

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2006

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2005 and 2006 and March 31, 2006

Assets	Yen (millions)		
	September 30, 2005 unaudited	September 30, 2006 unaudited	March 31, 2006 audited
Current assets:			
Cash and cash equivalents	¥ 731,199	¥ 792,489	¥ 747,327
Trade accounts and notes receivables, net of allowance for doubtful accounts of ¥10,554 million at September 30, 2005, ¥8,259 million at September 30, 2006 and ¥10,689 million at March 31, 2006 (note 2)	672,160	796,245	963,320
Finance subsidiaries-receivables, net (notes 2,5 and 9)	1,214,243	1,471,967	1,230,912
Inventories (note 3)	941,161	1,109,412	1,036,304
Deferred income taxes	225,255	198,848	198,033
Other current assets (notes 4 and 9)	372,583	469,075	450,002
Total current assets	4,156,601	4,838,036	4,625,898
Finance subsidiaries-receivables, net (notes 2,5 and 9)	2,909,017	3,290,975	2,982,425
Investments and advances:			
Investments in and advances to affiliates	377,682	426,029	408,993
Other, including marketable equity securities (notes 4 and 9)	310,285	250,095	298,460
Total investments and advances	687,967	676,124	707,453
Property, plant and equipment, at cost (note 5):			
Land	370,472	402,338	384,447
Buildings	1,062,707	1,217,806	1,149,517
Machinery and equipment	2,341,808	2,700,806	2,562,507
Construction in progress	153,614	201,600	115,818
	3,928,601	4,522,550	4,212,289
Less accumulated depreciation and amortization	2,270,024	2,548,790	2,397,022
Net property, plant and equipment	1,658,577	1,973,760	1,815,267
Other assets (notes 2 and 9)	470,517	423,562	440,638
Total assets	¥9,882,679	¥11,202,457	¥10,571,681
Liabilities and Stockholders' Equity	Yen (millions)		
	September 30, 2005 unaudited	September 30, 2006 unaudited	March 31, 2006 audited
Current liabilities:			
Short-term debt (note 5)	¥ 725,771	¥ 1,221,228	¥ 693,557
Current portion of long-term debt (note 5)	567,250	749,127	657,645
Trade payables:			
Notes	24,684	26,890	31,698
Accounts	931,950	1,031,255	1,099,902
Accrued expenses	947,571	951,445	930,115
Income taxes payable	80,505	62,644	110,160
Other current liabilities (note 9)	435,155	481,845	466,332
Total current liabilities	3,712,886	4,524,434	3,989,409
Long-term debt, excluding current portion (note 5)	1,800,814	1,745,205	1,879,000
Other liabilities (notes 6 and 9)	742,313	576,037	577,522
Total liabilities	6,256,013	6,845,676	6,445,931
Stockholders' equity:			
Common stock, authorized 7,108,000,000 shares at September 30,2005 and 7,086,000,000 shares at September 30,2006 and at March 31, 2006 ; issued 1,856,828,430 shares at September 30, 2005 and 1,834,828,430 shares at September 30, 2006 and at March 31, 2006	86,067	86,067	86,067
Capital surplus	172,531	172,529	172,529
Legal reserves	35,516	37,332	35,811
Retained earnings	4,018,709	4,482,612	4,267,886

Accumulated other comprehensive income (loss), net (note 8)	(644,464)	(387,749)	(407,187)
Treasury stock, at cost 14,791,514 shares at September 30, 2005, 11,147,456 shares at September 30, 2006 and 8,680,000 shares at March 31, 2006	(41,693)	(34,010)	(29,356)
Total stockholders' equity	<u>3,626,666</u>	<u>4,356,781</u>	<u>4,125,750</u>
Commitments and contingent liabilities (notes 11 and 12)			
Total liabilities and stockholders' equity	<u>¥9,882,679</u>	<u>¥11,202,457</u>	<u>¥10,571,681</u>

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the six months ended September 30, 2005 and 2006 and the year ended March 31, 2006

	Yen (millions)		
	September 30, 2005 <u>unaudited</u>	September 30, 2006 <u>unaudited</u>	March 31, 2006 <u>audited</u>
Net sales and other operating revenue	¥4,602,249	¥5,230,598	¥9,907,996
Operating costs and expenses:			
Cost of sales	3,235,849	3,745,799	7,010,357
Selling, general and administrative	786,273	843,308	1,656,365
Research and development	247,040	244,946	510,385
	<u>4,269,162</u>	<u>4,834,053</u>	<u>9,177,107</u>
Gain on transfer of the substitutional portion of the Employees' Pension Funds	—	—	138,016
Operating income	333,087	396,545	868,905
Other income (note 1 (q)):			
Interest	9,926	20,125	27,363
Other	4,516	5,334	2,214
	<u>14,442</u>	<u>25,459</u>	<u>29,577</u>
Other expenses (note 1(d) and (q)):			
Interest	6,737	6,682	11,902
Other	27,092	69,450	71,963
	<u>33,829</u>	<u>76,132</u>	<u>83,865</u>
Income before income taxes and equity in income of affiliates	313,700	345,872	814,617
Income taxes (benefit) expense :			
Current	149,531	134,444	319,945
Deferred	(32,998)	(2,248)	(2,756)
	<u>116,533</u>	<u>132,196</u>	<u>317,189</u>
Income before equity in income of affiliates	197,167	213,676	497,428
Equity in income of affiliates	47,207	57,635	99,605
Net income	<u>¥ 244,374</u>	<u>¥ 271,311</u>	<u>¥ 597,033</u>
		Yen	
	September 30, 2005	September 30, 2006	March 31, 2006
Basic net income per common share (note 1(o)):	<u>¥ 132.32</u>	<u>¥ 148.52</u>	<u>¥ 324.33</u>

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the six months ended September 30, 2005 and 2006 and the year ended March 31, 2006

	Yen (millions)						Total stockholders' equity
	Common stock	Capital surplus	Legal reserves	Retained earnings	Accumulated other comprehensive income (loss), net	Treasury stock	
Balance at March 31, 2005	<u>86,067</u>	<u>172,531</u>	<u>34,688</u>	<u>3,809,383</u>	<u>(793,934)</u>	<u>(19,441)</u>	<u>3,289,294</u>
Transfer to legal reserves			828	(828)			—
Cash dividends				(34,220)			(34,220)
Comprehensive income (loss):							
Net income for the period				244,374			244,374
Other comprehensive income (loss) for the period, net of tax (note 8)							
Adjustments from foreign currency translation					135,039		135,039
Unrealized gains (losses) on marketable equity securities:							
Unrealized holding gains (losses) arising during the period					14,862		14,862
Reclassification adjustments for losses (gains) realized in net income					(464)		(464)
Unrealized gains (losses) on derivative instruments:							
Unrealized holding gains (losses) arising during the year							—
Reclassification adjustments for losses (gains) realized in net income							—
Minimum pension liabilities adjustment					33		33
Total comprehensive income for the period							<u>393,844</u>
Purchase of treasury stock						(22,252)	(22,252)
Reissuance of treasury stock							—
Retirement of treasury stock							—
Balance at September 30, 2005 (Unaudited)	<u>86,067</u>	<u>172,531</u>	<u>35,516</u>	<u>4,018,709</u>	<u>(644,464)</u>	<u>(41,693)</u>	<u>3,626,666</u>
Balance at March 31, 2006	<u>86,067</u>	<u>172,529</u>	<u>35,811</u>	<u>4,267,886</u>	<u>(407,187)</u>	<u>(29,356)</u>	<u>4,125,750</u>
Transfer to legal reserves			1,521	(1,521)			—
Cash dividends				(54,784)			(54,784)
Comprehensive income (loss):							
Net income for the period				271,311			271,311
Other comprehensive income (loss) for the period, net of tax (note 8)							
Adjustments from foreign currency translation					29,277		29,277
Unrealized gains (losses) on marketable equity securities:							
Unrealized holding gains (losses) arising during the period					(7,667)		(7,667)
Reclassification adjustments for losses (gains) realized in net income					(2,155)		(2,155)
Unrealized gains (losses) on							

derivative instruments:							
Unrealized holding gains (losses) arising during the year					(581)		(581)
Reclassification adjustments for losses (gains) realized in net income					588		588
Minimum pension liabilities adjustment					(24)		(24)
Total comprehensive income for the period							<u>290,749</u>
Purchase of treasury stock						(23,531)	(23,531)
Reissuance of treasury stock				(280)		18,877	18,597
Retirement of treasury stock							—
Balance at September 30, 2006 (Unaudited)	<u>86,067</u>	<u>172,529</u>	<u>37,332</u>	<u>4,482,612</u>	<u>(387,749)</u>	<u>(34,010)</u>	<u>4,356,781</u>
Balance at March 31, 2005	<u>86,067</u>	<u>172,531</u>	<u>34,688</u>	<u>3,809,383</u>	<u>(793,934)</u>	<u>(19,441)</u>	<u>3,289,294</u>
Transfer to legal reserves			1,123	(1,123)			—
Cash dividends				(71,061)			(71,061)
Comprehensive income (loss), :							
Net income for the period				597,033			597,033
Other comprehensive income (loss) for the period, net of tax (note 8)							
Adjustments from foreign currency translation					249,160		249,160
Unrealized gains (losses) on marketable equity securities:							
Unrealized holding gains (losses) arising during the period					29,807		29,807
Reclassification adjustments for losses (gains) realized in net income					(841)		(841)
Unrealized gains (losses) on derivative instruments:							
Unrealized holding gains (losses) arising during the year					(26)		(26)
Reclassification adjustments for losses (gains) realized in net income					(38)		(38)
Minimum pension liabilities adjustment					108,685		<u>108,685</u>
Total comprehensive income for the period							<u>983,780</u>
Purchase of treasury stock						(77,067)	(77,067)
Reissuance of treasury stock				(125)		928	803
Retirement of treasury stock		(2)		(66,221)		66,224	1
Balance at March 31, 2006 (Audited)	<u>86,067</u>	<u>172,529</u>	<u>35,811</u>	<u>4,267,886</u>	<u>(407,187)</u>	<u>(29,356)</u>	<u>4,125,750</u>

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended September 30, 2005 and 2006 and the year ended March 31, 2006

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
	unaudited	unaudited	audited
Cash flows from operating activities (note 7):			
Net income	¥ 244,374	¥ 271,311	¥ 597,033
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	112,970	155,535	262,225
Deferred income taxes	(32,998)	(2,248)	(2,756)
Equity in income of affiliates	(47,207)	(57,635)	(99,605)
Dividends from affiliates	23,858	27,483	64,055
Provision for credit and lease residual losses on finance subsidiaries-receivables	19,147	17,943	36,153
Loss (gain) on derivative instruments, net	(12,034)	48,489	10,351
Gain on transfer of the substitutional portion of the Employees' Pension Funds	—	—	(138,016)
Decrease (increase) in assets:			
Trade accounts and notes receivables	141,577	194,998	(113,259)
Inventories	(49,627)	(54,682)	(109,661)
Other current assets	(233)	(22,981)	(75,771)
Other assets	(37,861)	(12,380)	(61,482)
Increase (decrease) in liabilities:			
Trade accounts and notes payables	(92,307)	(79,715)	41,360
Accrued expenses	5,227	17,477	98,273
Income taxes payable	12,615	(47,984)	39,900
Other current liabilities	(14,054)	6,855	6,126
Other liabilities	(2,629)	(4,068)	5,740
Other, net	49,679	(3,437)	15,891
Net cash provided by operating activities	320,497	454,961	576,557
Cash flows from investing activities:			
Increase in investments and advances	(6,082)	(3,568)	(17,314)
Decrease in investments and advances	1,048	437	3,711
Payment for purchase of available-for-sale securities	(800)	(1,828)	(6,915)
Proceeds from sales of available-for-sale securities	5,446	3,730	5,666
Payment for purchase of held-to-maturity securities	(24,034)	—	(63,395)
Proceeds from redemption of held-to-maturity securities	136	8,860	55,990
Capital expenditures	(169,726)	(282,283)	(460,021)
Proceeds from sales of property, plant and equipment	6,288	11,542	39,951
Acquisitions of finance subsidiaries-receivables	(1,589,949)	(1,701,651)	(3,031,644)
Collections of finance subsidiaries-receivables	898,705	1,061,179	1,870,675
Proceeds from sales of finance subsidiaries-receivables	426,688	134,048	930,595
Net cash used in investing activities	(452,280)	(769,534)	(672,701)
Cash flows from financing activities :			
Increase (decrease) in short-term debt	(71,194)	287,673	(124,941)
Proceeds from long-term debt	503,428	485,027	865,677
Repayment of long-term debt	(309,049)	(344,570)	(568,605)
Cash dividends paid	(34,220)	(54,784)	(71,061)
Payment for purchase of treasury stock, net	(22,252)	(23,093)	(77,064)
Net cash provided by financing activities	66,713	350,253	24,006
Effect of exchange rate changes on cash and cash equivalents	22,731	9,482	45,927
Net change in cash and cash equivalents	(42,339)	45,162	(26,211)
Cash and cash equivalents at beginning of the period	773,538	747,327	773,538
Cash and cash equivalents at end of the period	¥ 731,199	¥ 792,489	¥ 747,327

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the six months ended September 30, 2005 and 2006 and the year ended March 31, 2006

(1) General and Summary of Significant Accounting Policies

(a) Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. In the opinion of management, all adjustments which are necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the year. For further information, refer to the March 31, 2006 consolidated financial statements and notes thereto included in Honda Motor Co., Ltd. and Subsidiaries Annual Report for the year ended March 31, 2006. Consolidated financial statements ended March 31, 2006 are derived from the audited consolidated financial statements, while consolidated financial statements ended September 30, 2005 and 2006 are unaudited.

