,013	(6.5%)
Total	¥ 129,822	(100.0%)	¥ 137,624	(100.0%)
TOTAL				
Japan	¥ 375,370	(23.5%)	¥ 369,322	(24.4%)
North America	818,910	(51.3%)	817,517	(53.9%)
Europe	233,925	(14.7%)	186,318	(12.3%)
Others	167,167	(10.5%)	143,511	(9.4%)
Total	¥1,595,372	(100.0%)	¥1,516,668	(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 (First Quarter Results)

Honda's consolidated net income for the fiscal first quarter ended June 30, 1999, was ¥72.8 billion (\$602 million), decreasing 6.9% from the corresponding three months last year. Net income per common share, both on a basic and fully diluted basis, for the quarter amounted to ¥74.78 (\$0.62), compared to ¥80.27 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 amounted to ¥1,516.6 billion (\$12,524 million), a fall of 4.9% from the corresponding quarter a year ago. Unit sales in all of Honda's business segments, namely motorcycles, automobiles and power products, rose; however the appreciation of the yen significantly affected revenue.

Consolidated operating income for the quarter totaled ¥124.9 billion (\$1,032 million), dropping 13.0% from the first quarter of the previous fiscal year. Despite the advance in unit sales and Honda's ongoing cost reduction efforts, the negative impact of the appreciation of the yen was the major factor for this reduction in operating income.

Consolidated income before income taxes for the quarter decreased 12.1%, to ¥121.0 billion (\$1,000 million).


■ Review of Operations

Reviewing Honda's sales in the first quarter by business segment, Honda's motorcycle unit sales increased 5.9% to 1,047,000 units, while revenue decreased 22.1%, amounting to ¥151.3 billion (\$1,250 million). This decline in revenue was due primarily to lower sales in Latin America and a less favorable model mix in Asia outside Japan.

Unit sales of automobiles totaled 575,000 units, a rise of 0.7%, while revenue dipped 3.4% to ¥1,227.7 billion (\$10,138 million) during the three-month period. This gain in unit sales was due primarily to strong sales in the United States, supported by the *Acura TL* near-luxury sedan and the *Odyssey* minivan; however the appreciation of the yen negatively affected revenue.

Unit sales of power products showed a remarkable growth, totaling 1,040,000 units, a 20.4% jump from the corresponding period last year. Revenue from other businesses, including the power product business and financial services, expanded 6.0%, amounting to ¥137.6 billion (\$1,136 million). Honda's favorable sales of power products, in particular sales of general-purpose engines in North America, contributed to these advances.

September 1999



Hiroyuki Yoshino
President and Chief Executive Officer

North America

- **Honda's Best-Selling Mini SUV, the CR-V, Tops Customer Satisfaction in Three Surveys**
The Honda CR-V, America's best-selling mini sport utility vehicle (SUV), has topped its class in the J.D. Power and Associates 1999 Initial Quality Survey (IQS2) for the second year in a row and ranked first in its class in AutoPacific Inc.'s 1999 Pure Product Satisfaction survey and Vehicle Satisfaction Score. In addition, the all-new for 1999 Honda *Odyssey* minivan ranked first in Strategic Vision's Total Quality Index.

J.D. Power's IQS2 surveys rate assembly plants around the world based on the initial quality of the vehicles they produce for sale in the U.S. Honda's Sayama Plant in Japan earned a silver award based on the Honda *Accord* and *Prelude* and *Acura RL* built for the U.S. market.

- **Honda Accord 2000 Models—Added Safety Features and Expanded Use of Advanced Emission Control Technologies**
American Honda Motor Co., Inc., announced all model year 2000 *Accords* will feature Honda's patented new dual-stage inflator front passenger SRS airbag technology. All V-6 powered *Accords* and four-cylinder *EX* models with the leather interior trim will be equipped with Honda's new advanced front, side airbag system.

In addition, all new *Accords* sold nationwide will meet or exceed California's Low Emission Vehicle (LEV) standard. New for the 2000 model year is the *Accord Special Edition*. The *Accord SE* features exclusive alloy wheels, anti-lock brakes, body colored side moldings, a security system, keyless entry, wood grain interior trim and floor mats.

