

HONDA MOTOR CO LTD
Form 20-F
July 09, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2004

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-7628

HONDA GIKEN KOGYO KABUSHIKI KAISHA

(Exact name of Registrant as specified in its charter)

HONDA MOTOR CO., LTD.

(Translation of Registrant's name into English)

JAPAN

(Jurisdiction of incorporation or organization)

No. 1-1, 2-chome, Minami-Aoyama, Minato-ku, Tokyo 107-8556, Japan

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act.

Title of each class

(1) Common Stock*
(2)

Name of each exchange on which registered

The New York Stock Exchange
The New York Stock Exchange

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American Depositary Shares evidenced by American Depositary Receipts, each representing one-half of one share of Common Stock
Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

| <u>Title of each class</u> | <u>Outstanding as of March 31, 2004</u> |
|--|---|
| (1) Common Stock | 940,915,951 |
| (2) American Depositary Shares evidenced by American Depositary Receipts, each representing one-half of one share of Common Stock | 35,034,638 |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

* Not for trading purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

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Unless the context otherwise requires, the terms we, us, our, Registrant, Company and Honda as used in this Annual Report each refer to Motor Co., Ltd. and its consolidated subsidiaries.

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**A. Selected financial data:**

The selected consolidated financial data set out below for each of the five fiscal years ended March 31, 2004 have been derived from our consolidated financial statements that were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), except that they do not include segment information required under U.S. GAAP.

You should read the U.S. GAAP selected consolidated financial data set out below together with Operating and Financial Review and Prospects and our consolidated financial statements contained in this Annual Report.

| | Fiscal years ended March 31, | | | | | U.S. dollars |
|---------------------------------------|------------------------------|-------------|-------------|-------------|-------------|--------------|
| | (Millions of yen) | | | | | (millions) |
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 |
| Income statement data: | | | | | | |
| Net sales and other operating revenue | ¥ 6,098,840 | ¥ 6,463,830 | ¥ 7,362,438 | ¥ 7,971,499 | ¥ 8,162,600 | \$ 77,232 |
| Operating income | 418,639 | 401,438 | 661,202 | 724,527 | 600,144 | 5,678 |
| | 416,063 | 384,976 | 551,342 | 609,755 | 641,927 | 6,073 |

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Income before income taxes and equity in income of affiliates

| | | | | | | |
|--------------------------|---------|---------|---------|---------|---------|-------|
| Net income | 262,415 | 232,241 | 362,707 | 426,662 | 464,338 | 4,393 |
| Research and development | 334,036 | 352,829 | 395,176 | 436,863 | 448,967 | 4,248 |
| Depreciation | 172,139 | 170,342 | 194,944 | 220,874 | 213,445 | 2,020 |
| Capital expenditures | 222,891 | 285,687 | 303,424 | 316,991 | 287,741 | 2,722 |

Balance sheet data:

| | | | | | | |
|---------------------|-------------|-------------|-------------|-------------|-------------|-----------|
| Total assets | ¥ 4,898,428 | ¥ 5,667,409 | ¥ 6,940,795 | ¥ 7,681,291 | ¥ 8,328,768 | \$ 78,804 |
| Long-term debt | 574,566 | 368,173 | 716,614 | 1,140,182 | 1,394,612 | 13,195 |
| Stockholders equity | 1,930,373 | 2,230,291 | 2,573,941 | 2,629,720 | 2,874,400 | 27,197 |
| Common stock | 86,067 | 86,067 | 86,067 | 86,067 | 86,067 | 815 |

Weighted average number of shares outstanding

| | (Thousands of shares) | | | | |
|--|-----------------------|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| Weighted average number of common shares outstanding | 974,414 | 974,414 | 974,408 | 970,952 | 953,638 |

Table of Contents**Net income per common share**

| | (Yen) | | | | | (US\$) |
|---------|----------|----------|----------|----------|----------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 |
| Basic | ¥ 269.31 | ¥ 238.34 | ¥ 372.23 | ¥ 439.43 | ¥ 486.91 | \$ 4.61 |
| Diluted | 269.31 | 238.34 | 372.23 | 439.43 | 486.91 | \$ 4.61 |

Net income per common share has been computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each year.

Cash dividends declared during the period per common share:

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|------|---------|---------|---------|---------|---------|
| Yen | 21.00 | 23.00 | 25.00 | 31.00 | 35.00 |
| US\$ | \$ 0.20 | \$ 0.19 | \$ 0.19 | \$ 0.26 | \$ 0.33 |

Additionally, a year-end dividend of ¥23 (\$0.22) per common share aggregating ¥21.6 billion (\$205 million) relating to fiscal 2004 was determined by our board of directors in April 2004 and approved by our shareholders in June 2004. This dividend was paid in June 2004.

As described in Note (1) (r) to our consolidated financial statements, because certain reclassifications have been made to our prior year consolidated financial statements for the fiscal years ended March 31, 2002 and 2003, to conform to the presentation used for the fiscal year ended March 31, 2004, the operating results analysis in this annual report compared to the previous fiscal year is based on these reclassified consolidated statements of income.

Exchange Rates

In this Annual Report, yen amounts have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for these translations was ¥105.69 = \$1.00, which represents the approximate exchange rate quoted on the Tokyo Foreign Exchange Market on March 31, 2004. No representation is made that yen amounts could have been, or could be, converted into U.S. dollars at that rate or any other rate on this or any other data or at all.