(b) Description of Business

Honda Motor Co., Ltd. (the “Company”) and its subsidiaries (collectively “Honda”) develop, manufacture, distribute and provide financing for the sale of its motorcycles, automobiles and power products. Honda’s manufacturing operations are principally conducted in 32 separate factories, four of which are located in Japan. Principal overseas manufacturing facilities are located in the United States of America, Canada, Mexico, the United Kingdom, France, Italy, Spain, China, India, Indonesia, Malaysia, Pakistan, the Philippines, Taiwan, Thailand, Vietnam, Brazil and Turkey.

Net sales and other operating revenue, Operating income and Total assets for and as of the six months ended September 30, 2006 were broken down based on the category of activity as follows:

	<u>Motorcycle Business (%)</u>	<u>Automobile Business (%)</u>	<u>Financial Services Business (%)</u>	<u>Power Product & Other Businesses (%)</u>	<u>Reconciling Items (%)</u>	<u>Consolidated (%)</u>
Net sales and other operating revenue (unaffiliated customers):	12.3	80.2	3.6	3.9	—	100.0
Operating Income	11.4	70.9	13.1	4.6	—	100.0
Total assets	8.9	43.8	49.2	2.6	(4.5)	100.0

Honda sells motorcycles, automobiles and power products in most countries in the world. For the six months ended September 30, 2006, 80.5% of net sales and other operating revenue (¥4,211,191 million) was derived from subsidiaries operating outside Japan (September 30, 2005: ¥3,592,064 million). Net sales and other operating revenue for the six months ended September 30, 2006 was geographically broken down based on the location of customers as follows:

	<u>Japan (%)</u>	<u>North America (%)</u>	<u>Europe (%)</u>	<u>Asia (%)</u>	<u>Others (%)</u>	<u>Consolidated (%)</u>
Net sales and other operating revenue:	15.7	53.6	10.6	11.9	8.2	100.0

For the six months ended September 30, 2006, 75.7% of operating income (¥300,106 million) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (September 30, 2005: ¥218,657 million). Also, 75.6% of Honda’s assets at September 30, 2006 (¥8,466,512 million) was identified with foreign operations (September 30, 2005: ¥7,133,712 million).

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Basis of Presenting Consolidated Financial Statements

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries generally maintain their books of account in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary to conform them with U.S. generally accepted accounting principles.

(d) Consolidation Policy

The consolidated financial statements include the accounts of the Company, its subsidiaries and those variable interest entities where the Company is the primary beneficiary under FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities". All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates in which the Company has the ability to exercise significant influence over their operating and financial policies, but where the Company does not have a controlling financial interest are accounted for using the equity method.

Minority interests in net assets and income are not significant and, accordingly, are not presented separately in the accompanying consolidated balance sheets and statements of income. The amount of minority interest recognized in earnings, included in other expenses-other, during the six months ended September 30, 2005 and 2006 and for the year ended March 31, 2006 was ¥7,587 million, ¥9,136 million and ¥15,287 million, respectively.

(e) Use of Estimates

Management of Honda has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Significant items subject to such estimates and assumptions include, but are not limited to, allowance for credit losses, allowance for losses on lease residual values, valuation allowance for inventories and deferred tax assets, impairment of long-lived assets, product warranty, and assets and obligations related to employee benefits. Actual results could differ from those estimates.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Revenue Recognition

Sales of manufactured products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, title and risk of loss have passed to the customers, the sales price is fixed or determinable, and collectibility is probable.

Honda provides dealer incentives passed on to the end customers generally in the form of below-market interest rate loans or lease programs. The amount of interest or lease subsidies paid is the difference between the amount offered to retail customers and a market-based interest or lease rate. Honda also provides dealer incentives retained by the dealer, which generally represent discounts provided by Honda to the dealers. These incentives are classified as a reduction of sales revenue as the consideration is paid in cash and Honda does not receive an identifiable benefit in exchange for this consideration. The estimated costs are accrued at the time the product is sold to the dealer.

Interest income from finance receivables is recognized using the interest method. Finance receivable origination fees and certain direct origination costs are deferred, and the net fee or cost is amortized using the interest method over the contractual life of the finance receivables.

Finance subsidiaries of the Company periodically sell finance receivables. Gain or loss is recognized equal to the difference between the cash proceeds received and the carrying value of the receivables sold and is recorded in the period in which the sale occurs. Honda allocates the recorded investment in finance receivables between the portion (s) of the receivables sold and portion(s) retained based on the relative fair values of those portions on the date the receivables are sold. Honda recognizes gains or losses attributable to the change in the fair value of the retained interests, which are recorded at estimated fair value and accounted for as "trading" securities. Honda determines the fair value of the retained interests by discounting the future cash flows. Those cash flows are estimated based on prepayments, credit losses and other information as available and are discounted at a rate which Honda believes is commensurate with the risk free rate plus a risk premium. A servicing asset or liability is amortized in proportion to and over the period of estimated net servicing income. Servicing assets and servicing liabilities at September 30, 2005 and 2006 and March 31, 2006 were not significant.

(g) Cash Equivalents

Honda considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(h) Inventories

Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or market.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Investments in Securities

Honda classifies its debt and marketable equity securities in the following categories: available-for-sale, trading, or held-to-maturity. Debt securities that are classified as “held-to-maturity” securities are reported at amortized cost. Debt and marketable equity securities classified as “trading” securities are reported at fair value, with unrealized gains and losses included in earnings. Other debt and marketable equity securities are classified as “available-for-sale” securities and are reported at fair value, with unrealized gains or losses, net of deferred taxes included in accumulated other comprehensive income (loss) in the stockholders’ equity section of the consolidated balance sheets. Honda did not hold any “trading” securities at September 30, 2005 or 2006 or March 31, 2006, except for retained interests in the sold pools of finance receivables, which are accounted for as “trading” securities and included in finance subsidiaries-receivables.

Honda periodically compares the fair value of investment securities with their cost basis. If the fair value of investment securities has declined below our cost basis and such decline is judged to be other-than-temporary, Honda recognizes the impairment of the investment securities and the carrying value is reduced to its fair value through a charge to income. The determination of other-than-temporary impairment is based upon an assessment of the facts and circumstances related to each investment security. In determining the nature and extent of impairment, Honda considers such factors as financial and operating conditions of the issuer, the industry in which the issuer operates, degree and period of the decline in fair value and other relevant factors.

Non-marketable equity securities are carried at cost, and are examined the possibility of impairment periodically.

(j) Goodwill

Goodwill is not amortized but instead is tested for impairment at least annually. Goodwill is considered impaired if its estimated fair value is less than the carrying value. Honda completed its annual test effective March 31, 2005 and 2006 and concluded no impairment needed to be recognized. The carrying amount of goodwill at September 30, 2005 and 2006 and March 31, 2006 was ¥19,104 million, ¥29,249 million and ¥27,951 million, respectively.

(k) Depreciation

Depreciation of property, plant and equipment is calculated principally by the declining-balance method based on estimated useful lives and salvage values of the respective assets.

The estimated useful lives used in computing depreciation of property, plant and equipment are as follows:

<u>Asset</u>	<u>Life</u>
Buildings	3 to 50 years
Machinery and equipment	2 to 20 years

(l) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Honda’s long-lived assets and certain identifiable intangibles having finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of by sale are reported at the lower of the carrying amount or estimated fair value less costs to sell.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(m) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

(n) Product-Related Expenses

Advertising and sales promotion costs are expensed as incurred. Provisions for estimated costs related to product warranty are made at the time the products are sold to customers or new warranty programs are initiated. Estimated warranty expenses are provided based on historical warranty claim experience with consideration given to the expected level of future warranty costs as well as current information on repair costs. Included in warranty expenses accruals are costs for general warranties on vehicles Honda sells and product recalls.

(o) Basic Net Income per Common Share

Basic net income per common share has been computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. The weighted average number of common shares outstanding during the six months ended September 30, 2005 and 2006 and for the year ended March 31, 2006 was 1,846,828,061, 1,826,739,817 and 1,840,799,671, respectively. There were no potentially dilutive shares outstanding during the six months ended September 30, 2005 or 2006 or for the year ended March 31, 2006.

The Company did a two-for-one stock split for the Company's common stock effective July 1, 2006. Information pertaining to Basic Net Income per Common Share has been adjusted retroactively for all periods presented to reflect this stock split.

(p) Foreign Currency Translation

Foreign currency financial statement amounts are translated into Japanese yen on the basis of the period-end rate for all assets and liabilities and the weighted average rate for the period for all income and expense amounts. Translation adjustments resulting therefrom are included in accumulated other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheets.

Foreign currency receivables and payables are translated at the applicable current rates on the balance sheet date. All revenues and expenses associated with foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the consolidated statements of income.

(q) Derivative Financial Instruments

Honda has entered into foreign exchange agreements and interest rate agreements to manage currency and interest rate exposures. These instruments include foreign currency forward contracts, currency swap agreements, currency option contracts and interest rate swap agreements.

Honda recognizes the fair value of all derivative financial instruments in its consolidated balance sheet.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Honda applies hedge accounting for certain foreign currency forward contracts related to forecasted foreign currency transactions between the Company and its subsidiaries. These are designated as cash flow hedges on the date derivative contracts entered into. The Company has a currency rate risk management policy documented. In addition, it documents all relationships between derivative financial instruments designated as cash flow hedges and the relevant hedged items to identify the relationship between them. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments designated as cash flow hedge are highly effective to offset changes in cash flows of hedged items.

When it is determined that a derivative financial instrument is not highly effective as a cash flow hedge, when the hedged item matures, is sold or is terminated, or when it is identified that the forecasted transaction is no longer probable, the Company discontinues hedge accounting. To the extent derivative financial instruments are designated as cash flow hedges and have been assessed as being highly effective, changes in their fair value are recognized in other comprehensive income (loss). The amounts are reclassified into earnings in the period when forecasted hedged transactions affect earnings. When these cash flow hedges prove to be ineffective, changes in the fair value of the derivatives are immediately recognized in earnings.

In conformity with Statement of Financial Accounting Standards (SFAS) No.133, changes in the fair value of derivative financial instruments not designated as accounting hedges are recognized in earnings in the period of the change.

The amount recognized in earnings included in other income (expenses) – other during the six months ended September 30, 2005 and 2006 and for the year ended March 31, 2006, were ¥23,131 million loss, ¥47,622 million loss and ¥55,516 million loss, respectively. In relation to this, the Company included gains and losses on translation of debts of finance subsidiaries denominated in foreign currencies intended to be hedged of ¥28,789 million gain, ¥867 million loss and ¥45,046 million gain in other income(expenses) – other during the six months ended September 30, 2005 and 2006 and the years ended March 31, 2006, respectively. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries of ¥2,757 million loss, ¥3,765 million gain and ¥827 million gain are included in other income (expenses)– other during the six months ended September 30, 2005 and 2006 and the years ended March 31, 2006, respectively. These gains and losses are presented on a net basis.