Japan

- **Honda's New Low Consumption Fuel Technologies**
Honda announced the development of two new ultra-low fuel consumption technologies—the Integrated Motor Assist (IMA™) and the Lightweight Aluminum Body Structure—scheduled for use in the new hybrid, *Insight*. These technologies allow for the cleanest and the world's most fuel efficient gasoline-powered vehicle (35km per liter based on Japan's 10.15-mode test). In addition to achieving ultra-low fuel consumption, the IMA™ System's exhaust emissions are 50% cleaner than required by upcoming regulations slated to be applied in the year 2000.

Simple, Lightweight Honda IMA™ System

The Honda IMA™ System is a simple, lightweight hybrid system that uses a gasoline engine as its main power source—and that calls upon the motor assist function to provide powerful acceleration.

The engine uses advanced lean-burn technology, low-friction design and lightweight materials in combination with a new lean burn-compatible adsorption-type NOx catalytic converter. The motor assist system is composed of an ultra-thin (60mm) DC-brushless motor, a 144-volt, 20kg nickel metal hybrid battery that provides powerful electric currents and a Power Control Unit (PCU). The lightweight yet powerful motor assists the engine during acceleration and serves as a generator during braking (regenerative braking) for optimal use of energy.

The New Lightweight Aluminum Body Structure

As a pioneer in the design of aluminum car bodies, Honda has extensively researched the characteristics of aluminum to create a new Lightweight

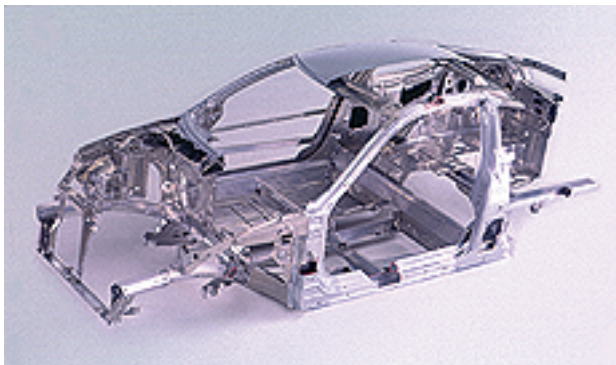
Aluminum Body Structure that offers a high rigidity and advanced safety performance in a package 40% or more lighter than a steel body.

Extruded aluminum material was adopted for the main structure. This provides great freedom in designing the sections of each component for optimum strength and rigidity.

The adoption of Honda's own G-force control technology provides for outstanding passenger protection, as proved by the passing of the 55km per hour full flat frontal impact and the 64km per hour offset frontal impact tests.



Honda IMA System



New Lightweight Aluminum Body Structure

Europe

■ Work Begins on Honda's Second European Car Plant

Honda reaffirms its commitment to Britain when work starts on a second car-building plant co-located within the grounds of the Company's original European car plant, at Honda of the U.K. Manufacturing Limited (HUM), in Swindon, Wilshire. A groundbreaking ceremony initiated by Group president and CEO, Hiroyuki Yoshino, will mark the first stage of a further £450 million investment in Swindon. Up to 1,000 extra jobs will be created in what will be the Company's largest single investment in Europe.

Of the £450 million, £200 million is committed for the new model production tooling supported by the Company's R&D facilities on-site in Swindon and Offenbach, Germany. Initially, a new range of *Civic* models will be produced and then a new B-segment small car.

To achieve the planned expansion in production capacity, Honda's second car manufacturing plant is to be constructed within the existing Swindon site (£130 million). Improvement of existing manufacturing facilities, including the engine plant, will achieve the same standards of efficiency and environmental performance as the new plant (£120 million). It will also strengthen the overall efficiency infrastructure of HUM to support 250,000 unit annual production.

Commitment to the second car plant will bring Honda's total investment to date in its European car production facility to £1.15 billion.

Consolidated Balance Sheets

Honda Motor Co., Ltd. and Subsidiaries
June 30, 1998, and March 31 and June 30, 1999