The following table sets out information regarding the noon buying rates for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York expressed in yen per \$1.00 during the periods shown. On June 30, 2004, the noon buying rate was ¥109.43 = \$1.00. The average exchange rate for the period shown is the average of the month-end rates during the period.

| <u>Years ended March 31,</u> | <u>(Yen)</u> | | | |
|------------------------------|----------------|-------------------|-------------|------------|
| | <u>Average</u> | <u>Period end</u> | <u>High</u> | <u>Low</u> |
| 2000 | 110.02 | 102.73 | 124.45 | 101.53 |
| 2001 | 111.64 | 125.54 | 125.54 | 104.19 |
| 2002 | 125.64 | 132.70 | 134.77 | 115.89 |
| 2003 | 121.10 | 118.07 | 133.40 | 115.71 |
| 2004 | 112.75 | 104.18 | 120.55 | 104.18 |
| 2005 (through June 30, 2004) | 109.99 | 109.43 | 114.30 | 103.70 |
| Jan-2004 | | | 107.17 | 105.52 |
| Feb-2004 | | | 109.59 | 105.36 |
| Mar-2004 | | | 112.12 | 104.18 |
| Apr-2004 | | | 110.37 | 103.70 |
| May-2004 | | | 114.30 | 108.50 |
| June-2004 | | | 111.27 | 107.10 |

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B. Capitalization and Indebtedness

Not applicable.

C. Reason for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, Honda's business, financial condition or results of operations could be adversely affected. In that event, the trading prices of Honda's common stock and American Depositary Shares could decline, and you may lose all or part of your investment. Additional risks not currently known to Honda or that Honda now deems immaterial may also harm Honda and affect your investment.

Honda may be adversely affected by market conditions

Honda conducts its operation in Japan and throughout the world, including North America, Europe and Asia.

A continued economic slowdown, recession or sustained loss of consumer confidence in these markets could trigger a decline in demand for automobiles, motorcycles and power products that may affect Honda's result of operation.

Prices for automobiles, motorcycles and power products can be volatile

Prices for automobiles, motorcycles and power products in certain markets have, at times, experienced sharp changes over short periods of time.

This volatility is caused by many factors, including short-term fluctuations in demand, shortages of certain supplies, volatility in underlying economic conditions, changes in import regulations, excess inventory and increased competition. There can be no assurance that such price volatility will not continue or that price volatility will not occur in markets that to date have not experienced such volatility. Overcapacity within the industry has increased and will likely continue to increase if the economic downturn continues in Honda's major markets or worldwide, leading, potentially, to further increased price pressure. Price volatility in any or all of Honda's markets could adversely affect Honda's results of operations in a particular period.

Honda's operations are subject to currency fluctuations

Honda has manufacturing operations throughout the world including Japan and exports products and components to various countries.

Honda purchases materials and sells its products in foreign currencies, therefore currency fluctuations may affect Honda's pricing of products sold and materials purchased. Accordingly currency fluctuations have an effect on Honda's results of operation, balance sheet and cash flow, as well as Honda's competitiveness, which will over time affect its results.

Since Honda exports many products and components from Japan and generates a substantial portion of its revenues in currencies other than the Yen, Honda's results of operations would be adversely affected by an appreciation of the Yen against other currencies, in particular the U.S. dollar.

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Honda's hedging of currency and interest rate risk exposes Honda to other risks

Although it is impossible to hedge against all currency or interest risk, Honda uses derivative financial instruments in order to reduce the effects of currency fluctuations and interest rate exposure.

As with all hedging instruments, there are risks associated with the use of foreign currency forward contracts, currency swap agreements and currency option contracts, as well as interest rate swap agreements.

While limiting to some degree our risk fluctuations in currency exchange and interest rates, by utilizing such hedging instruments Honda potentially forgoes benefits that might result from other fluctuations in currency exchange and interest rates.

Honda has entered into, and expects to continue to enter into, such hedging arrangements. Honda manages exposure to counterparty credit risk by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines.

However, any default by such counterparties might have an adverse effect on Honda.

The automobile, motorcycle, power product industries are subject to extensive environmental and other governmental regulation

Regulations regarding vehicle emission levels, fuel economy, noise and safety, as well as levels of pollutants from production plants, are extensive within the automobile, motorcycle and power product industries. These regulations are subject to change, and are often made more restrictive. The costs to comply with these regulations can be significant to Honda's operations.

Honda is reliant on the protection and preservation of its intellectual property

Honda owns or otherwise has rights in a number of patents and trademarks relating to the products it manufactures, which have been obtained over a period of years. These patents and trademarks have been of value in the growth of Honda's business and may continue to be of value in the future. Honda does not regard any of its businesses as being dependent upon any single patent or related group of patents. However, an inability to protect this intellectual property generally, or the illegal breach of some or a large group of Honda's intellectual property rights, would have an adverse effect on Honda's operations.

Honda's financial services business conducts business under highly competitive conditions in an industry with inherent risks

Honda's financial services business offers various financing plans designed to increase the opportunity for sales of its products and to generate financing income. However, customers can also obtain financing for the lease or purchase of Honda's products through a variety of other sources that compete with our financing services, including commercial banks and finance and leasing companies. The financial services offered by us also involve risks relating to residual value, credit risk and cost of capital. Competition for customers and/or these risks may affect Honda's results of operations in the future.

Honda relies on various suppliers for the provision of certain raw materials and components

Honda purchases raw materials, and certain components and parts, from numerous external suppliers, and relies on some key suppliers for some items and the raw materials it uses in the manufacture of its products. Honda's ability to continue to obtain these supplies in an efficient and cost-effective manner is subject to a number of factors, some of which are not within Honda's control. These factors include the ability of its suppliers to provide a continued source of supply and Honda's ability to compete with other users in obtaining the supplies. Loss of a key supplier in particular may affect our production and increase our costs.