Honda doesn't hold any derivative financial instruments for trading purpose.

(r) Shipping and Handling Costs

Shipping and handling costs are included in selling, general and administrative expenses, and are charged to earnings as incurred.

(s) Asset Retirement Liability

Honda applies Financial Accounting Standards Board (FASB) Interpretation No. (FIN)47, "Accounting for Conditional Asset Retirement obligations – an interpretation of FASB Statement No.143". FIN47 clarifies the term conditional asset retirement obligation as used in SFAS No.143 and requires a liability to be recorded if the fair value of the obligation can be reasonably estimated. Asset retirement obligations covered by this Interpretation include those for which an entity has a legal obligation to perform an asset retirement activity, however the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

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(t) New Accounting Pronouncements Not Yet Adopted

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 156, "Accounting for Servicing of Financial Assets". This statement amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 gives revised guidance as to when servicing assets and servicing liabilities should be recognized. It also revises guidance regarding the initial and subsequent measurement of servicing assets and liabilities. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. Management is currently in process of quantifying the financial impact of adoption. It is not anticipated that adoption will have a material impact on the Company's financial position or results of operations.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". This Interpretation prescribes a two step process for the recognition and measurement in the financial statement of a tax position taken or expected to be taken in a tax return. This statement is effective as of an entity's first fiscal year that begins after December 15, 2006. Management is currently in the process of quantifying the financial impact of adoption.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This statement is effective as of an entity's first fiscal year that begins after November 15, 2007, with early adoption encouraged. Management is currently in the process of determining whether to early adopt this statement and quantifying the financial impact of adoption. It is not anticipated that adoption will have a material impact on the Company's financial position or results of operation.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This statement amends SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension and for Termination Benefits", SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", and SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits". This statement requires an employer to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. This statement replaces SFAS No. 87's requirement to report at least minimum pension liability measured as excess of the accumulated benefit obligation over the fair value of the plan assets. This statement also changes the date at which benefit obligations are to be measured to the date of the year-end statement of financial position. This statement is effective for fiscal years ending after December 15, 2006 with respect to the recognition of funded status of its plans and for fiscal years ending after December 15, 2008 with respect to the change in measurement date of the benefit obligation. Early adoption of both provisions is encouraged. Management is currently in the process of determining whether to early adopt this statement.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

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In September 2006, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No.108, "Quantifying Financial Misstatements". This bulletin clarifies the process of quantifying financial statement misstatements and the treatment of financial misstatements of prior years. This bulletin also requires to quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. This bulletin shows the techniques most commonly used in practice to quantify misstatements are generally referred to as the "rollover" and "iron curtain" approaches. The financial statements would require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. This bulletin is effective for financial statements for the first fiscal year ending after November 15, 2006. Management is currently in process of quantifying the financial impact of adoption. It is not anticipated that adoption will have a material impact on the Company's financial position or results of operations.

(u) Reclassifications

Certain reclassifications have been made to the prior periods' consolidated financial statements to conform to the presentation used for the six months ended September 30, 2006.

In the current period, management has classified cash dividends received from affiliates in operating activities instead of investing activities in the consolidated statements of cash flows.

(2) Finance Subsidiaries-Receivables

Finance subsidiaries-receivables represent finance receivables generated by finance subsidiaries. Certain finance receivables related to sales of inventory are reclassified to trade receivables and other assets in the consolidated balance sheets. Finance receivables include wholesale financing to dealers and retail financing and direct financing leases to consumers.

The allowance for credit losses is maintained at an amount management deems adequate to cover estimated losses on finance receivables. The allowance is based on management's evaluation of many factors, including current economic trends, industry experience, inherent risks in the portfolio and the borrower's ability to pay.

Finance subsidiaries of the Company purchase insurance to cover a substantial amount of the estimated residual value of vehicles leased to customers. The allowance for losses on lease residual values is maintained at an amount management deems adequate to cover estimated losses on the uninsured portion of the vehicles' lease residual values. The allowance is also based on management's evaluation of many factors, including current economic conditions, industry experience and the finance subsidiaries' historical experience with residual value losses.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

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Finance subsidiaries-receivables, net, consisted of the following at September 30, 2005 and 2006 and March 31, 2006:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Direct financing leases	¥2,154,049	¥2,280,334	¥2,220,100
Retail	2,388,429	2,745,234	2,405,926
Wholesale	257,211	330,077	403,499
Term loans to dealers	12,383	14,083	14,337
Loans held for sale (a)	—	180,615	—
Total finance receivables	4,812,072	5,550,343	5,043,862
Retained interests in the sold pools of finance receivables	77,987	87,465	94,634
	4,890,059	5,637,808	5,138,496
Less:			
Allowance for credit losses (b)	34,806	39,533	35,316
Allowance for losses on lease residual values	37,810	35,243	37,774
Unearned interest income and fees (c)	222,398	236,428	224,901
Finance subsidiaries-receivables, net, before reclassification	4,595,045	5,326,604	4,840,505
Less:			
Reclassification to trade receivables, net	324,329	399,780	470,002
Reclassification to other assets, net	147,456	163,882	157,166
Finance subsidiaries-receivables, net	4,123,260	4,762,942	4,213,337
Less current portion	1,214,243	1,471,967	1,230,912
Noncurrent finance subsidiaries-receivables, net	<u>¥2,909,017</u>	<u>¥3,290,975</u>	<u>¥2,982,425</u>

- (a) The loans held for sale are carried at the lower of cost or fair value.
- (b) The allowance for credit losses of finance subsidiaries-receivables at September 30, 2005 include ¥2,036 million and ¥254 million, which were reclassified to the allowance for doubtful accounts of trade receivable and other assets in the consolidated balance sheets, respectively. The allowance for credit losses of finance subsidiaries-receivables at September 30, 2006 include ¥1,620 million and ¥435 million, which were reclassified to the allowance for doubtful accounts of trade receivable and other assets in the consolidated balance sheets, respectively. The allowance for credit losses of finance subsidiaries-receivables at March 31, 2006 include ¥1,903 million and ¥463 million, which were reclassified to the allowance for doubtful accounts of trade receivable and other assets in the consolidated balance sheets, respectively.
- (c) The unearned interest income and fees at September 30, 2005 and 2006 and March 31, 2006 include ¥20,640 million, ¥21,564 million and ¥21,252million which were reclassified to trade receivable and other assets in the consolidated balance sheets.

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(3) Inventories

Inventories at September 30, 2005 and 2006 and March 31, 2006 are summarized as follows:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Finished goods	¥ 633,261	¥ 732,124	¥ 687,230
Work in process	28,031	37,500	28,218
Raw materials	279,869	339,788	320,856
	<u>¥ 941,161</u>	<u>¥ 1,109,412</u>	<u>¥ 1,036,304</u>

(4) Investments and Advances

Investments and advances at September 30, 2005 and 2006 and March 31, 2006 consisted of the following:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Current			
Corporate debt securities	¥ 11,762	¥ 10,172	¥ 13,100
U.S. government and agency debt securities	10,187	15,895	18,733
Commercial paper	12,999	—	5,998
Advances	419	793	829
	<u>¥ 35,367</u>	<u>¥ 26,860</u>	<u>¥ 38,660</u>

Investments and Advances due within one year are included in other current assets.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

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	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Noncurrent			
Marketable equity securities	¥ 116,790	¥ 125,977	¥141,846
Convertible preferred stocks	33,742	13,724	22,934
Convertible notes	82,964	32,264	56,635
Government bonds	3,000	2,999	2,999
U.S. government and agency debt securities	12,957	—	2,937
Non-marketable equity securities accounted for under the cost method			
Non-marketable preferred stocks	6,000	6,000	6,000
Other	10,969	14,904	13,357
Guaranty deposits	30,400	31,974	30,110
Advances	1,497	2,618	2,209
Other	11,966	19,635	19,433
	<u>¥ 310,285</u>	<u>¥ 250,095</u>	<u>¥298,460</u>

Certain information with respect to marketable securities at September 30, 2005 and 2006 and March 31, 2006 is summarized below:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Available-for-sale			
Cost	¥ 29,579	¥ 30,446	¥ 30,366
Fair value	116,790	125,977	141,846
Gross unrealized gains	87,245	95,630	111,540
Gross unrealized losses	<u>34</u>	<u>99</u>	<u>60</u>
Held-to-maturity			
Amortized cost	¥ 50,905	¥ 29,066	¥ 43,767
Fair value	50,540	28,977	43,428
Gross unrealized gains	48	20	1
Gross unrealized losses	<u>413</u>	<u>109</u>	<u>340</u>

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(5) Short-Term and Long-Term Debt

Short-term debt at September 30, 2005 and 2006 and March 31, 2006 is as follows:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Short-term bank loans	¥ 283,828	¥ 220,995	¥314,124
Medium-term notes	70,932	208,068	152,246
Commercial paper	371,011	792,165	227,187
	<u>¥ 725,771</u>	<u>¥1,221,228</u>	<u>¥693,557</u>

Long-term debt at September 30, 2005 and 2006 and March 31, 2006 is as follows:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Total long-term debt	¥2,368,064	¥2,494,332	¥2,536,645
Less current portion	567,250	749,127	657,645
	<u>¥1,800,814</u>	<u>¥1,745,205</u>	<u>¥1,879,000</u>

Property, plant and equipment with a net book value of approximately ¥6,657 million, ¥34,732 million, ¥22,592 million at September 30, 2005 and 2006 and March 31, 2006, respectively, were subject to specific mortgages securing indebtedness. Furthermore, finance subsidiaries-receivables of approximately ¥15,153 million, ¥4,569 million, ¥8,993 million at September 30, 2005 and 2006 and March 31, 2006, respectively, were pledged as collateral by a financial subsidiary for certain loans.

At September 30, 2005 and March 31, 2006, ¥198,083 million and ¥205,573 million, respectively, of commercial paper borrowings were classified as long-term, as it is the respective finance subsidiary's intention to refinance them on a long-term basis and it has established the necessary credit facilities to do so.

At September 30, 2006, management decided not to classify the commercial paper as long term since management has no intention of refinancing them on a long-term basis.

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(6) Other Liabilities

Other liabilities at September 30, 2005 and 2006 and March 31, 2006 are summarized as follows:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Accrued liabilities for product warranty, net of current portion	¥ 142,190	¥ 147,076	¥137,503
Minority interest	73,370	90,245	87,460
Additional minimum pension liabilities	381,125	171,855	171,773
Deferred income taxes	68,655	79,044	115,360
Other	76,973	87,817	65,426
	<u>¥ 742,313</u>	<u>¥ 576,037</u>	<u>¥577,522</u>

(7) Supplemental Disclosures of Cash Flow Information

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Cash paid during the period for:			
Interest	¥ 64,309	¥ 87,106	¥134,609
Income taxes	137,040	192,234	282,986

During the year ended March 31, 2006, the Company reissued certain of its treasury stock at fair value of ¥802 million to the minority shareholder of subsidiary, which the Company made a wholly owned subsidiary, and the Company retired shares totaling 11,000,000 shares at a cost of ¥66,224 million by offsetting with capital surplus of ¥2 million and unappropriated retained earnings of ¥66,221 million based on the resolution of board of directors.

During the six months ended September 30, 2006, the Company reissued certain of its treasury stock at fair value of ¥18,521 million to the outside shareholder of affiliates to obtain 100% share of these companies.