	Millions of yen		
	June 30, 1998 (Unaudited)	March 31, 1999 (Audited)	June 30, 1999 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents.....	¥ 229,593	¥ 377,624	¥ 241,000
Trade receivables.....	405,878	397,142	346,102
Finance subsidiaries—receivables.....	778,625	661,697	680,467
Inventories	607,417	599,150	595,219
Deferred income taxes	144,169	133,959	129,967
Other current assets	225,808	200,281	196,678
Total current assets	<u>2,391,490</u>	<u>2,369,853</u>	<u>2,189,433</u>
Finance subsidiaries—receivables	1,109,012	1,026,360	1,132,861
Investments and advances	346,379	377,116	371,103
Property, plant and equipment, at cost:			
Land	288,236	292,631	299,191
Buildings	770,829	783,200	783,852
Machinery and equipment	1,791,180	1,773,767	1,772,869
Construction in progress	125,134	40,357	46,342
	2,975,379	2,889,955	2,902,254
Less accumulated depreciation	1,777,733	1,742,594	1,763,548
Net property, plant and equipment	<u>1,197,646</u>	<u>1,147,361</u>	<u>1,138,706</u>
Other assets	79,521	113,557	112,198
Total assets	<u>¥5,124,048</u>	<u>¥5,034,247</u>	<u>¥4,944,301</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings	¥1,001,503	¥ 880,862	¥ 797,160
Trade payables	631,266	699,982	640,324
Accrued expenses	464,131	455,461	425,829
Income taxes	100,233	71,618	62,636
Other current liabilities.....	231,489	157,273	143,462
Total current liabilities	<u>2,428,622</u>	<u>2,265,196</u>	<u>2,069,411</u>
Long-term debt	618,610	673,084	726,491
Other liabilities	334,126	332,112	334,843
Total liabilities	<u>¥3,381,358</u>	<u>¥3,270,392</u>	<u>¥3,130,745</u>
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares, par value ¥50 or without par value; issued 974,414,215 shares in June 1998, 974,414,215 shares in March 1999 and 974,414,215 shares in June 1999.....	86,067	86,067	86,067
Capital surplus	171,914	172,529	172,529
Legal reserves	27,084	26,828	27,285
Retained earnings	1,762,841	1,977,613	2,040,274
Adjustments from foreign currency translation.....	(248,055)	(419,134)	(432,828)
Net unrealized gains on marketable equity securities.....	19,630	25,672	25,949
Minimum pension liabilities adjustment.....	(76,791)	(105,720)	(105,720)
Accumulated other comprehensive income (loss)	(305,216)	(499,182)	(512,599)
Total stockholders' equity	<u>¥1,742,690</u>	<u>¥1,763,855</u>	<u>¥1,813,556</u>
Total liabilities and stockholders' equity	<u>¥5,124,048</u>	<u>¥5,034,247</u>	<u>¥4,944,301</u>

Consolidated Statements of Income and Retained Earnings (Unaudited)

Honda Motor Co., Ltd. and Subsidiaries
For the three months ended June 30, 1998 and 1999

	Millions of yen	
	Three months ended June 30, 1998	Three months ended June 30, 1999
Net sales and other operating revenue	¥1,595,372	¥1,516,668
Operating costs and expenses:		
Cost of sales.....	1,101,006	1,038,274
Selling, general and administrative.....	278,449	276,068
Research and development	72,280	77,329
Operating income	143,637	124,997
Other income:		
Interest and other.....	4,128	3,064
Other expenses:		
Interest	7,933	5,442
Other.....	2,091	1,557
Income before income taxes	137,741	121,062
Income taxes	63,847	49,716
Income before equity in income of affiliates	73,894	71,346
Equity in income of affiliates	4,327	1,516
Net income	78,221	72,862
Retained earnings:		
Balance at beginning of period.....	1,694,070	1,977,613
Cash dividends paid.....	(8,770)	(9,744)
Transfer to legal reserves	(680)	(457)
Balance at end of period	¥1,762,841	¥2,040,274
Depreciation	¥41,410	¥41,201
Capital expenditures	54,568	44,029
	Yen	
Net income per		
Common share: Basic	¥ 80.27	¥ 74.78
Diluted	80.27	74.78
American share: Basic	160.54	149.56
Diluted	160.54	149.56

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. Net income per common share amounts are computed based on the Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per share which is effective for both interim and annual periods ended after December 15, 1997. 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 shares.
3. The average exchange rate for the fiscal first quarter ended June 30, 1999, was ¥121.01=US\$1. The average exchange rate for the corresponding period last year was ¥135.74=US\$1, a difference of ¥14.73.
4. The United States dollar amounts have been translated from yen solely for the convenience of the reader at the rate of ¥121.10=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 June 30, 1999.
5. One American share represents two common shares.
6. The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" in the first fiscal quarter ended June 30, 1998. The following table represents components of the Company's comprehensive income. Other comprehensive income (loss) 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, 1999
Net income	¥ 78,221	¥ 72,862
Other comprehensive income (loss)	65,325	(13,417)
Comprehensive income	143,546	59,445

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, 1999)

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