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Honda may be adversely affected by its joint ventures.

In several countries, Honda conducts businesses through joint ventures with local entities, in part due to the legal and other requirements of those countries. These businesses may be affected by changes in the business condition or policy of these local entities, which in turn may adversely affect Honda's business, financial condition or results of operations.

Honda may be adversely affected by natural disasters, wars, terrorism and labor strikes

Honda conducts its businesses worldwide, and its operations may variously be subject to natural disasters, disease, wars, terrorism or labor strikes which may delay or disrupt Honda's local operations in the affected regions, including the acquisition of raw materials and parts, the manufacture, sales and distribution of products and the provision of services. If such delay or disruption occurs and continues for a long period of time, Honda's business financial condition or results of operations may be adversely affected.

Cautionary statement with respect to forward looking statements in this Annual Report

This Annual Report includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements included in this Annual Report are based on the current assumptions and beliefs of Honda in light of the information currently available to it, and involve known and unknown risks, uncertainties, and other factors. Such risks, uncertainties and other factors may cause Honda's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors are generally set forth in Item 3.D Risk Factors and include, without limitation:

the political, economic and social conditions in Japan, the United States and elsewhere, including the relevant governments' specific policies with respect to economic growth, inflation, taxation, currency conversion, imports and sources of supplies and the availability of credit, particularly to the extent such current or future conditions and policies affect the automobile, motorcycle and power products industries and markets in Japan and the United States, and the demand, sales volume and sales prices for Honda's automobiles, motorcycles and power products;

the effects of competition in the automobile, motorcycle and power products markets on the demand, sales volume and sales prices for Honda's automobiles, motorcycles and power products;

Honda's ability to finance its working capital and capital expenditure requirements, including obtaining any required external debt or other financing; and

the effects of economic stagnation or recession in Honda's principal markets and exchange rate fluctuations on the Honda's results of operations.

Honda undertakes no obligation and have no intention to publicly update any forward-looking statement after the date of this Annual Report. Investors are advised to consult any further disclosures by Honda in its subsequent filings pursuant to the Securities and Exchange Act of 1934.

Item 4. Information on the Company

A. History and Development of the Company

Honda Motor Co., Ltd. is a limited liability, joint stock corporation incorporated on September 24, 1948 under the Commercial Code of Japan as Honda Giken Kogyo Kabushiki Kaisha. It was formed to succeed to the business of an unincorporated enterprise established in 1946 by the late Soichiro Honda to manufacture motors for motorized bicycles.

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Honda develops, produces, and manufactures a variety of motor products, ranging from small general-purpose engines to specialty sports cars that incorporate Honda's highly efficient internal combustion engine technology. Approximately 17.2 million Honda engines were sold worldwide during the fiscal year ended March 31, 2004.

Honda's principal executive office is located at 1-1, 2-chome, Minami-Aoyama, Minato-ku, Tokyo, 107-8556, Japan. Its telephone number is 81-3-3423-1111.

Principal Capital Investments

In the fiscal years ended March 31, 2002, 2003 and 2004, Honda's capital expenditures were ¥303.4 billion, ¥316.9 billion and ¥287.7 billion, respectively. For further details of Honda's capital expenditures during fiscal 2004, see "Property, Plants and Equipment" included as Item 4.D of this Annual Report.

*B. Business overview***Motorcycle Business**

The following table sets out unit sales for Honda's motorcycle business, including motorcycles, all-terrain vehicles (ATVs) and personal watercraft, and revenue from its motorcycle business during the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004:

| | Fiscal years ended March 31, | | | | |
|--|-------------------------------------|-------------|-------------|-------------|-------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| Units (in thousands) | 4,436 | 5,118 | 6,095 | 8,080 | 9,206 |
| Revenue in billions of Japanese yen | ¥718 | ¥ 805 | ¥ 947 | ¥ 978 | ¥ 996 |
| Revenue as a Percentage of total sales revenue | 12% | 12% | 13% | 12% | 12% |

Note: All information regarding business segments has been prepared in accordance with a Ministerial Ordinance under the Securities and Exchange Law of Japan, which requires certain information to be disclosed, including business segment information.

See "Operating and Financial Review and Prospects" included as Item 5 of this Annual Report.

Honda produces a wide range of motorcycles, ranging from the 50cc class to the 1800cc class in cylinder displacement. Honda's motorcycles use gasoline engines developed by Honda that are air- or water-cooled, two or four-cycle, and single, two, four or six cylinder. Honda's motorcycle line consists of sports (including trial and moto-cross racing), business and commuter models. Honda is the largest manufacturer of motorcycles in the world in terms of annual units of production.

Honda's motorcycles are produced at two sites in Japan: Hamamatsu and Kumamoto. In fiscal 2004, the annual production output of these sites was 634,077 units. Honda's motorcycles are also produced by subsidiaries in the United States, Italy, Spain, Brazil, Thailand, Vietnam, Philippine and India. Annual output in those countries in fiscal 2004 was approximately 363,000, 117,000, 36,000, 821,000, 1,942,000, 491,000, 131,000 and 339,000 units, respectively. Certain motorcycle components are manufactured in Japan and shipped to foreign plants for assembly. Each plant also buys locally made parts or manufactures parts using Honda's intellectual property and technical guidance.