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Notes to Consolidated Financial Statements

(8) Accumulated Other Comprehensive Income (Loss)

The components in accumulated other comprehensive income (loss) at September 30, 2005 and 2006 and March 31, 2006 are as follows:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Adjustments from foreign currency translation	¥ (489,898)	¥ (346,500)	¥ (375,777)
Net unrealized gains on marketable equity securities	48,142	52,888	62,710
Net unrealized gains (losses) on derivative instruments	—	(57)	(64)
Minimum pension liabilities adjustment	(202,708)	(94,080)	(94,056)
Total accumulated other comprehensive income (loss)	¥ (644,464)	¥ (387,749)	¥ (407,187)

(9) Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at September 30, 2005 and 2006 and March 31, 2006 are as follows:

	Yen (millions)					
	September 30, 2005		September 30, 2006		March 31, 2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries-receivables (Including loans held for sale) (a)	¥ 2,667,060	¥ 2,634,577	¥ 3,276,658	¥ 3,268,237	¥ 2,843,819	¥ 2,813,023
Marketable equity securities	116,790	116,790	125,977	125,977	141,846	141,846
Held-to-maturity securities	50,905	50,540	29,066	28,977	43,767	43,428
Convertible preferred stocks						
Host contracts	8,418	8,418	9,194	9,194	8,943	8,943
Embedded derivatives	25,324	25,324	4,530	4,530	13,991	13,991
	33,742	33,742	13,724	13,724	22,934	22,934
Convertible notes (b)						
Host contracts	7,715	7,715	8,158	8,158	8,156	8,156
Embedded derivatives	75,249	75,249	24,106	24,106	48,479	48,479
	82,964	82,964	32,264	32,264	56,635	56,635
Debt	(3,093,835)	(3,107,461)	(3,715,560)	(3,731,539)	(3,230,202)	(3,237,471)
Foreign exchange instruments (c)						
Asset position	¥ 915	¥ 915	¥ 1,339	¥ 1,339	¥ 4,477	¥ 4,477
Liability position	(18,655)	(18,655)	(37,064)	(37,064)	(35,979)	(35,979)
Net	¥ (17,740)	¥ (17,740)	¥ (35,725)	¥ (35,725)	¥ (31,502)	¥ (31,502)
Interest rate instruments (d)						
Asset position	¥ 27,839	¥ 27,839	¥ 17,388	¥ 17,388	¥ 36,334	¥ 36,334
Liability position	(245)	(245)	(23)	(23)	(2)	(2)
Net	¥ 27,594	¥ 27,594	¥ 17,365	¥ 17,365	¥ 36,332	¥ 36,332

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- (a) The carrying amounts of finance subsidiaries-receivables at September 30, 2005 and 2006 and March 31, 2006 in the table exclude ¥1,927,985 million, ¥2,049,946 million and ¥1,996,686 million of direct financing leases, net, classified as finance subsidiaries-receivables in the consolidated balance sheets, respectively. The carrying amounts of finance subsidiaries-receivables at September 30, 2005 and 2006 and March 31, 2006 in the table also include ¥471,785 million, ¥563,662 million and ¥627,168 million of finance receivables classified as trade receivables and other assets in the consolidated balance sheets.
- (b) A subsidiary has a forward sale contract in relation to a portion of the above convertible notes. The carrying amount and estimated fair value of the derivative financial instrument as of September 30, 2005 and 2006 and March 31, 2006 is ¥9,836 million, liability position, ¥16,836 million, asset position, and ¥5,462 million, asset position, respectively.
- (c) The fair values of foreign currency forward contracts, foreign currency option contracts and foreign currency swap agreements are included in other liabilities and other current assets/liabilities in the consolidated balance sheets as follows:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Other current assets	¥ 915	¥ 1,339	¥ 4,477
Other current liabilities	(18,655)	(37,064)	(35,113)
Other liabilities	—	—	(866)
	<u>¥ (17,740)</u>	<u>¥ (35,725)</u>	<u>¥(31,502)</u>

- (d) The fair values of interest rate swap agreements are included in other assets/liabilities and other current assets/liabilities in the consolidated balance sheets as follows:

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Other current assets	¥ —	¥ 179	¥ 3,101
Other assets	27,839	17,209	33,233
Other current liabilities	(184)	—	—
Other liabilities	(61)	(23)	(2)
	<u>¥ 27,594</u>	<u>¥ 17,365</u>	<u>¥36,332</u>

The estimated fair values have been determined using relevant market information and appropriate valuation methodologies. However, these estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. The effect of using different assumptions and/or estimation methodologies may be significant to the estimated fair values.

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The methodologies and assumptions used to estimate the fair values of financial instruments are as follows:

Cash and cash equivalents, trade receivables and trade payables

The carrying amounts approximate fair values because of the short maturity of these instruments.

Finance subsidiaries-receivables (Including loans held for sale)

The fair values of retail receivables and term loans to dealers were estimated by discounting future cash flows using the current rates for these instruments of similar remaining maturities. Given the short maturities of wholesale receivables, the carrying amount of such receivables approximates fair value.

Marketable equity securities

The fair value of marketable equity securities was estimated using quoted market prices.

Held-to-maturity securities

The fair value of held-to-maturity securities was estimated using quoted market prices.

Convertible notes and convertible preferred stock investment

Honda investments in convertible instruments are bifurcated into two investments for accounting purposes. The note and preferred stock portions of these convertible instruments are treated as available-for-sale and are marked-to-market through other comprehensive income (loss). The fair value is determined based on an analysis of interest rate movements and an assessment of credit worthiness. The embedded derivative is marked-to-market through the statement of income and fair value is estimated using a trinomial convertible bond pricing model.

Debt

The fair values of bonds and notes were estimated based on the quoted market prices for the same or similar issues. The fair value of long-term loans was estimated by discounting future cash flows using rates currently available for loans of similar terms and remaining maturities. The carrying amounts of short-term bank loans and commercial paper approximate fair values because of the short maturity of these instruments.

Foreign exchange and interest rate instruments

The fair values of foreign currency forward contracts and foreign currency option contracts were estimated by obtaining quotes from banks. The fair values of currency swap agreements and interest rate swap agreements were estimated by discounting future cash flows using rates currently available for these instruments of similar terms and remaining maturities.

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(10) Risk Management Activities and Derivative Financial Instruments

Honda is a party to derivative financial instruments in the normal course of business to reduce its exposure to fluctuations in foreign exchange rates and interest rates. Currency swap agreements are used to convert long-term debt denominated in a certain currency to long-term debt denominated in other currencies. Foreign currency forward contracts and purchased option contracts are normally used to hedge sale commitments denominated in foreign currencies (principally U.S. dollars). Foreign currency written option contracts are entered into in combination with purchased option contracts to offset premium amounts to be paid for purchased option contracts. Interest rate swap agreements are mainly used to convert floating rate financing, such as commercial paper, to (normally three-five years) fixed rate financing in order to match financing costs with income from finance receivables. These instruments involve, to varying degrees, elements of credit, exchange rate and interest rate risks in excess of the amount recognized in the consolidated balance sheets.

The aforementioned instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, Honda minimizes the risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management of Honda does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default. Honda generally does not require or place collateral for these financial instruments.

Foreign currency forward contracts and currency swap agreements are agreements to exchange different currencies at a specified rate on a specific future date. Foreign currency option contracts are contracts that allow the holder of the option the right but not the obligation to exchange different currencies at a specified rate on a specific future date. Foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding at September 30, 2005 were ¥771,666 million, ¥136,945 million and ¥485,975 million, respectively and totaled ¥1,394,586 million. At September 30, 2006, foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding were ¥812,126 million, ¥195,743 million and ¥629,356 million, respectively and totaled ¥1,637,225 million. At March 31, 2006, foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding were ¥898,125 million, ¥176,548 million and ¥584,358 million, respectively and totaled ¥1,659,031 million.

Cash flow hedge

In the year ended March 31, 2006, the Company adopted hedge accounting for certain foreign currency forward contracts related to forecasted foreign currency transactions between the Company and its subsidiaries. Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income (loss). The amounts are reclassified into earnings in the same period when forecasted hedged transactions affect earnings. The amount recognized in other comprehensive income (loss) was ¥57 million loss in the fiscal six months ended September 30, 2006 and ¥64 million loss in the fiscal year ended March 31, 2006, respectively. All amounts recorded in other comprehensive income (loss) as the period-end are expected to be recognized in earnings within the next twelve months. The period that hedges the changes in cash flows related to the risk of foreign currency rate is at most around 2 months.

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There are no derivative financial instruments where hedge accounting has been discontinued due to the forecasted transaction no longer being probable. The Company excludes financial instruments' time value component from the assessment of hedge effectiveness, of which amount was ¥231 million loss for the six months ended September 30, 2006 and ¥421 million loss for the year ended March 31, 2006. There are no derivative financial instruments that have been assessed as being ineffectiveness.

Derivative financial instruments not designated as accounting hedges

Changes in the fair value of derivative financial instruments not designated as accounting hedges are recognized in earnings in the period of the change.

Interest rate swap agreements generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amount. At September 30, 2005 and 2006 and March 31, 2006, the notional principal amounts of interest rate swap agreements were ¥3,579,687 million, ¥4,207,623 million and ¥3,857,748 million, respectively.

(11) Commitments and Contingent Liabilities

At September 30, 2006, Honda had commitments for purchases of property, plant and equipment of approximately ¥104,462 million.

Honda has entered into various guarantee and indemnification agreements. At September 30, 2005 and 2006 and March 31, 2006, Honda has guaranteed ¥50,689 million, ¥43,585 million, and ¥46,737 million of bank loan of employees for their housing costs, respectively. If an employee defaults on his/her loan payments, Honda is required to perform under the guarantee. The undiscounted maximum amount of Honda's obligation to make future payments in the event of defaults is ¥50,689 million, ¥43,585 million and ¥46,737 million, respectively. As of September 30, 2006, no amount has been accrued for any estimated losses under the obligations, as it is probable that the employees will be able to make all scheduled payments.

Honda warrants its vehicles for specific periods of time. Product warranties vary depending upon the nature of the product, the geographic location of its sale and other factors.

With respect to product liability, personal injury claims or lawsuits, Honda believes that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by Honda's insurance and reserves. Punitive damages are claimed in certain of these lawsuits. Honda is also subject to potential liability under other various lawsuits and claims. After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the overall results of such lawsuits and pending claims should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position and results of operations.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Leases

Honda has several operating leases, primarily for office and other facilities, and certain office equipment.

Future minimum lease payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year at September 30, 2006 are as follows:

	<u>Yen</u> <u>(millions)</u>
Within one year	¥ 28,051
Over one year	105,788
Total minimum lease payments	<u>¥133,839</u>

Rental expenses under operating leases for the six months ended September 30, 2005 and 2006 and for the year ended March 31, 2006 were ¥22,796 million, ¥26,072 million and ¥46,102 million, respectively.

[Note 13] Segment Information

Honda has four reportable business segments: the Motorcycle business, the Automobile business, the Financial services business and the Power product and other businesses, which are based on Honda's organizational structure and characteristics of products and services. Operating segments are defined as components of Honda's about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. The accounting policies used for these reportable segments are consistent with the accounting policies used in Honda's consolidated financial statements.

Principal products and functions of each segment are as follows:

<u>Business</u>	<u>Principal products and services</u>	<u>Functions</u>
Motorcycle business	Motorcycles, all-terrain vehicles (ATVs), personal watercrafts and relevant parts	Research & Development Manufacturing Sales and related services
Automobile business	Automobiles and relevant parts	Research & Development Manufacturing Sales and related services
Financial services business	Financial, insurance services	Retail loan and lease related to Honda products Others
Power product and other businesses	Power products and relevant parts, and others	Research & Development Manufacturing Sales and related services Others

Business Segment Information

As of and for the six months ended September 30, 2005

	Yen (millions)						
	<u>Motorcycle Business</u>	<u>Automobile Business</u>	<u>Financial Services Business</u>	<u>Power Product and Other Businesses</u>	<u>Segment Total</u>	<u>Reconciling Items</u>	<u>Consolidated</u>
Net sales and other operating revenue:							
External customers	¥550,942	¥3,738,630	¥ 143,759	¥ 168,918	¥ 4,602,249	—	¥4,602,249
Intersegment	—	—	¥ 2,046	¥ 7,039	¥ 9,085	¥ (9,085)	—
Total	¥550,942	¥3,738,630	¥ 145,805	¥ 175,957	¥ 4,611,334	¥ (9,085)	¥4,602,249
Cost of sales, SG&A and R&D expenses	¥511,002	¥3,504,415	¥ 101,205	¥ 161,625	¥ 4,278,247	¥ (9,085)	¥4,269,162
Gain on transfer of the substitutional portion of the Employee's Pension Funds to the government	—	—	—	—	—	—	—
Operating income	¥ 39,940	¥ 234,215	¥ 44,600	¥ 14,332	¥ 333,087	—	¥ 333,087
Equity in income of affiliates	¥ 15,438	¥ 31,135	—	¥ 634	¥ 47,207	—	¥ 47,207
Assets	¥889,720	¥4,340,272	¥4,742,454	¥ 250,282	¥10,222,728	¥(340,049)	¥9,882,679
Investments in affiliates	¥ 85,320	¥ 275,878	—	¥ 12,892	¥ 374,090	—	¥ 374,090
Depreciation and amortization	¥ 13,902	¥ 94,780	¥ 318	¥ 3,970	¥ 112,970	—	¥ 112,970
Capital expenditures	¥ 19,901	¥ 142,930	¥ 703	¥ 6,192	¥ 169,726	—	¥ 169,726
Provision for credit and lease residual losses on finance subsidiaries-receivables	—	—	¥ 19,147	—	¥ 19,147	—	¥ 19,147

