

Third Quarter Report

Period Ended December 31, 1999

HONDA

Consolidated Financial Summary (Unaudited)

Financial Highlights

Honda Motor Co., Ltd., and Subsidiaries
For the three months and nine months ended December 31, 1998 and 1999

	Millions of yen				Thousands of U.S. dollars	
	Three months		Nine months		Three months	Nine months
	1998	1999	1998	1999	1999	1999
Net sales and other operating revenue	¥1,494,837	¥1,448,010	¥4,628,420	¥4,480,926	\$14,140,723	\$43,759,043
Operating income	137,132	105,780	434,505	335,325	1,033,008	3,274,658
Income before income taxes	136,029	104,393	417,541	330,821	1,019,463	3,230,674
Net income	75,586	63,308	233,869	199,688	618,242	1,950,078
	Yen				U.S. dollars	
Net income per						
Common Share						
Basic	¥ 77.57	¥ 64.97	¥240.01	¥204.93	\$0.63	\$2.00
Diluted	77.57	64.97	240.01	204.93	0.63	2.00
American Share						
Basic	155.14	129.94	480.02	409.86	1.27	4.00
Diluted	155.14	129.94	480.02	409.86	1.27	4.00

Unit Sales Breakdown

	Thousands of units			
	Three months		Nine months	
	1998	1999	1998	1999
MOTORCYCLES				
Japan	108	77	393	321
North America	25	50	86	113
Europe	75	71	280	271
Others	766	809	2,287	2,335
Total	974	1,007	3,046	3,040
AUTOMOBILES				
Japan	180	177	506	515
North America	313	335	869	954
Europe	45	47	175	184
Others	61	63	165	162
Total	599	622	1,715	1,815
POWER PRODUCTS				
Japan	37	46	120	137
North America	295	358	996	1,220
Europe	251	380	696	874
Others	214	265	603	700
Total	797	1,049	2,415	2,931

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

Net Sales Breakdown

	Millions of yen			
	Three months		Nine months	
	1998	1999	1998	1999
MOTORCYCLE BUSINESS				
Japan	¥ 25,800 (17.9%)	¥ 20,235 (15.6%)	¥ 91,932 (17.8%)	¥ 75,269 (18.1%)
North America	9,918 (6.9%)	20,333 (15.7%)	49,847 (9.7%)	51,649 (12.4%)
Europe	35,210 (24.4%)	27,909 (21.6%)	138,148 (26.8%)	116,089 (28.0%)
Others	73,575 (50.8%)	60,840 (47.1%)	236,514 (45.7%)	172,188 (41.5%)
Total	¥ 144,503 (100.0%)	¥ 129,317 (100.0%)	¥ 516,441 (100.0%)	¥ 415,195 (100.0%)
AUTOMOBILE BUSINESS				
Japan	¥ 340,205 (27.8%)	¥ 348,138 (29.2%)	¥ 975,630 (26.2%)	¥1,015,789 (27.7%)
North America	701,567 (57.3%)	680,972 (57.1%)	2,092,511 (56.3%)	2,065,604 (56.2%)
Europe	101,715 (8.3%)	82,332 (6.9%)	402,194 (10.8%)	340,070 (9.3%)
Others	81,170 (6.6%)	80,807 (6.8%)	248,215 (6.7%)	251,731 (6.8%)
Total	¥1,224,657 (100.0%)	¥1,192,249 (100.0%)	¥3,718,550 (100.0%)	¥3,673,194 (100.0%)
OTHERS				
Japan	¥ 29,896 (23.8%)	¥ 34,454 (27.2%)	¥ 80,449 (20.4%)	¥ 86,390 (22.0%)
North America	68,789 (54.7%)	67,036 (53.0%)	239,382 (60.8%)	237,716 (60.6%)
Europe	14,935 (11.9%)	14,315 (11.3%)	39,741 (10.1%)	38,583 (9.8%)
Others	12,057 (9.6%)	10,639 (8.5%)	33,857 (8.7%)	29,848 (7.6%)
Total	¥ 125,677 (100.0%)	¥ 126,444 (100.0%)	¥ 393,429 (100.0%)	¥ 392,537 (100.0%)
TOTAL				
Japan	¥ 395,901 (26.5%)	¥ 402,827 (27.8%)	¥1,148,011 (24.8%)	¥1,177,448 (26.3%)
North America	780,274 (52.2%)	768,341 (53.1%)	2,381,740 (51.4%)	2,354,969 (52.6%)
Europe	151,860 (10.2%)	124,556 (8.6%)	580,083 (12.5%)	494,742 (11.0%)
Others	166,802 (11.1%)	152,286 (10.5%)	518,586 (11.3%)	453,767 (10.1%)
Total	¥1,494,837 (100.0%)	¥1,448,010 (100.0%)	¥4,628,420 (100.0%)	¥4,480,926 (100.0%)