Table of Contents**Automobile Business**

The following table sets out Honda's unit sales of automobiles and revenue from its automobile business during the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004:

| | Fiscal years ended March 31, | | | | |
|--|------------------------------|--------|--------|--------|--------|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| Units (in thousands) | 2,473 | 2,580 | 2,666 | 2,888 | 2,983 |
| Revenue in billions of Japanese yen | ¥4,961 | ¥5,231 | ¥5,929 | ¥6,440 | ¥6,592 |
| Revenue as a percentage of total sales revenue | 81% | 81% | 81% | 81% | 81% |

Note: All information regarding business segments has been prepared in accordance with a Ministerial Ordinance under the Securities and Exchange Law of Japan, which requires certain information to be disclosed, including business segment information.

See Operating and Financial Review and Prospects included as Item 5 of this Annual Report.

Honda's principal automobile products includes the following vehicle models:

Passenger cars:

Accord, Civic, Acura TL, Acura TSX, Acura RSX

Multi-wagons, Minivans, Sport Utility Vehicle:

Odyssey, Fit, CR-V, Pilot, Element, Step Wagon, Acura MDX, Stream, Mobilio

Mini-vehicles:

Life, Acty, Vamos, That's

Automobiles are produced by Honda at two sites in Japan: the Saitama factory and the Suzuka factory. Our major production sites overseas are located in Ohio (U.S.A.), Alabama (U.S.A.), Alliston (Canada), Swindon (U.K.) and Ayutthaya (Thailand).

The manufacture of the *Acty-Truck*, *Acty-Van*, *Life*, *Vamos* and *Vamos-Hobio* is undertaken by Yachiyo Industry Co., Ltd., one of our affiliates.

Financial Services

The following table sets out Honda's revenue from Financial Services during the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004:

| | Fiscal years ended March 31, | | | | |
|--|------------------------------|------|------|------|------|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| Revenue in billions of Japanese yen | ¥137 | ¥169 | ¥201 | ¥237 | ¥242 |
| Revenue as a percentage of total sales revenue | 2% | 3% | 2% | 3% | 3% |

Note: All information regarding business segments has been prepared in accordance with a Ministerial Ordinance under the Securities and Exchange Law of Japan, which requires certain information to be disclosed, including business segment information.

See Operating and Financial Review and Prospects included as Item 5 of this Annual Report.

In our financial services business, Honda offer a variety of financial services to our customers and dealers through financial subsidiaries in Japan and abroad, with the aim of providing sales support for our products.

Table of Contents**Power Products and Other Businesses**

The following table sets out Honda's revenue from Power Products and Other Businesses during the fiscal years ended March 31, 2000, 2001, 2002, 2003 and 2004:

| | Fiscal years ended March 31, | | | | |
|--|------------------------------|-------|-------|-------|-------|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| Units (in thousands) | 4,057 | 3,884 | 3,926 | 4,584 | 5,047 |
| Revenue in billions of Japanese yen | ¥ 281 | ¥ 257 | ¥ 282 | ¥ 315 | ¥ 331 |
| Revenue as a percentage of total sales revenue | 5% | 4% | 4% | 4% | 4% |

Note: All information regarding business segments has been prepared in accordance with a Ministerial Ordinance under the Securities and Exchange Law of Japan, which requires certain information to be disclosed, including business segment information.

See Operating and Financial Review and Prospects included as Item 5 of this Annual Report.

Honda manufactures a variety of power products including power tillers, portable generators, general purpose engines, grass cutters, outboard engines, water pumps, snow throwers, power carriers, power sprayers, lawn mowers and lawn tractors (riding lawn mowers).

Effective fiscal 2000, Honda changed its business segment categorization to include the ATV business in the Motorcycle Business. The ATV business was previously included in Power Products and Other Businesses (formerly our Other Businesses segment). All prior fiscal years figures in this Annual Report have been restated to reflect this change.

Marketing and Distribution

Most of Honda's products are distributed under registered Honda trademarks in Japan and/or in overseas markets. Major trademarks include *HONDA, ACURA, ACCORD, CIVIC, FIT, ODYSSEY, CR-V, PILOT, MOBILIO, ELEMENT, STEP WGN, MDX, STREAM, LIFE, ACTY, VAMOS, THAT'S, CUB, WAVE* and *GOLD WING*.

Sales in Japan

Sales of Honda motorcycles, automobiles, and power products in Japan are made through different distribution networks. Honda's products are sold to consumers primarily by independent retail dealers throughout Japan.

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Motorcycles are distributed through approximately 10,300 outlets, including approximately 1,250 *PROS* authorized dealerships. *PROS* dealerships sell substantially all of Honda's Japanese motorcycle models.

Honda's distribution channel for automobiles in Japan consists of three dealer networks: *PRIMO Shops*, *CLIO Shops* and *VERNO Shops*, which sell different models of Honda automobiles. At present, 876 retail dealers operate 1,507 *PRIMO Shops* and sell the *Saber*, *Civic*, *Life*, *Acty*, *Vamos* and *That's*. Honda's 83 retail dealers operate 512 *CLIO Shops* and sell the *Accord* series, and *Legend*, *Lagreat* and *Avancier*. 77 retail dealers operate 400 *VERNO Shops* and sell the *NSX*, *Integra*, *CR-V*, *HR-V*, *Honda S2000* and *Element*. In addition, the *Odyssey*, *Step WGN*, *Partner*, *Insight*, *Stream*, *Fit*, *Fit Aria*, *Mobilio*, *Mobilio Spike* and *Inspire* are sold through all three dealer networks.

Power products are distributed in Japan primarily through Honda's nine sales offices to approximately 1,580 retail dealers throughout Japan, including affiliates of Honda. A number of small engines are also sold to other manufacturers for use in their products.