As of and for the six months ended September 30, 2006

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Net sales and other operating revenue:							
External customers	¥ 645,646	¥4,194,436	¥ 188,040	¥ 202,476	¥ 5,230,598	—	¥ 5,230,598
Intersegment	—	—	¥ 1,791	¥ 6,024	¥ 7,815	¥ (7,815)	—
Total	¥ 645,646	¥4,194,436	¥ 189,831	¥ 208,500	¥ 5,238,413	¥ (7,815)	¥ 5,230,598
Cost of sales, SG&A and R&D expenses	¥ 600,423	¥3,913,474	¥ 137,970	¥ 190,001	¥ 4,841,868	¥ (7,815)	¥ 4,834,053
Gain on transfer of the substitutional portion of the Employee's Pension Funds to the government	—	—	—	—	—	—	—
Operating income	¥ 45,223	¥ 280,962	¥ 51,861	¥ 18,499	¥ 396,545	—	¥ 396,545
Equity in income of affiliates	¥ 14,640	¥ 41,872	—	¥ 1,123	¥ 57,635	—	¥ 57,635
Assets	¥1,001,525	¥4,904,836	¥5,513,479	¥ 289,728	¥11,709,568	¥(507,111)	¥11,202,457
Investments in affiliates	¥ 96,177	¥ 311,020	—	¥ 14,539	¥ 421,736	—	¥ 421,736
Depreciation and amortization	¥ 17,670	¥ 132,808	¥ 439	¥ 4,618	¥ 155,535	—	¥ 155,535
Capital expenditures	¥ 28,915	¥ 236,365	¥ 368	¥ 5,267	¥ 270,915	—	¥ 270,915
Provision for credit and lease residual losses on finance subsidiaries- receivables	—	—	¥ 17,943	—	¥ 17,943	—	¥ 17,943

As of and for the year ended March 31, 2006

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Net sales and other operating revenue:							
External customers	¥ ,225,812	¥8,004,694	¥ 306,869	¥ 370,621	¥ 9,907,996	—	¥ 9,907,996
Intersegment	—	—	¥ 4,068	¥ 11,941	¥ 16,009	¥ (16,009)	—
Total	¥1,225,812	¥8,004,694	¥ 310,937	¥ 382,562	¥ 9,924,005	¥ (16,009)	¥ 9,907,996
Cost of sales, SG&A and R&D expenses	¥1,127,157	¥7,492,257	¥ 220,352	¥ 353,350	¥ 9,193,116	¥ (16,009)	¥ 9,177,107
Gain on transfer of the substitutional portion of the Employee's Pension Funds to the government	¥ 15,319	¥ 115,935	—	¥ 6,762	¥ 138,016	—	¥ 138,016
Operating income	¥ 113,974	¥ 628,372	¥ 90,585	¥ 35,974	¥ 868,905	—	¥ 868,905
Equity in income of affiliates	¥ 30,700	¥ 67,439	—	¥ 1,466	¥ 99,605	—	¥ 99,605
Assets	¥1,006,308	¥4,752,405	¥5,008,058	¥ 294,170	¥11,060,941	¥(489,260)	¥10,571,681
Investments in affiliates	¥ 87,041	¥ 304,477	—	¥ 13,194	¥ 404,712	—	¥ 404,712
Depreciation and amortization	¥ 30,232	¥ 222,165	¥ 771	¥ 9,057	¥ 262,225	—	¥ 262,225
Capital expenditures	¥ 52,246	¥ 392,934	¥ 1,316	¥ 11,345	¥ 457,841	—	¥ 457,841
Provision for credit and lease residual losses on finance subsidiaries- receivables	—	—	¥ 36,153	—	¥ 36,153	—	¥ 36,153

Explanatory notes:

1. Operating income of each segment is measured in a consistent manner in which consolidated operating income is determined. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable.
2. Assets of each business segment are defined as total assets. Segment assets are based on those directly associated with each segment and those not directly associated with specific segments are allocated based on the most reasonable measures applicable except for the corporate assets described below.
3. Intersegment sales and revenues are generally made at values that approximate arm's-length prices.
4. Unallocated corporate assets, included in reconciling items, amounted to ¥444,902 million as of September 30, 2005, ¥378,404

million as of September 30, 2006, and ¥354,903 million as of March 31, 2006 respectively, which consist primarily of cash and cash equivalents and marketable securities held by the Company. Reconciling items also include elimination of intersegment transactions.

External Sales and Other Operating Revenue by Product or Service Groups

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Motorcycles and relevant parts	¥ 483,766	¥ 573,360	¥1,051,855
All-terrain vehicles (ATVs), personal watercraft and relevant parts	¥ 67,176	¥ 72,286	¥ 173,957
Automobiles and relevant parts	¥3,738,630	¥4,194,436	¥8,004,694
Financial, insurance services	¥ 143,759	¥ 188,040	¥ 306,869
Power products and relevant parts	¥ 119,614	¥ 135,990	¥ 263,651
Others	¥ 49,304	¥ 66,486	¥ 106,970
Total	¥4,602,249	¥5,230,598	¥9,907,996

Geographical Information

As of and for the six months ended September 30, 2005

	Yen (millions)			Total
	Japan	United States	Other Countries	
Sales to external customers	¥1,010,185	¥2,177,587	¥1,414,477	¥4,602,249
Long-lived assets	¥ 902,293	¥ 463,665	¥ 395,366	¥1,761,324

As of and for the six months ended September 30, 2006

	Yen (millions)			Total
	Japan	United States	Others Countries	
Sales to external customers	¥1,019,407	¥2,487,666	¥1,723,525	¥5,230,598
Long-lived assets	¥ 988,119	¥ 573,230	¥ 534,889	¥2,096,238

As of and for the year ended March 31, 2006

	Yen (millions)			Total
	Japan	United States	Others Countries	
Sales to external customers	¥2,021,999	¥4,876,436	¥3,009,561	¥9,907,996
Long-lived assets	¥ 949,713	¥ 499,599	¥ 487,208	¥1,936,520

The above information is based on the location of the Company and its subsidiaries.

Supplemental Geographical Information

In addition to the disclosure required by U.S.GAAP, Honda provides the following supplemental information as required by Japanese Securities and Exchange Law:

(1) Overseas Sales and revenues based on the location of the customer

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
North America	¥2,442,889	¥2,805,862	¥5,463,359
Europe	¥ 486,572	¥ 556,875	¥1,009,421
Asia	¥ 523,274	¥ 621,834	¥1,085,451
Other regions	¥ 299,133	¥ 422,746	¥ 655,721

Explanatory notes:

Major countries or regions in each geographic area:

North America	United States, Canada, Mexico
Europe	United Kingdom, Germany, France, Italy, Belgium
Asia	Thailand, Indonesia, China, India
Other Regions	Brazil, Australia

(2) Supplemental geographical information based on the location of the Company and its subsidiaries

As of and for the six months ended September 30, 2005

	Yen (millions)					Total	Reconciling Items	Consolidated
	Japan	North America	Europe	Asia	Other Regions			
Net sales and other operating revenue:								
External customers	¥1,010,185	¥2,447,402	¥482,707	¥408,499	¥253,456	¥4,602,249	—	¥4,602,249
Transfers between geographic areas	¥1,128,932	¥ 64,608	¥ 81,575	¥ 54,302	¥ 10,285	¥1,339,702	¥(1,339,702)	—
Total	¥2,139,117	¥2,512,010	¥564,282	¥462,801	¥263,741	¥5,941,951	¥(1,339,702)	¥4,602,249
Cost of sales, SG&A and R&D expenses	¥2,028,924	¥2,370,726	¥550,700	¥427,806	¥234,945	¥5,613,101	¥(1,343,939)	¥4,269,162
Gain on transfer of the substitutional portion of the Employees' Pension Funds to the government	—	—	—	—	—	—	—	—
Operating income	¥ 110,193	¥ 141,284	¥ 13,582	¥ 34,995	¥ 28,796	¥ 328,850	¥ 4,237	¥ 333,087
Assets	¥2,571,296	¥5,675,749	¥621,501	¥578,383	¥258,079	¥9,705,008	¥ 177,671	¥9,882,679
Long-lived assets	¥ 902,293	¥ 540,892	¥124,408	¥135,425	¥ 58,306	¥1,761,324	—	¥1,761,324

As of and for the six months ended September 30, 2006

	Yen (millions)						Reconciling Items	Consolidated
	Japan	North America	Europe	Asia	Other Regions	Total		
Net sales and other operating revenue:								
External customers	¥1,019,407	¥2,815,963	¥552,558	¥483,569	¥359,101	¥ 5,230,598	—	¥ 5,230,598
Transfers between geographic areas	¥1,265,716	¥ 73,025	¥ 83,359	¥117,479	¥ 14,180	¥ 1,553,759	¥(1,553,759)	—
Total	¥2,285,123	¥2,888,988	¥635,917	¥601,048	¥373,281	¥ 6,784,357	¥(1,553,759)	¥ 5,230,598
Cost of sales, SG&A and R&D expenses	¥2,167,173	¥2,678,780	¥620,394	¥563,349	¥336,605	¥ 6,366,301	¥(1,532,248)	¥ 4,834,053
Gain on transfer of the substitutional portion of the Employees' Pension Funds to the government	—	—	—	—	—	—	—	—
Operating income	¥ 117,950	¥ 210,208	¥ 15,523	¥ 37,699	¥ 36,676	¥ 418,056	¥ (21,511)	¥ 396,545
Assets	¥2,785,385	¥6,565,281	¥776,990	¥766,512	¥357,729	¥11,251,897	¥ (49,440)	¥11,202,457
Long-lived assets	¥ 988,119	¥ 666,171	¥173,765	¥187,741	¥ 80,442	¥ 2,096,238	—	¥ 2,096,238

As of and for the year ended March 31, 2006

	Yen (millions)						Reconciling Items	Consolidated
	Japan	North America	Europe	Asia	Other Regions	Total		
Net sales and other operating revenue:								
External customers	¥2,021,999	¥5,475,261	¥1,001,177	¥856,892	¥552,667	¥ 9,907,996	—	¥ 9,907,996
Transfers between geographic areas	¥2,415,874	¥ 141,064	¥ 188,341	¥140,501	¥ 19,023	¥ 2,904,803	¥(2,904,803)	—
Total	¥4,437,873	¥5,616,325	¥ 1,189,518	¥997,393	¥571,690	¥12,812,799	¥(2,904,803)	¥ 9,907,996
Cost of sales, SG&A and R&D expenses	¥4,204,939	¥5,262,382	¥ 1,163,213	¥932,394	¥514,527	¥12,077,455	¥(2,900,348)	¥ 9,177,107
Gain on transfer of the substitutional portion of the Employees' Pension Funds to the government	¥ 138,016	—	—	—	—	¥ 138,016	—	¥ 138,016
Operating income	¥ 370,950	¥ 353,943	¥ 26,305	¥ 64,999	¥ 57,163	¥ 873,360	¥ (4,455)	¥ 868,905
Assets	¥2,737,454	¥6,026,342	¥ 800,786	¥717,933	¥309,209	¥10,591,724	¥ (20,043)	¥10,571,681
Long-lived assets	¥ 949,713	¥ 589,596	¥ 157,819	¥167,148	¥ 72,244	¥ 1,936,520	—	¥ 1,936,520

Explanatory notes:

1. Major countries or regions in each geographic area:

North America	United States, Canada, Mexico
Europe	United Kingdom, Germany, France, Italy, Belgium
Asia	Thailand, Indonesia, China, India
Other Regions	Brazil, Australia

- Operating income of each segment is measured in a consistent manner in which consolidated operating income is determined.
- Assets of each business segment are defined as total assets.
- Sales and revenues between geographic areas are generally made at values that approximate arm's-length prices.
- Unallocated corporate assets, included in reconciling items, amounted to ¥444,902 million as of September 30, 2005, ¥378,404 million as of September 30, 2006, and ¥354,903 million as of March 31, 2006 respectively, which consist primarily of cash and cash equivalents and marketable securities held by the Company. Reconciling items also include elimination of

transactions between geographic areas.