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

To Our Shareholders

■ Third-Quarter Results

Honda's consolidated net income for the fiscal third quarter ended December 31, 1999, totaled ¥63.3 billion (\$618 million), a decrease of 16.2% from the same period in 1998. Net income per common share, both on a basic and fully diluted basis, for the quarter amounted to ¥64.97 (\$0.63), compared to ¥77.57 from the corresponding period last year. Each of Honda's American Depositary Shares represents two common shares.

Unit sales in all of Honda's business segments, namely motorcycles, automobiles and power products, increased during the quarter and consolidated net sales and other operating revenue for the quarter amounted to ¥1,448.0 billion (\$14,141 million), a fall of 3.1% from the same period in 1998.

This decline in revenue was due primarily to currency translation effects, which had a negative impact on foreign currency-denominated revenue from Honda's overseas subsidiaries translated into yen. Honda estimates that if the yen exchange rate had remained unchanged from the same period in 1998, revenue for the third quarter would have advanced by approximately 6.9%.

Consolidated operating income for the quarter totaled ¥105.7 billion (\$1,033 million), dropping 22.9% from the same period in 1998. Despite Honda's increased unit sales and ongoing cost reduction efforts, the negative impact of yen appreciation was the major factor for this decrease in operating income.

Consolidated income before income taxes for the quarter totaled ¥104.3 billion (\$1,019 million), 23.3% lower than the corresponding period last year.

■ Review of Operations

Reviewing Honda's sales in the third quarter by business segment, motorcycle unit sales rose 3.4%, to 1,007,000 units, while revenue decreased 10.5%, to ¥129.3 billion (\$1,263 million). This growth in unit sales was due primarily to higher sales in Asia, particularly in India, which offset slower unit sales in Japan and Europe.

Honda's unit sales of automobiles increased by 3.8%, to 622,000 units, while revenue slipped 2.6%, to ¥1,192.2 billion (\$11,643 million) during the third quarter. This gain in unit sales was primarily due to improved sales of the *Odyssey* and the *CR-V* in North America.

Unit sales of power products showed strong growth, totaling 1,049,000 units, an increase of 31.6% from the same period in 1998. Honda's general-purpose engines in North America and Europe contributed to this climb in unit sales. Revenue from other businesses, including the power product business and financial services, edged up 0.6%, to ¥126.4 billion (\$1,235 million).

■ Nine-Month Results

Honda's consolidated net income for the fiscal nine months ended December 31, 1999, totaled ¥199.6 billion (\$1,950 million), a decrease of 14.6% from the same period in 1998. Net income per common share, both on a basic and fully diluted basis, for the fiscal nine months amounted to ¥204.93 (\$2.00), compared to ¥240.01 for the same period in 1998.

Unit sales of automobiles and power products expanded, while unit sales of motorcycles, in particular in Japan and Latin America, contracted. Consolidated net sales and other operating revenue for the fiscal nine months amounted to ¥4,480.9 billion (\$43,759 million), a decrease of 3.2% from the same period in 1998.

This decline in revenue was due primarily to currency translation effects. Honda estimates that if the exchange rate of the yen had remained unchanged from the same period in 1998, revenue for the nine-month period would have increased by approximately 7.8%.

Consolidated operating income for the fiscal nine months totaled ¥335.3 billion (\$3,275 million), decreasing 22.8% from the same period in 1998 primarily due to the substantial appreciation of the yen.