The independent retail dealers who sell Honda's products in Japan receive payment from customers by one of four payment methods: cash, bank loans, installment payments or financing by credit companies.

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Service and parts related operations in Japan

Sales of spare parts and after sales services are mainly provided through retail dealers. Lectures on service technology are provided for dealers regularly by Honda's Automobile Sales Operations (Japan).

Overseas sales

Approximately 96% of Honda's overseas sales are made through its principal foreign sales subsidiaries, which distribute Honda's products to local wholesalers and retail dealers.

In the United States, which is the largest market for Honda automobiles, Honda markets its products through a sales network of approximately 1,270 independent local dealers for automobiles, approximately 1,250 for motorcycles and approximately 5,400 for power products. Many of the motorcycle dealers and some of the automobile dealers also sell Honda's power products. In 1986, Honda opened the first Acura automobile dealerships in the United States. The Acura network totaled 262 dealerships at the end of fiscal 2004. The Acura network offers the *RSX*, *TL*, *CL*, *TSX*, *RL*, *NSX MDX* and *EL* (Canada only) models.

With regard to the export of U.S.-built cars from North America, Honda is currently exporting such North American-built models as the *Accord*, *Odyssey*, *Civic*, *MDX* and *Element* to overseas markets. In fiscal 2004, Honda exported approximately 25,063 units from North America to 50 countries throughout the world.

In Europe, Honda's operations in the United Kingdom, Germany, France, Belgium, the Netherlands, Spain, Switzerland, Austria, Italy and other European countries distribute Honda's products through approximately 1,700 independent local dealers for automobiles, approximately 1,800 for motorcycles and approximately 4,300 for power products.

Honda exports motorcycle components to 20 countries, including India, Thailand, Indonesia, the People's Republic of China and Brazil, where motorcycles are manufactured by its subsidiaries, joint venture firms and licensees. Some of the components used in the production of these vehicles are supplied locally.

Honda exports automobile components to 13 countries, including the United States, Canada, the People's Republic of China, Thailand and Brazil, where automobiles are manufactured by itself, joint venture firms and licensees. Some of the components used in the production of these vehicles are supplied locally.

Honda also exports power product components to 8 countries, including the United States, Thailand, United Kingdom, France, India, Indonesia and Australia, where power products are manufactured by itself, joint venture firms and licensees. Some of the components used in the production of these products are supplied locally.

Service and parts related operations overseas

Honda provides its overseas operations, joint venture firms, independent distributors and licensees with spare parts and necessary technical information, which they in turn supply to wholesale or retail dealers, either directly or through one or more spare parts distributors.

Net Sales by Product Group and Region

Breakdown of Net Sales and Other Operating Revenue by Category of Activity

| | Fiscal years ended March 31, | | |
|-------------------------------------|------------------------------|--------------------|--------------------|
| | 2002 | 2003 | 2004 |
| | (millions of yen) | | |
| Motorcycle Business | ¥ 947,900 | ¥ 978,095 | ¥ 996,290 |
| Automobile Business | 5,929,742 | 6,440,094 | 6,592,024 |
| Financial Services | 201,906 | 237,958 | 242,696 |
| Power Products and Other Businesses | 282,890 | 315,352 | 331,590 |
| Total | ¥ 7,362,438 | ¥ 7,971,499 | ¥ 8,162,600 |

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Note: All information regarding business segments has been prepared in accordance with a Ministerial Ordinance under the Securities and Exchange Law of Japan, which requires certain information to be disclosed, including business segment information.

See Operating and Financial Review and Prospects included as Item 5 of this Annual Report.

Breakdown of Net Sales and Other Operating Revenue by Geographical Markets

| | Fiscal years ended March 31, | | |
|---------------|------------------------------|--------------------|--------------------|
| | 2002 | 2003 | 2004 |
| | (millions of yen) | | |
| Japan | ¥ 1,868,746 | ¥ 1,748,706 | ¥ 1,628,493 |
| North America | 4,147,927 | 4,567,926 | 4,542,930 |
| Europe | 563,552 | 661,961 | 770,110 |
| Asia | 470,836 | 645,526 | 801,611 |
| Others | 311,377 | 347,380 | 419,456 |
| Total | ¥ 7,362,438 | ¥ 7,971,499 | ¥ 8,162,600 |

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

Components and Parts, Raw Materials and Sources of Supply

Honda manufactures the major components and parts used in its products, including engines, frames and transmissions. Other components and parts, such as shock absorbers, electrical equipment and tires, are purchased from numerous suppliers. The principal raw materials used by Honda are steel plate, aluminum, special steels, steel tubes, paints, plastics and zinc, which are purchased from several suppliers. The most important raw material purchased is steel plate, accounting for approximately 45% of Honda's total purchases of raw materials.

No single supplier accounted for more than 5% of the Company's purchases of major components and parts and principal raw materials during the fiscal year ended March 31, 2004.

Honda does not have and does not anticipate having any difficulty in obtaining its required materials from suppliers and considers its contracts and business relations with suppliers to be satisfactory. The Company does not believe any of its domestic suppliers are substantially more dependent on foreign suppliers than are Japanese suppliers generally. However, it should be noted that Japanese industry in general is heavily dependent on foreign suppliers for substantially all of its raw materials.

Seasonality

Honda's motorcycle and power product businesses have historically experienced some seasonality, however, this seasonality has generally not been material to our financial results.