[Note 14] Consolidated Balance Sheets and Consolidated Statement of Cash flows
Divided into Non-financial Services Businesses and Finance Subsidiaries Segment Information

Honda discloses consolidated balance sheets and consolidated statement of cash flow divided into non-financial services businesses and finance subsidiaries for investor relations purposes. For purposes of these disclosures, non-financial services include the Motorcycle business, the Automobile business and the Power product and other businesses segments, and finance subsidiaries include the Financial services business segment, respectively.

(1) Consolidated Balance Sheets Divided into non-financial services businesses and finance subsidiaries

	Yen (millions)		
	September 30, 2005	September 30, 2006	March 31, 2006
Assets			
<Non-financial services businesses>			
Current Assets:	¥ 3,424,259	¥ 3,792,348	¥ 3,788,184
Cash and cash equivalents	716,423	775,508	727,735
Trade accounts and notes receivable	354,691	405,296	504,101
Inventories	941,161	1,109,412	1,036,304
Other current assets	1,411,984	1,502,132	1,520,044
Investment and advances	918,449	938,542	955,338
Property, plant and equipment, at cost	1,638,776	1,953,622	1,795,173
Other assets	269,447	213,910	225,575
Total assets	6,250,931	6,898,422	6,764,270
<Finance Subsidiaries>			
Cash and cash equivalents	14,776	16,981	19,592
Finance subsidiaries—short-term receivables, net	1,224,132	1,487,841	1,240,581
Finance subsidiaries—long-term receivables, net	2,909,368	3,291,803	2,982,832
Other assets	594,178	716,854	765,053
Total assets	4,742,454	5,513,479	5,008,058
Eliminations	(1,110,706)	(1,209,444)	(1,200,647)
Total assets	9,882,679	11,202,457	10,571,681
Liabilities and Stockholders' Equity			
<Non-financial services businesses>			
Current liabilities:	¥ 2,159,864	¥ 2,289,121	¥ 2,355,999
Short-term debt	170,778	152,266	171,122
Current portion of long-term debt	4,860	12,507	9,138
Trade payables	965,548	1,079,992	1,144,159
Accrued expenses	797,122	798,979	763,879
Other current liabilities	221,556	245,377	267,701
Long-term debt, excluding current portion	20,720	29,365	34,396
Other liabilities	736,352	574,483	575,034
Total liabilities	2,916,936	2,892,969	2,965,429
<Finance Subsidiaries>			
Short-term debt	1,350,383	1,896,449	1,369,177
Current portion of long-term debt	562,470	741,568	653,276
Accrued expenses	160,779	166,198	181,140
Long-term debt, excluding current portion	1,796,945	1,730,114	1,858,362
Other liabilities	364,740	390,423	392,316
Total liabilities	4,235,317	4,924,752	4,454,271
Eliminations	(896,240)	(972,045)	(973,769)
Total liabilities	6,256,013	6,845,676	6,445,931
Common stock	86,067	86,067	86,067
Capital surplus	172,531	172,529	172,529
Legal reserves	35,516	37,332	35,811
Retained earnings	4,018,709	4,482,612	4,267,886
Accumulated other comprehensive income (loss)	(644,464)	(387,749)	(407,187)
Treasury stock	(41,693)	(34,010)	(29,356)
Total stockholders' equity	3,626,666	4,356,781	4,125,750
Total liabilities and stockholders' equity	9,882,679	11,202,457	10,571,681

(2) Consolidated Statements of Cash Flows Divided into non-financial services businesses and finance subsidiaries

For the six months ended September 30, 2005

	Yen (millions)			
	Non-financial services businesses	Finance subsidiaries	Eliminations	Total
Cash flows from operating activities:				
Net Income	¥ 217,766	¥ 26,622	¥ (14)	¥ 244,374
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	112,652	318	—	112,970
Deferred income taxes	(3,809)	(29,189)	—	(32,998)
Equity in income of affiliates	(48,644)	—	1,437	(47,207)
Cash dividends from affiliates	23,858	—	—	23,858
Loss (gain) on derivative instruments, net	(7,558)	(4,476)	—	(12,034)
Gain on transfer of the substitutional portion of the Employees' Pension Funds	—	—	—	—
Decrease (increase) in trade accounts and notes receivable	79,345	61,838	394	141,577
Decrease (increase) in inventories	(49,627)	—	—	(49,627)
Increase (decrease) in trade payables	(92,015)	—	(292)	(92,307)
Other, net	40,732	(5,207)	(3,634)	31,891
Net cash provided by operating activities	<u>272,700</u>	<u>49,906</u>	<u>(2,109)</u>	<u>320,497</u>
Cash flows from investing activities:				
* Decrease (increase) in investments and advances	(54,500)	—	30,214	(24,286)
Capital expenditures	(169,023)	(703)	—	(169,726)
Proceeds from sales of property, plant and equipment	6,141	147	—	6,288
Decrease (increase) in finance subsidiaries-receivables	—	(264,614)	58	(264,556)
Net cash used in investing activities	<u>(217,382)</u>	<u>(265,170)</u>	<u>30,272</u>	<u>(452,280)</u>
Cash flows from financing activities:				
* Increase (decrease) in short-term debt	(62,889)	17,163	(25,468)	(71,194)
* Proceeds from long-term debt	7,620	507,819	(12,011)	503,428
* Repayment of long-term debt	(7,221)	(311,130)	9,302	(309,049)
Proceeds from issuance of common stock	—	—	—	—
Cash dividends paid	(34,234)	—	14	(34,220)
Payment for purchase of treasury stock, net	(22,252)	—	—	(22,252)
Net cash provided by (used in) financing activities	<u>(118,976)</u>	<u>213,852</u>	<u>(28,163)</u>	<u>66,713</u>
Effect of exchange rate changes on cash and cash equivalents	<u>22,187</u>	<u>544</u>	<u>—</u>	<u>22,731</u>
Net change in cash and cash equivalents	<u>(41,471)</u>	<u>(868)</u>	<u>—</u>	<u>(42,339)</u>
Cash and cash equivalents at beginning of period	<u>757,894</u>	<u>15,644</u>	<u>—</u>	<u>773,538</u>
Cash and cash equivalents at end of period	<u>¥ 716,423</u>	<u>¥ 14,776</u>	<u>—</u>	<u>¥ 731,199</u>

For the six months ended September 30, 2006

	Yen (millions)			
	Non-financial services businesses	Finance subsidiaries	Eliminations	Total
Cash flows from operating activities:				
Net Income	¥ 250,629	¥ 20,695	¥ (13)	¥ 271,311
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	155,096	439	—	155,535
Deferred income taxes	2,267	(4,515)	—	(2,248)
Equity in income of affiliates	(57,635)	—	—	(57,635)
Cash dividends from affiliates	27,483	—	—	27,483
Loss (gain) on derivative instruments, net	29,280	19,209	—	48,489
Gain on transfer of the substitutional portion of the Employees' Pension Funds	—	—	—	—
Decrease (increase) in trade accounts and notes receivable	121,255	75,695	(1,952)	194,998
Decrease (increase) in inventories	(54,682)	—	—	(54,682)
Increase (decrease) in trade payables	(70,427)	—	(9,288)	(79,715)
Other, net	(11,088)	(39,806)	2,319	(48,575)
Net cash provided by operating activities	<u>392,178</u>	<u>71,717</u>	<u>(8,934)</u>	<u>454,961</u>
Cash flows from investing activities:				
* Decrease (increase) in investments and advances	28,735	—	(21,104)	7,631
Capital expenditures	(281,915)	(368)	—	(282,283)
Proceeds from sales of property, plant and equipment	11,382	160	—	11,542
Decrease (increase) in finance subsidiaries-receivables	—	(513,050)	6,626	(506,424)
Net cash used in investing activities	<u>(241,798)</u>	<u>(513,258)</u>	<u>(14,478)</u>	<u>(769,534)</u>
Cash flows from financing activities:				
* Increase (decrease) in short-term debt	(33,194)	289,904	30,963	287,673
* Proceeds from long-term debt	7,321	477,706	—	485,027
* Repayment of long-term debt	(7,949)	(336,670)	49	(344,570)
Proceeds from issuance of common stock	—	7,613	(7,613)	—
Cash dividends paid	(54,797)	—	13	(54,784)
Payment for purchase of treasury stock, net	(23,093)	—	—	(23,093)
Net cash provided by (used in) financing activities	<u>(111,712)</u>	<u>438,553</u>	<u>23,412</u>	<u>350,253</u>
Effect of exchange rate changes on cash and cash equivalents	<u>9,105</u>	<u>377</u>	<u>—</u>	<u>9,482</u>
Net change in cash and cash equivalents	47,773	(2,611)	—	45,162
Cash and cash equivalents at beginning of period	<u>727,735</u>	<u>19,592</u>	<u>—</u>	<u>747,327</u>
Cash and cash equivalents at end of period	<u>¥ 775,508</u>	<u>¥ 16,981</u>	<u>—</u>	<u>¥ 792,489</u>

For the year ended March 31, 2006

	Yen (millions)			
	Non-financial services businesses	Finance subsidiaries	Eliminations	Total
Cash flows from operating activities:				
Net Income	¥ 543,200	¥ 53,847	¥ (14)	¥ 597,033
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	261,454	771	—	262,225
Deferred income taxes	22,037	(24,793)	—	(2,756)
Equity in income of affiliates	(99,605)	—	—	(99,605)
Cash dividends from affiliates	64,055	—	—	64,055
Loss (gain) on derivative instruments, net	11,683	(1,332)	—	10,351
Gain on transfer of the substitutional portion of the Employees' Pension Funds	(138,016)	—	—	(138,016)
Decrease (increase) in trade accounts and notes receivable	(44,881)	(72,695)	4,317	(113,259)
Decrease (increase) in inventories	(109,661)	—	—	(109,661)
Increase (decrease) in trade payables	45,297	—	(3,937)	41,360
Other, net	25,146	47,674	(7,990)	64,830
Net cash provided by operating activities	<u>580,709</u>	<u>3,472</u>	<u>(7,624)</u>	<u>576,557</u>
Cash flows from investing activities:				
* Decrease (increase) in investments and advances	(36,954)	—	14,697	(22,257)
Capital expenditures	(458,705)	(1,316)	—	(460,021)
Proceeds from sales of property, plant and equipment	39,645	306	—	39,951
Decrease (increase) in finance subsidiaries-receivables	—	(231,909)	1,535	(230,374)
Net cash used in investing activities	<u>(456,014)</u>	<u>(232,919)</u>	<u>16,232</u>	<u>(672,701)</u>
Cash flows from financing activities:				
* Increase (decrease) in short-term debt	(66,144)	(54,391)	(4,406)	(124,941)
* Proceeds from long-term debt	25,995	851,710	(12,028)	865,667
* Repayment of long-term debt	(11,485)	(566,422)	9,302	(568,605)
Proceeds from issuance of common stock	—	1,490	(1,490)	—
Cash dividends paid	(71,075)	—	14	(71,061)
Payment for purchase of treasury stock, net	(77,064)	—	—	(77,064)
Net cash provided by (used in) financing activities	<u>(199,773)</u>	<u>232,387</u>	<u>(8,608)</u>	<u>24,006</u>
Effect of exchange rate changes on cash and cash equivalents	<u>44,919</u>	<u>1,008</u>	<u>—</u>	<u>45,927</u>
Net change in cash and cash equivalents	<u>(30,159)</u>	<u>3,948</u>	<u>—</u>	<u>(26,211)</u>
Cash and cash equivalents at beginning of period	<u>757,894</u>	<u>15,644</u>	<u>—</u>	<u>773,538</u>
Cash and cash equivalents at end of period	<u>¥ 727,735</u>	<u>¥ 19,592</u>	<u>—</u>	<u>¥ 747,327</u>

Explanatory notes:

- The cash flows derived from non-financial services businesses loans to finance subsidiaries were included in the items of "Decrease (increase) in investments and advances" of non-financial services businesses, and "Increase (decrease) in short-term debt", "Proceeds from long-term debt" and "Repayment of long-term debt" of finance subsidiaries (marked by *).
Loans from non-financial services businesses to finance subsidiaries increased by ¥27,510 million for the six months ended September 30, 2005, decreased by ¥28,717 million for the six months ended September 30, 2006 and increased by ¥13,242 million for the year ended March 31, 2006.
- Decrease (increase) in trade accounts and notes receivable for finance subsidiaries is due to the reclassification of finance subsidiaries-receivables which relate to sales of inventory in the consolidated statements of cash flows presented above.