Consolidated income before income taxes for the fiscal nine months totaled ¥330.8 billion (\$3,231 million), 20.8% lower than the corresponding period in 1998.

■ Nine-Month Review of Operations

Reviewing Honda's sales in the nine-month period by business segment, motorcycle unit sales were down 0.2%, to 3,040,000 units, while revenue decreased 19.6%, to ¥415.1 billion (\$4,055 million). Unit sales in North America and Asia, in particular in India and Indonesia, grew during the period; however sluggish sales in Japan and Latin America affected Honda's motorcycle unit sales.

Honda's unit sales of automobile increased by 5.8%, to 1,815,000 units, while revenue fell 1.2%, to ¥3,673.1 billion (\$35,871 million) for the fiscal nine months. Favorable sales of automobiles, in particular the *Odyssey* and the *Acura TL* in North America and minivehicles such as the *Life* and *Vamos* in Japan, were the primary contributors to this surge in unit sales.

Unit sales of power products showed firm growth throughout the world, totaling 2,931,000 units, an increase of 21.4% from the same period in 1998. Strong sales of general-purpose engines in North America and Europe were the major contributors to this boost in unit sales. Honda's other businesses, including power products and financial services, posted a 0.2% reduction in revenue, amounting to ¥392.5 billion (\$3,833 million).

March 2000



Hiroyuki Yoshino
President and Chief Executive Officer

North America

■ Honda's All-new *Acura 3.2CL Coupe*

The 2001 *CL* coupe offers high performance engine technology, advanced European styling and best-in-class standard features, making it well positioned to compete in the luxury performance coupe market.

The *CL* will be available in two models: the completely redesigned *3.2CL* and a new higher performance version, the *3.2CL Type S*. Both models are powered by versions of *Acura's* all-aluminum, 3.2-liter, 24-valve V-6 with the patented VTEC™ (Variable Valve Timing and Lift Electronic Control) system. The *3.2CL's* V-6 engine produces 225 horsepower and is similar to the engine in the popular *Acura 3.2TL* luxury performance sedan.

The new *Type S* produces 260 horsepower through a dual-stage induction system and low-restriction exhaust system, making it the most powerful coupe in its class. The *Type S* tuning also allows for a flat torque curve providing an impressive 231 lb-ft torque between 2500 and 5500 rpm.

The *CL* achieves luxury and performance while balancing *Acura's* commitment to the environment, as both the *3.2CL* and the *Type S* models will be Low Emission Vehicles (LEV). The California model *3.2CL* will be an Ultra Low Emission Vehicle (ULEV) to further reduce emissions.

The new *CL* has been equipped with a comprehensive array of comfort and convenience amenities. Interior features include a standard *Acura/Bose®* six-speaker music system with six-disc, indash CD changer, computer-controlled Automatic Climate Control System with micron air filtration, power moonroof and leather interior with four individual bucket seats. The best-in-class *Acura Navigation System* is the only factory option available on the *CL* and *CL Type S*.

Honda technology extends to the area of vehicle safety with the *CL's* extensive list of standard safety features. Both *CL* models are equipped with standard xenon High Intensity Discharge (HID) headlights for excellent nighttime visibility, Antilock Braking System (ABS), along with driver and front passenger Supplemental Restraint System (SRS) air bags with dual threshold deployment and a dual stage inflation system on the passenger's side. Side air bags for the driver and front passenger also are standard, and incorporate an occupant size and position sensor system on the passenger's seat, allowing the control module to shut off

the passenger's side air bag if a child or small adult is leaning into the deployment path of the air bag. The *Type S* also adds a unique Vehicle Stability Assist (VSA) system that helps the driver to maintain control during cornering, acceleration and sudden collision-avoidance maneuvers.



2001 Acura 3.2CL Coupe

Japan

■ Honda's Comprehensive Engine-to-Body Manufacturing System

Honda will invest ¥15 billion to increase the efficiency and flexibility of its global engine manufacturing system. While replacing its current engine lineup with a series of next generation engines by the year 2005, Honda also plans to innovate the manufacturing system used to build these power trains to strengthen the competitiveness in the production area.

Additional plans are to transfer some of its manufacturing equipment and techniques to overseas facilities to increase local parts sourcing and expand production capacity.