Environmental and Safety Regulation

Outline of Environmental and Safety Regulation for Automobiles

1. Emissions

Japan

In 2002, The Central Environment Council in the Ministry of Environment created new long-term targets and comprehensive requirements for gasoline vehicles effective from 2005. Emissions limits have been lowered by more than 50% from the current level. Detailed requirements and test methods are discussed below.

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In October 2003, a new system for designation of low emission vehicles (LEV) was established based on these new emission limits. Under this new system vehicles are classified as three star if they produce emissions of less than 50% of the limit or four star if they produce emissions of less than 75% of the limit.

Additionally the Air Pollution Law was enacted in 2000 to strengthen emissions regulations in place in Japan. Under this Act, a low emissions vehicle designation system was created whereby preferential tax treatment is available for vehicles whose emissions levels are below those designated in the Act. In 2001, the Automobile NOx Law, targeting large city areas, was revised to include specified particulate materials.

The United States

Increasingly stringent emission regulations under the Clean Air Act have been enacted since the 1990s by the U.S. federal government. Under the Act, the Environmental Protection Agency in February 2000 adopted further more stringent vehicle emissions regulations applicable to passenger cars and light-duty trucks produced from model year 2004. Moreover, the new standard provides for gradual decreases in sulfur levels contained in fuel in the U.S. market.

Under the Clean Air Act, the State of California is permitted to establish its own emission control standards to the extent they are more stringent than federal standards. Pursuant to this authority, the California Air Resources Board (CARB) adopted the California Low Emission Vehicle Program in 1990, aiming at establishing the strictest emission regulations in the world. In late 1998, CARB strengthened its regulatory standards through the introduction of new standards, known as the California Low Emission Vehicle Program II (LEV II). These new standards treat most light trucks the same as passenger cars and require both types of vehicles to meet the new emissions standards of LEV II. In January 2001, CARB approved modifications to the Zero-Emission Vehicles (ZEV) requirement under LEV II, permitting gasoline SULEVs (Super Ultra Low Emission Vehicle), hybrid vehicles (powered by gasoline engine and/or electric motor) and compressed natural gas (CNG) vehicles to partially meet zero-emission requirements by satisfying certain additional requirements. The modified requirements also provide incentives for continued technology development.

In April 2004, CARB finalized its Zero-Emission Vehicles requirements. Under these requirements, from the 2005 model year 6% of vehicles sold in California by a car manufacture must be Partial Zero Emission Vehicles (PZEV), which includes SULEVs with warranties covering through at least the sooner to occur of 15 years or 150,000 miles driven, 2% must be advanced technology PZEVs and 2% must be ZEVs. Required percentages will be gradually increased under the Zero-Emission Vehicle standards from the 2008 model year.

Europe

In 1999, the European Union adopted EURO3 and EURO4 as comprehensive emissions regulations for passenger vehicles and heavy and light commercial vehicles. EURO3 was implemented in 2000 and EURO4 is to be implemented in 2005. In each EU country, standards, such as those providing for preferential automobile tax treatment, have been established in respect of automobiles that comply with requirements prescribed in EURO4 and are offered for sale before its implementation. Honda has already introduced a considerable number of EURO4 models in advance of this implementation.

2. Fuel Economy / CO2

Japan

In 1998, amendment was made to the Law Concerning Rationalization of Energy Usage that established in Japan a fuel efficiency standard based on weight class. This standard will be tightened in 2005 for diesel-fueled automobiles. For gasoline automobiles, tighter standards, to be implemented in 2010, have also been established.

In light of the CO2 reduction targets promulgated in the Kyoto protocol, the Japanese government issued a fuel regulation for an interim ethanol blending limit (less than 5%) which became effective in 2003. The Japanese government intends to further increase this limit until the final target of 10% is achieved within a decade.

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Ethanol blended fuel is a Biomass fuel . Biomass fuel is regarded as an effective countermeasure for CO2 reduction. CO2 emissions after burning any ethanol fuel produced with biomass resources (such as plants or wood) are not counted toward CO2 emissions under the Kyoto protocol.

The United States

The Federal Motor Vehicle Information and Cost Savings Act requires automobile manufacturers to comply with the Corporate Average Fuel Economy (CAFE) standards. Under the CAFE standards, manufacturers are subject to substantial penalties if automobiles produced by them in any model year do not meet the average standards for each category. The CAFE standard for passenger cars has been 27.5 miles per gallon since 1990, and for light trucks it has been 20.7 miles per gallon since 1996. Passenger cars are divided into the following two categories: Domestic and Import , and credits earned in one category may not be applied to another.

Taking into consideration that the National Academy of Science (NAS) encouraged improving fuel economy in its Study Report issued in July 2001 and that both the U.S. Senate and the House of Representatives have had heated discussions on raising the CAFE standards, it appears that regulations requiring even greater fuel economy in the United States are likely.

In 2003, the National Highway Traffic Safety Administration (NHTSA) issued a new standard for model year 2005-2007 light trucks. The new rule will raise the current standard of 20.7 miles per gallon by 1.5 miles per gallon over the next three years, as follows: 21.0 miles per gallon for model year 2005, 21.6 miles per gallon for model year 2006, and 22.2 miles per gallon for model year 2007. In December 2003, NHTSA proposed to amend the structure of application of the CAFE standards and requested comments from the public.

Europe

In early 1999, the European Union reached a voluntary agreement with the European Automotive Manufacturers Association for the establishment of an average emissions target of 140 grams of carbon dioxide per kilometer for new cars offered for sale in the EU in 2008. The Japan Automobile Manufacturers Association (JAMA) and the Korean Automobile Manufacturers Association also reached a similar voluntary agreement with the European Union targeting implementation in 2009. In 2003, in an interim review, the emissions reduction efforts made by these associations were reviewed and the possibility of setting a more stringent target of above 140 grams is now being discussed.