Unconsolidated Financial Statements and other information

(1) Unconsolidated Financial Statements

① Unconsolidated Balance Sheets

		Yen (millions)		
		As of September 30, 2005	As of September 30, 2006	As of March 31, 2006
(ASSETS)				
I	Current Assets			
1	Cash and bank deposits	¥ 279,809	¥ 227,376	¥ 126,184
2	Notes receivable-trade (Note 4)	4,326	5,571	1,956
3	Accounts receivable-trade	319,203	304,485	452,183
4	Inventories	149,168	163,473	165,035
5	Short-term loans receivable	—	192,877	155,680
6	Others	277,597	204,914	223,364
7	Allowance for doubtful accounts	(3,599)	(3,313)	(5,014)
	Total current assets	1,026,505	1,095,386	1,119,392
II	Fixed assets			
(1)	Tangible fixed assets (Note 1)			
1	Buildings	205,938	221,363	220,429
2	Machinery and equipment	80,309	81,933	81,181
3	Land	272,326	278,694	275,126
4	Others	80,111	85,772	86,721
	Total tangible fixed assets	638,686	667,763	663,458
(2)	Intangible assets	5,687	6,653	6,168
(3)	Investments and other assets			
1	Investment securities	541,275	605,152	594,398
2	Others	160,866	165,320	157,515
3	Allowance for doubtful accounts	(15,937)	(15,385)	(15,609)
	Total investments and other assets	686,205	755,087	736,304
	Total fixed assets	1,330,579	1,429,504	1,405,931
	Total assets	¥ 2,357,085	¥ 2,524,890	¥ 2,525,323

		Yen (millions)		
		As of September 30, 2005	As of September 30, 2006	As of March 31, 2006
(LIABILITIES)				
I	Current liabilities			
1	Notes payable-trade	¥ 992	¥ 1,840	¥ 1,655
2	Accounts payable-trade	329,199	347,552	355,265
3	Short-term loans payable (Note 3)	19,107	18,051	20,471
4	Corporate and other income taxes payable	29,714	20,464	52,456
5	Accrued product warranty	51,401	61,311	57,258
6	Accrued employees' bonuses	35,281	35,174	42,917
7	Others	118,847	138,355	154,499
	Total current liabilities	584,542	622,749	684,523
II	Non-current liabilities			
1	Long-term loans payable	571	487	532
2	Accrued product warranty	35,466	43,596	41,774
3	Accrued employees' retirement benefits	44,045	62,163	53,775
4	Accrued officers' retirement benefits	5,955	5,970	6,026
5	Accrued operating officers' retirement benefits	233	791	423
6	Others	3,387	3,457	3,431
	Total non-current liabilities	89,659	116,465	105,962
	Total liabilities	674,202	739,215	790,486
(STOCKHOLDERS' EQUITY)				
I	Common stock	86,067	—	86,067
II	Capital surplus			
1	Capital surplus	170,313	—	170,313
2	Other capital surplus	2	—	—
	Total capital surplus	170,316	—	170,313
III	Retained earnings			
1	Legal reserve	21,516	—	21,516
2	General reserve	1,151,000	—	1,151,000
3	Unappropriated retained earnings	241,108	—	266,128
	Total retained earnings	1,413,625	—	1,438,645
IV	Unrealized gain-or-loss on other securities	54,567	—	69,163
V	Treasury stock	(41,693)	—	(29,352)
	Total stockholders' equity	1,682,882	—	1,734,837
	Total liabilities and stockholders' equity	¥ 2,357,085	¥ —	¥ 2,525,323
(NET ASSETS)				
I	Stockholders' equity			
(1)	Common stock	—	86,067	—
(2)	Capital surplus			
1	Capital surplus	—	170,313	—
2	Other capital surplus	—	—	—
	Total capital surplus	—	170,313	—
(3)	Retained earnings			
1	Legal reserves	—	21,516	—
2	Other retained earnings			
	Reserve for dividends	—	105,800	—
	General reserves	—	1,074,300	—
	Reserve for special depreciation	—	2,188	—
	Reserve for reduction of acquisition cost of fixed assets	—	12,375	—
	Earnings to be carried forward	—	294,688	—
	Total retained earnings	—	1,510,869	—
(4)	Treasury stock	—	(41,171)	—
	Total stockholders' equity	—	1,726,079	—

II	Difference of appreciation and conversion			
1	Net unrealized gains on securities	—	59,653	—
2	Deferred loss (gain) on hedges	—	(57)	—
	Total difference of appreciation and conversion	—	59,595	—
	Total net assets	—	1,785,675	—
	Total liabilities and net assets	¥ —	¥ 2,524,890	¥ —

② Unconsolidated Statement of Income

		Yen (millions)		
		Half Year ended September 30, 2005	Half year ended September 30, 2006	Year ended March 31, 2006
I	Net sales	¥ 1,803,782	¥ 1,914,408	¥ 3,757,087
II	Cost of Sales	1,203,733	1,303,278	2,507,847
	Gross Profit	600,048	611,130	1,249,239
III	Selling, general and administrative expenses	478,854	519,772	1,009,348
	Operating income	121,194	91,358	239,891
IV	Non-operating income (Note 1)	65,546	95,470	145,429
V	Non-operating expenses (Note 2)	29,529	35,135	63,394
	Ordinary income	157,211	151,692	321,925
VI	Extraordinary income (Note 3)	92,372	5,289	92,187
VII	Extraordinary loss	3,869	3,130	8,587
	Income before income taxes	245,714	153,851	405,525
	Income Taxes			
	Current	41,159	30,474	94,409
	Deferred	31,027	(3,918)	9,381
	Net income	173,526	127,295	301,735
	Unappropriated retained earnings at beginning of the year	67,581	—	67,581
	Losses on reissuance of treasury stock	—	—	125
	Retirement of treasury stock	—	—	66,221
	Interim dividends	—	—	36,840
	Unappropriated retained earnings	¥ 241,108	¥ —	¥ 266,128

③ Unconsolidated Statements of Stockholders' Equity

Yen (millions)

	Stockholders' equity											Difference of appreciation and conversion		Total net assets		
	Capital surplus			Retained earnings								Treasury stock	Total stockholders' equity		Net unrealized gains on securities	Deferred loss (gain) on hedges
	Common stock	Capital surplus	Other capital surplus	Other retained earnings					Reserve for reduction of acquisition cost of fixed assets	Earnings to be carried forward						
				Legal reserves	Reserve for dividends	General reserves	Reserve for special depreciation									
Balance at March 31, 2006	86,067	170,313	—	21,516	87,300	1,049,300	2,072	12,328	266,128	(29,352)	1,665,674	69,163	—	1,734,837		
Changes of items during the period																
Provision for reserve for dividends*					18,500				(18,500)							
Provision for general reserves*						25,000			(25,000)							
Provision for reserve for special depreciation*							833		(833)							
Reserval for reserve for special depreciation*							(716)		716							
Provision for reserve for reduction of acquisition cost of fixed assets*								112	(112)							
Reversal for reserve for reduction of acquisition cost of fixed assets*								(66)	66							
Dividend from surplus*									(54,784)		(54,784)			(54,784)		
Net income									127,295		127,295			127,295		
Purchase of treasury stock										(30,700)	(30,700)			(30,700)		
Reissuance of treasury stock									(287)	18,881	18,593			18,593		
Others												(9,509)	(57)	(9,567)		
Total changes of items during the period	—	—	—	—	18,500	25,000	116	46	28,560	(11,819)	60,404	(9,509)	(57)	50,837		
Balance at September 30, 2006	86,067	170,313	—	21,516	105,800	1,074,300	2,188	12,375	294,688	(41,171)	1,726,079	59,653	(57)	1,785,675		

Note: * are the items of appropriation of retained earnings approved at the ordinaly general meeting of stockholders in June 2006.

Significant Basic Information for Preparation of the Semi-annual Financial Statements

1. Basis of accounting for assets and method of cost determination

(1) Securities

Held to maturity debt securities

Debt securities that are classified as “held-to-maturity” securities are reported at amortized cost.

Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are stated at cost, which is determined by the moving average method.

Other securities

Marketable securities

Marketable securities classified as other securities are stated at fair value based on market prices at the closing date of the semi-annual period and similar. Any changes in unrealized holding gains or losses, net of applicable income taxes, are included directly in net assets and the cost of securities sold is determined using the moving average method.

Non-marketable securities

Non-marketable securities classified as other securities are stated at cost, which is determined by the moving average method.

(2) Inventories

Finished goods, auto parts for sale, raw materials, work in process and supplies are stated at the lower of the last purchase cost or market.

(3) Derivative financial instruments

Derivative financial instruments are stated at fair value.

2. Method of depreciation of fixed assets

- (1) Depreciation of tangible fixed assets is computed using the declining-balance method.
- (2) Amortization of intangible assets is computed using the straight-line method. In addition, amortization of software intended for internal use is based on an estimated useful life of 5 years.

3. Basis of accounting for provisions and reserves

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for possible bad debts at an amount determined based on the historical experience of bad debts for normal receivables, in addition, an estimate of uncollectible amounts is made by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(2) Accrued product warranty

Accrued product warranty has been provided as a total of the following:

- ① an estimate of warranty costs to be incurred during the remaining warranty periods based on historical warranty claim experiences and an estimate of the probability of future warranty costs; and
- ② an estimate of future warranty claims mainly associated with regulatory reporting and similar.

(3) Accrued bonuses

Accrued bonuses are provided for payments of bonuses to employees based on the amount of the estimated bonus payments which is attributable to the semi-annual period.

(4) Accrued employees' retirement benefits

Accrued employees' retirement benefits are provided for payments of retirement benefits at an estimated amount incurred during the half year calculated based on the retirement benefit obligation and the fair value of the pension plan assets at year-end.

The net retirement benefit obligation at transition is amortized by the straight-line method over 15 years.

Prior service costs are amortized by the straight-line method over the average remaining years of service of the employees.

Actuarial gains or losses are amortized in the years following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the employees.

(5) Accrued officers' retirement benefits

Accrued officers' retirement benefits are provided for the payment of retirement benefits to directors and statutory auditors at the amount which would be required to be paid if all directors and statutory auditors retired at the end of the semi-annual period in accordance with the internal rules of the Company.

(6) Operating officers' retirement benefits

Operating officers' retirement benefits are provided for the payment of retirement benefits to operating officers at the amount which would be required to be paid if all operating officers retired at the end of the semi-annual period in accordance with the Company policies.

4. Leases

Finance lease transactions except for those under which the ownership of leased assets is transferred to the lessee, are accounted for as operating leases.

5. Hedge accounting

(1) Method of hedge accounting

The Company defers recognition of gains and losses resulting from changes in fair value of derivative instruments until the related losses and gains on the hedged items are recognized.

(2) Hedging instruments and hedged items

Hedging instruments	Foreign currency forward contracts
Hedged items	Forecasted foreign currency transactions related to royalty from major subsidiaries

(3) Hedging policy

The Company is a party to derivative financial instruments in the normal course of business in order to manage risks associated with changes in foreign currency exchange rates.

The Company does not hold any derivative financial instruments for trading purposes.

(4) Assessment of hedging effectiveness

The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments designated as cash flow hedge are highly effective to offset changes in cash flows of hedged items.

6. Other significant basic information for preparing the semi-annual financial statements

(1) Accounting for consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

Consumption tax refund receivable is included in other current assets.

(2) Application of consolidated regulatory tax rules and regulations

The consolidated regulatory tax rules and regulations were applied.

Changes to the Significant Basic Information for Preparation of the Semi-annual Financial Statements

Accounting Standard for Presentation of Net Assets in the Balance Sheet

The Company applied “Accounting Standard for Presentation of Net Assets in the Balance Sheet” and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” issued by the Accounting Standards Board of Japan. The amount of total stockholders’ equity as of September 30, 2006 would be JPY 1,785,732 million.

Net assets as of September 30, 2006 was presented according to the revision of “Regulations concerning the terminology, forms and preparation methods of interim financial statements.”

Accounting Standard for Business Combination

The Company applied “Accounting Standard for Business Combination” issued by the Business Accounting Council and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” issued by the Accounting Standards Board of Japan.