The new investment will establish efficient, flexible engine production lines with minimal impact on the environment. This is consistent with the "Green Factory" concept, first announced in 1997, which was initiated to achieve more efficient overall use of resources in the production area. Together with a previously announced ¥36 billion investment plan to strengthen vehicle production, Honda will implement a comprehensive engine-to-body production system in its Suzuka and Sayama factories in Japan.

This new system will consolidate the current production lines to a capacity of 1.2 million units per year, improving

the production capacity utilization rate for engine assembly lines from the present 75%, to nearly 100%.

Through these innovations Honda aims to expand its overseas production to 1.8 million units by 2003. This will result in a global production capacity of 3.0 million automobiles and power trains.

The basic objectives of the new investment are as follows:

- Increase the number of engines that can be produced on a single line by eliminating model-specific equipment and production processes.
- Substantially expand the production flexibility between production lines and factories.
- Achieve an integrated production system from engine manufacturing to vehicle assembly, and cut distribution expenses and in-house power train supply by 50% by reducing production lead-time, and thus, significantly improve the ability to quickly respond to changes in the marketplace.

■ Formula One Organizational Structure for the Upcoming 2000 Season

Honda will participate in the Formula One (F1) races from next year as a joint collaboration with British American Racing. The new team will be officially called "British American Racing Honda."

Honda announced its newly developed F1 engine, code-named "RA000E," which will power the team's racing machines in the 2000 season. The team commenced actual track testing of the new power plant from December 1999.

Overview of the New Team Structure

Team Name:	British American Racing Honda
Honda F1 R&D Project Leader:	Takefumi Hosaka, Managing Director, Honda R&D Co., Ltd.

Overview of Honda Racing Development, Ltd.

President:	Shoichi Tanaka
Technical Director:	Kazutoshi Nishizawa
Location:	Bracknell, Berkshire, United Kingdom
Activities:	Provide feedback on chassis technology to Honda R&D, conduct engine maintenance and public relations

Consolidated Balance Sheets

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

	Millions of yen		
	Dec. 31, 1998 (Unaudited)	Mar. 31, 1999 (Audited)	Dec. 31, 1999 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents.....	¥ 311,214	¥ 377,624	¥ 281,093
Trade receivables.....	306,951	397,142	310,258
Finance subsidiaries—receivables.....	649,962	661,697	642,904
Inventories	580,422	599,150	581,774
Deferred income taxes	153,888	133,959	143,512
Other current assets.....	242,480	200,281	198,356
Total current assets	<u>2,244,917</u>	<u>2,369,853</u>	<u>2,157,897</u>
Finance subsidiaries—receivables	977,647	1,026,360	829,843
Investments and advances	343,419	377,116	388,440
Property, plant and equipment, at cost:			
Land	287,255	292,631	293,868
Buildings	761,157	783,200	761,624
Machinery and equipment	1,747,875	1,773,767	1,699,624
Construction in progress	64,074	40,357	56,308
	<u>2,860,361</u>	<u>2,889,955</u>	<u>2,811,424</u>
Less accumulated depreciation	1,730,677	1,742,594	1,729,576
Net property, plant and equipment	<u>1,129,684</u>	<u>1,147,361</u>	<u>1,081,848</u>
Other assets	78,832	113,557	109,664
Total assets	<u>¥4,774,499</u>	<u>¥5,034,247</u>	<u>¥4,567,692</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings	¥ 925,772	¥ 880,862	¥ 782,943
Trade payables	579,912	699,982	579,749
Accrued expenses	428,909	455,461	430,211
Income taxes	64,165	71,618	35,445
Other current liabilities.....	177,094	157,273	142,921
Total current liabilities	<u>2,175,852</u>	<u>2,265,196</u>	<u>1,971,269</u>
Long-term debt	614,896	673,084	516,455
Other liabilities	273,142	332,112	313,764
Total liabilities	<u>¥3,063,890</u>	<u>¥3,270,392</u>	<u>¥2,801,488</u>
Stockholders' equity:			
Common stock, authorized 3,600,000,000 shares, par value ¥50 or without par value; issued 974,414,215 shares in December 1998, March and December 1999.....	86,067	86,067	86,067
Capital surplus	172,529	172,529	172,529
Legal reserves	26,828	26,828	27,545
Retained earnings	1,906,437	1,977,613	2,156,121
Accumulated other comprehensive income:			
Adjustments from foreign currency translation	(414,573)	(419,134)	(610,460)
Net unrealized gains on marketable equity securities	10,112	25,672	40,122
Minimum pension liabilities adjustments.....	(76,791)	(105,720)	(105,720)
Total accumulated other comprehensive income.....	<u>(481,252)</u>	<u>(499,182)</u>	<u>(676,058)</u>
Total stockholders' equity	<u>¥1,710,609</u>	<u>¥1,763,855</u>	<u>¥1,766,204</u>
Total liabilities and stockholders' equity	<u>¥4,774,499</u>	<u>¥5,034,247</u>	<u>¥4,567,692</u>