The EU also recommends use of biomass fuel blends.

3. Recycling / End-of-Life Vehicles (ELV)

Japan

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Japan enacted the Automobile Recycling Law in July 2002, which requires manufacturers to take back air bags, fluorocarbon and shredder residue derived from end-of-life vehicles (ELV), effective from January 1, 2005. ELV processing costs are collected from owners of cars currently in use and purchasers of new cars. Detailed regulations relating to actual implementation were issued in July 2003. With respect to the recycling of fluorocarbons, regulations took effect under the Fluorocarbons Recovery and Destruction Law in October 2002. Under these regulations, the fluorocarbons derived from ELVs must be collected by the manufacturer for destruction. The last owners of vehicles must purchase tickets toward the fluorocarbon processing costs.

Europe

In September 2000, the European Union approved a directive that requires its member states to promulgate regulations implementing the following by April 21, 2002:

Manufacturers must be financially responsible for taking back end-of-life vehicles offered for sale after July 1, 2002 and for their dismantling and recycling. Beginning on January 1, 2007, all vehicles offered for sale in the European Union before July 1, 2002 must also be included.

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Manufacturers must not use specified hazardous materials in vehicles offered for sale in the European Union after July 2003; and

95% of vehicle parts sold in the European Union as of a specified date, which will be designated in a future directive, must be re-usable and recoverable.

4. Safety

Japan

Japanese safety regulations currently require manufacturers to equip their vehicles with safety features sufficient to assure passenger safety for both head-on collisions (based on the full wrap test) and side impact collisions (based on the European test of passenger protection) occurring at speeds of up to 50 kilometers per hour. The introduction of European offset tests and laws based on the International Harmonization Research Activity (IHRA) testing method are currently being considered.

The Ministry of Land, Infrastructure and Transport issued driving vision and pedestrian head protection standards. The driving visibility standards were issued in July 2003. In April in 2004, the world's first pedestrian head protection standard was issued.

The United States

The Transportation Recall Enhancement, Accountability and Documentation Act (TREAD Act) was enacted in the United States on November 1, 2000. The TREAD Act required the NHTSA to upgrade federal motor vehicle safety standards relating to tires based on a vehicle test that takes into account the rollover propensity of vehicles. The TREAD Act also required the NHTSA to reinforce the existing recall system and current safety standards. Items to be reinforced in the recall system included reporting obligations to the NHTSA in respect of recalls in foreign countries (overseas recall reporting requirements), for which regulations took effect in November 2002, and regulatory reporting of various manufacturers' information to specify defects at earlier stages (early warning reporting requirements), for which regulations took effect in July 2003. Safety standards, under the TREAD Act included the imposition of tire pressure monitoring system installation obligations, regulations for which were finalized in June 2002 but vacated in November, 2003 by a court decision. These regulations are now being reviewed by NHTSA. Safety standards under the TREAD Act also included an assessment method for active rollover (finalized in October 2003), a testing method for child restraining equipment (finalized in October 2003) and tire standards (finalized in June 2003). The Act also substantially increased the NHTSA's authority to impose civil penalties for noncompliance with regulatory requirements and specified possible criminal penalties for violations of the federal Fraud and False Statements Act.

In 2000, the National Highway Traffic Safety Administration issued various motor vehicle safety standards, including a final rule specifying performance requirements for advanced airbag systems. The rule imposed a new test method with stringent new injury criteria and set forth a phase-in compliance schedule mandating that 20% of all vehicles produced by a manufacturer meet the new safety standard by 2003, 65% by 2004, and 100% by 2005.

In 2003, NHTSA also issued various motor vehicle safety standards, including a final rule specifying enhanced fuel system integrity requirements. For example, the rule changes the test method for rear crash impact from a full-lap 50km/h test to an offset 80km/h test, and sets forth a phase-in compliance schedule mandating that 40% of all vehicles produced by a manufacturer meet the new safety standard by 2006,

70% by 2007, and 100% by 2008.

In December 2003, vehicle manufacturers, including us, presented to public a statement on crash vehicle compatibility. ENHANCING VEHICLE TO VEHICLE CRASH COMPATIBILITY: A Set of Commitments for Progress by Automobile Manufacturers. This report describes the recommended performance

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criteria and research plans developed by an international group of safety experts for enhancing vehicle-to-vehicle crash compatibility in front-to-front and front-to-side crashes. By September 1, 2007, at least 50% of all vehicles offered in the U.S. by participating manufacturers will meet the front-to-side performance criteria, and by September 2009, 100% of the vehicles of participating manufacturers will meet the criteria. For the front-to-front criteria, 100% of the vehicles of participating manufacturers will meet the criteria by September 2009, with no interim goals set. We are a participating manufacturer and intend to meet these voluntary standards.

Europe

The European Commission and automobile industry associations have reached a negotiated agreement on pedestrian protection requirements. As a first step toward implementation of new requirements pursuant to this agreement, work has been done toward a prohibition on automobile manufacturers supplying rigid bull bars and improvement of the rate of anti-lock brake systems installed since the end of last year.

The European Commission issued the regulation and technical prescription for pedestrian protection. The regulation required M1 (Passenger vehicles up to 9 passengers) and N1 (Light commercial vehicles with gross vehicle weight up to 3.5t) vehicles to meet standards for the protection of pedestrians in the event of a collision with the front of a motor vehicle.