Change in Presentation of Unconsolidated Financial Statements

“Short-term loans receivable” was separately classified as part of “Current assets” in the interim balance sheet as of September 30, 2006, because the amount of short-term loans receivable as of September 30, 2006 was more than 5% of total assets. Short-term loans receivable amounted to JPY 92,122 million as of September 30, 2005.

Footnotes

(Notes to Unconsolidated Balance Sheets)

1. Accumulated depreciation of tangible fixed assets:

Yen (millions)		
September 30,		March 31,
2005	2006	2006
¥943,725	¥957,885	¥949,703

2. Contingent Liabilities

- (1) Guarantees provided

Guarantees were provided for certain borrowings entered into by the following subsidiaries, affiliates and employees:

As of September 30, 2005	Yen (millions)
BAR HONDA GP LIMITED	¥ 1,281
HONDA EXPRESS CO., LTD.	27
KOMYO CO., LTD.	13
HONDA FOUNDRY Co., Ltd	10
Honda Engineering Co., Ltd	10
HONDA RACING CORPORATION	4
Honda Kaihatsu Co., Ltd.	4
SUZUKA CIRCUITLAND CO., LTD.	1
HONDA AIRWAYS Co., Ltd.	1
HONDA R&D CO., LTD	—
Employees	50,745
Total	¥ 52,102

<u>As of September 30, 2006</u>	<u>Yen (millions)</u>
HONDA EXPRESS CO., LTD.	¥ 20
KOMYO CO., LTD.	11
Honda Engineering Co., Ltd	9
HONDA FOUNDRY Co., Ltd	9
HONDA RACING CORPORATION	4
Honda Kaihatsu Co., Ltd.	4
MOBILITYLAND CORP.*	—
HONDA R&D CO., LTD	—
Employees	44,313
Total	¥ 44,373

*: SUZUKA CIRCUITLAND CO., LTD. merged with Twin Ring Motegi Co., Ltd. and the new name of merged entity became MOBILITYLAND CORP.

<u>As of March 31, 2006</u>	<u>Yen (millions)</u>
HONDA EXPRESS CO., LTD.	¥ 21
KOMYO CO., LTD.	12
Honda Engineering Co., Ltd	10
HONDA FOUNDRY Co., Ltd	9
HONDA RACING CORPORATION	4
Honda Kaihatsu Co., Ltd.	4
SUZUKA CIRCUITLAND CO., LTD.	—
HONDA R&D CO., LTD	—
Employees	46,962
Total	¥ 47,026

(2) Keep-well agreements

The Company entered into the keep-well agreements with the subsidiaries for the purpose of credit enhancement in connection with the financing.

The related outstanding balances of obligations owed by the subsidiaries are as follows:

<u>As of September 30, 2005</u>	<u>Yen (millions)</u>
American Honda Finance Corporation*	¥2,182,683
Honda Finance Co., Ltd.	286,000
Honda Canada Finance Inc.*	48,230
HONDA FINANCE EUROPE PLC.	39,366
HONDA INTERNATIONAL FINANCE B.V.	34,399
Honda Bank G.m.b.H.	8,167
Honda Leasing (Thailand) Company Limited	5,500
Total	<u>¥2,604,347</u>

<u>As of September 30, 2006</u>	<u>Yen (millions)</u>
American Honda Finance Corporation	¥2,663,037
Honda Finance Co., Ltd.	384,000
Honda Canada Finance Inc.	266,624
HONDA FINANCE EUROPE PLC.	44,065
Honda Bank G.m.b.H.	11,981
Honda Leasing (Thailand) Company Limited	6,280
Total	<u>¥3,375,989</u>

<u>As of March 31, 2006</u>	<u>Yen (millions)</u>
American Honda Finance Corporation*	¥2,322,074
Honda Finance Co., Ltd.	306,000
Honda Canada Finance Inc.*	158,878
HONDA FINANCE EUROPE PLC.	40,766
HONDA INTERNATIONAL FINANCE B.V.	14,423
Honda Bank G.m.b.H.	8,568
Honda Leasing (Thailand) Company Limited	6,040
Total	<u>¥2,856,752</u>

- * In previous periods, a subsidiary of the Company entered into keep-well agreements with American Honda Finance Corporation and Honda Canada Finance Inc., and starting from this semi-annual period, the Company entered into these agreements with these finance subsidiaries to enhance the credit ratings of the subsidiaries and to consider future funding opportunities. Accordingly, the Company's commitment to guarantee loans and/or enter into these keep-well agreements increased from previous periods.

3. Short-term loans payable primarily comprise of funds received from subsidiaries by means of the Cash Management System.
4. Accounting for receivables

Notes receivable with maturities at the end of September 2006 was settled after the financial institutions clear the transaction. Since the financial institutions were closed on September 30, 2006, notes receivable as of September 30, 2006 included outstanding notes of JPY 589 million with September 2006 maturity dates.

(Notes to Unconsolidated Statements of Income)

	Yen (millions)		
	Half year ended September 30, 2005	Half year ended September 30, 2006	Year ended March 31, 2006
1. Non-operating income mainly consists of:			
Interest income	¥ 352	¥ 2,497	¥ 767
Dividends received	51,916	78,323	117,395
2. Non-operating expenses mainly consist of:			
Interest expenses	96	179	217
Foreign exchange losses	20,598	25,111	44,880
3. Extraordinary gains mainly consist of:			
Gain on the transfer of the benefit obligation of the substitutional portion of the employees' pension fund	91,541		91,541
4. Depreciation expense			
Tangible fixed assets	27,437	29,155	59,917
Intangible assets	472	543	972
	<u>¥ 27,910</u>	<u>¥ 29,699</u>	<u>¥ 60,889</u>

(Notes to Unconsolidated Statements of Stockholders' Equity)

1. Total number of shares issued:

Type of shares	Shares			September 30, 2006
	March 31, 2006	Increase number of shares during the period	Decrease number of shares during the period	
Number of shares of common stock	917,414,215	917,414,215	—	1,834,828,430

Note: The Company did a two-for-one stock split for the Company's common stock effective July 1, 2006.

Stock split (July 1, 2006) 917,414,215 shares

2. Total number of treasury stock:

Type of shares	Shares			September 30, 2006
	March 31, 2006	Increase number of shares during the period	Decrease number of shares during the period	
Number of shares of common stock	4,339,517	9,537,716	2,729,777	11,147,456

Notes:

1. The increase in number of shares (9,537,716 shares) was due to the following factors:

Stock split (effective July 1, 2006)	3,713,219 shares
Purchase of shares	4,677,900 shares
Purchase decided at the Board of Directors	1,131,775 shares
Purchase of shares less than one voting unit	14,822 shares

2. The decrease in number of shares (2,729,777 shares) was due to the following factors:

Share exchange	2,718,200 shares
Sale of shares with less than one voting unit	11,577 shares

3. Dividends

(1) Dividend payout

Resolution	The ordinary general meeting of stockholders on June 23, 2006
Type of shares	Common stock
Dividend	54,784 million yen
Dividend per share of common stock	JPY 60.00
Record date	March 31, 2006
Effective date	June 26, 2006

(2) Dividend payable for the first half ended September 30, 2006, effective after the period

Resolution	The board of directors meeting on October 23, 2006
Type of shares	Common stock
Resource for dividend	Retained earnings
Dividend	54,710 million yen
Dividend per share of common stock	JPY 30.00
Record date	September 30, 2006
Effective date	November 27, 2006

(Lease Transactions)

Finance lease transactions except for those under which the ownership of leased assets are transferred to the lessee.

1. Pro forma acquisition cost, accumulated depreciation and net book value of leased assets

	Yen (millions)		
	As of September 30, 2005		
	Acquisition cost	Accumulated depreciation	Net book value
Tools, furniture and fixtures	¥ 5,158	¥ 2,638	¥ 2,520
Other	126	78	48
Total	¥ 5,285	¥ 2,716	¥ 2,568

	Yen (millions)		
	As of September 30, 2006		
	Acquisition cost	Accumulated depreciation	Net book value
Tools, furniture and fixtures	¥ 6,569	¥ 2,554	¥ 4,015
Other	144	53	90
Total	¥ 6,713	¥ 2,607	¥ 4,106

	Yen (millions)		
	As of March 31, 2006		
	Acquisition cost	Accumulated depreciation	Net book value
Tools, furniture and fixtures	¥ 4,525	¥ 2,287	¥ 2,238
Other	158	70	87
Total	¥ 4,683	¥ 2,358	¥ 2,325

The above pro forma acquisition costs include imputed interests because the balance of future lease payments is immaterial to the balance of tangible fixed assets and related factors as of the half year-end (year-end).

2. Future lease payments

Yen (millions)		
As of September 30, 2005		
Within one year	Over one year	Total
¥ 1,053	¥ 1,514	¥2,568

Yen (millions)		
As of September 30, 2006		
Within one year	Over one year	Total
¥ 1,382	¥ 2,723	¥4,106

Yen (millions)		
As of March 31, 2006		
Within one year	Over one year	Total
¥ 992	¥ 1,332	¥2,325

The above future lease payments include imputed interests because the balance of future lease payments is immaterial to the balance of tangible fixed assets and related factors as of the half year-end (year-end).

3. Lease payments and pro forma depreciation expenses

Yen (millions)	
Half year ended September 30, 2005	
Lease payment	Depreciation expenses
¥ 682	¥ 682

Yen (millions)	
Half year ended September 30, 2006	
Lease payment	Depreciation expenses
¥ 614	¥ 614

Yen (millions)	
Year ended March 31, 2006	
Lease payment	Depreciation expenses
¥ 1,263	¥ 1,263

4. Method of estimating pro forma depreciation expenses

Pro forma depreciation expenses of leased assets are calculated using the straight-line method over the respective lease terms with the residual value of zero.

(Securities)

Marketable equity securities as of September 30, 2005 and 2006 and March 31, 2006, which are included in investments in subsidiaries and affiliates, are as follows:

	Yen (millions)		
	As of September 30, 2005		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Unrealized gain</u>
Investments in subsidiaries	¥ 3,124	¥ 39,878	¥ 36,754
Investments in affiliates	28,448	331,107	302,658
Total	<u>¥ 31,573</u>	<u>¥370,985</u>	<u>¥ 339,412</u>

	Yen (millions)		
	As of September 30, 2006		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Unrealized gain</u>
Investments in subsidiaries	¥ 3,124	¥ 39,743	¥ 36,619
Investments in affiliates	30,069	423,306	393,236
Total	<u>¥ 33,194</u>	<u>¥460,050</u>	<u>¥ 429,856</u>

	Yen (millions)		
	As of March 31, 2006		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Unrealized gain</u>
Investments in subsidiaries	¥ 3,124	¥ 52,003	¥ 48,878
Investments in affiliates	29,918	442,245	412,326
Total	<u>¥ 33,043</u>	<u>¥494,248</u>	<u>¥ 461,205</u>

(Per Share Data)

	<u>Half year ended September 30, 2005</u>	<u>Half year ended September 30, 2006</u> (Yen)	<u>Year ended March 31, 2006</u>
Net asset per share	¥ 1,827.20	¥ 979.16	¥ 1,900.00
Net income per share	¥ 187.92	¥ 69.68	¥ 327.83

Diluted net income per share is not provided as there is no potential dilution effect.

The Company did a two-for-one stock split for the Company's common stock effective July 1, 2006. Net income per share for the fiscal half year ended September 30, 2006 was calculated based on the number of common shares after the stock split. Had the stock split been carried out during the fiscal half year ended September 30, 2005, net assets per share and net income per share as of and for the fiscal half year ended September 30, 2005 and March 31, 2006 would be as follows.

	<u>Half year ended September 30, 2005</u> (Yen)	<u>Year ended March 31, 2006</u>
Net asset per share	¥ 913.60	¥ 950.00
Net income per share	¥ 93.96	¥ 163.92

* The basis of the computation of net income per share is as follows:

	<u>Half year ended September 30, 2005</u>	<u>Half year ended September 30, 2006</u> Yen (millions)	<u>Year ended March 31, 2006</u>
Net income	¥ 173,526	¥ 127,295	¥ 301,735
Amount not applicable to common stock	—	—	—
Net income applicable to common stock	¥ 173,526	¥ 127,295	¥ 301,735
Weighted average number of shares	923,414,030 shares	1,826,740,093 shares	920,399,873 shares