Consolidated Statements of Income and Retained Earnings (Unaudited)

Honda Motor Co., Ltd., and Subsidiaries
For the three months and nine months ended December 31, 1998 and 1999

	Millions of yen			
	Three months ended Dec. 31, 1998	Three months ended Dec. 31, 1999	Nine months ended Dec. 31, 1998	Nine months ended Dec. 31, 1999
Net sales and other operating revenue	¥1,494,837	¥1,448,010	¥4,628,420	¥4,480,926
Operating costs and expenses:				
Cost of sales	1,003,096	997,496	3,125,255	3,078,609
Selling, general and administrative	276,800	261,336	847,258	822,576
Research and development	77,809	83,398	221,402	244,416
Operating income	137,132	105,780	434,505	335,325
Other income:				
Interest and other	9,245	4,632	10,495	15,247
Other expenses:				
Interest	6,823	4,453	21,749	14,189
Other	3,525	1,566	5,710	5,562
Income before income taxes	136,029	104,393	417,541	330,821
Income taxes	64,458	45,261	196,225	141,380
Income before equity in income of affiliates	71,571	59,132	221,316	189,441
Equity in income of affiliates	4,015	4,176	12,553	10,247
Net income	75,586	63,308	233,869	199,688
Retained earnings:				
Balance at beginning of period	1,842,482	2,103,792	1,694,070	1,977,613
Cash dividends paid	11,693	10,719	20,463	20,463
Transfer to legal reserves	(62)	260	424	717
Transfer to capital surplus	—	—	615	—
Balance at end of period	<u>¥1,906,437</u>	<u>¥2,156,121</u>	<u>¥1,906,437</u>	<u>¥2,156,121</u>
Depreciation	¥45,400	¥42,104	¥131,110	¥124,950
Capital expenditures	42,741	49,295	158,247	135,885
	Yen			
Net income per				
Common Share:				
Basic	¥ 77.57	¥ 64.97	¥240.01	¥204.93
Diluted	77.57	64.97	240.01	204.93
American Share:				
Basic	155.14	129.94	480.02	409.86
Diluted	155.14	129.94	480.02	409.86

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 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 third quarter ended December 31, 1999, was ¥104.56=US\$1. The average exchange rate for the corresponding period last year was ¥119.82=US\$1, a difference of ¥15.26. The average exchange rate for the fiscal nine months ended December 31, 1999, was ¥113.08=US\$1, a difference of ¥18.75 as compared with ¥131.83=US\$1 for the corresponding period last year.
4. The United States dollar amounts have been translated from yen solely for the convenience of the reader at the rate of ¥102.40=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, 1999.
5. One American Depositary 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 December 31, 1998	Three months ended December 31, 1999
Net income.....	¥ 75,586	¥ 63,308
Other comprehensive income (loss)...	(124,647)	(66,277)
Comprehensive income (loss)	(49,061)	(2,969)

	(Millions of yen)	
	Nine months ended December 31, 1998	Nine months ended December 31, 1999
Net income.....	¥233,869	¥199,688
Other comprehensive income (loss)...	(110,711)	(176,876)
Comprehensive income.....	123,158	22,812

Transfer Agent for Common Stock
The Chuo Trust & Banking Co., Ltd.
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American Depositary Receipts**
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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 December 31, 1999)

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