The regulation consists of Phase 1, to be effective October 1, 2005 for new types of vehicles and December 31, 2012 for all vehicles, and Phase 2, to be effective September 1, 2010 for new types of vehicles and September 1, 2015 for all vehicles.

In early 2004, The European Commission issued a revised regulation relating to indirect vision to reduce blind spots on motor vehicles, which are side and rear areas not visible to the driver via side or rear-view mirrors. The regulation is effective January 29, 2006 for new types of vehicles and January 29, 2010 for all vehicles.

Additionally, the European Commission has established a project called eSafety aiming at cutting road fatalities in half by 2010. The project focuses on road accident prevention. To achieve this target, such issues as the introduction of new features on automobiles are being discussed.

5. New Car Assessment Program (NCAP)

Programs that provide customers with assessments of car safety functions and promote the development of car safety by automobile manufacturers are conducted in countries such as the United States, Japan, Australia and the EU. The principal items assessed in these programs are passenger protection and braking power, which are typically assessed with stricter standards or criteria than those required by statute. Introduction of a pedestrian protection safety assessment NCAP was decided in Japan, implemented from mid 2003. The assessment results were released in April 2004.

In the United States, NHTSA issued a final protocol for new rollover resistance assessments, using combined static and dynamic assessment methods. This protocol was issued in October 2003 under the TREAD Act, and the results of the assessments were released in January 2004.

A passive safety performance evaluation NCAP has been implemented worldwide. However, in Europe, an environmental NCAP (ECO-TEST) featuring performance for emission and CO₂, commissioned by FIA (the International Automobile Federation), has also been implemented, effective in April 2003.

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Outline of Environmental and Safety Regulation for Motorcycles

Emissions

Japan

Japan has emissions regulations for motorcycles applicable to all classes of engine displacement. Some aspects of these requirements, such as standards for hydro-carbon levels and durability, are stricter than the current European regulations, namely the EURO1 regulations. The Central Environment Council in the Ministry of Environment is expected to soon issue a final report on targets for fiscal year 2006. The target level is expected to be similar to those under the EURO3 standards.

The United States

Emissions regulations regarding off-road motorcycles and ATVs will be introduced in 2006. In addition, the EPA adopted the current California emissions standards regarding on-road motorcycles on a national basis two years behind the schedule of California. The new regulations include fuel permeation requirements rather than traditional evaporative emission standards.

Europe

The EU maintains emissions regulations (EURO1) for motorcycles, as well as the Motor Cycle (& Moped)-Whole Vehicle Type Approval, a uniform certification system for two or three-wheeled motor vehicles.

The EURO2 regulations, which regulate emissions by engine displacement class, will be introduced in 2003, and EURO3, which will be most stringent standard for motorcycles, will be implemented in 2006.

Other Regions

Other countries, mainly in Asia, have advanced the implementation of tighter emissions regulations based on European regulations.

In Thailand, a fourth stage of emissions control which is stricter than EURO1 has been implemented. A fifth stage of emissions control, which is generally equivalent to or stricter than EURO-2, will be implemented from July of this year.

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In China, EURO1-equivalent regulations were introduced in 2003 and EURO2-equivalent regulations will be introduced in 2004. In India, regulations based on Indian authorities' own test method are in effect and further regulations are to be enacted in 2005.

In Brazil, EURO1-equivalent regulations have been in effect from the beginning of this year. EURO2-equivalent regulations will be implemented from the beginning of 2005.

Outline of Environmental and Safety Regulation for Power Products

Emissions

The United States

The U.S. federal government enacted new engine emissions regulations applicable to model year 1997 small non-road engines. These regulations are also applicable to engines in use from model year 2001. With respect to marine engines, emissions regulations for outboard engines and personal watercraft were implemented for model year 1998 products and will continue to be gradually strengthened every year until model year 2006, under current plans.

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In 1995 the State of California enacted new engine emissions regulations for small non-road engines. The State is now gradually shifting its focus on emissions regulations for engines in use manufactured in model year 2000 and beyond. The State is planning to introduce tighter tail-pipe emissions standards and to add requirements for evaporative emissions from small non-road engines from model year 2005. With respect to marine engines, the State enacted emissions regulations for model year 2001 outboard engines and personal watercraft that are equivalent to the U.S. federal government's model year 2006 regulations, and strengthened these regulations in model year 2004. The State plans to further strengthen the regulations for these products in model year 2008.

Canada

The Canadian federal government will introduce emissions regulations generally equivalent to U.S. EPA regulations for small non-road engines from model year 2005, with some exceptions, such as the EPA production line testing requirements and quarterly reporting requirements which will not be enacted in Canada.

Europe

Emissions regulations regarding diesel non-road mobile machinery have been in place in the European Union. The EU has introduced regulations controlling gasoline engines from 2004 based on the contents of the current EPA regulations in the United States and will introduce emissions regulations targeting outboard engines and personal watercraft from 2005. In addition, with respect to marine engines, emissions regulations have been implemented since 1993 in Bodensee, which is located between Switzerland, Germany and Austria.

C. Organizational Structure

As of March 31, 2004, the Company had 132 Japanese subsidiaries and 185 overseas subsidiaries. The following table sets out for each of the Company's principal subsidiaries the country of incorporation, function and percentage ownership and voting interest held by Honda.

| Name of Company | Country of | | Percentage |
|-----------------------------|---------------|---|-------------------------------|
| | Incorporation | Function | Ownership and Voting Interest |
| Honda R&D Co., Ltd. | Japan | Research & Development | 100.0 |
| Honda Engineering Co., Ltd. | Japan | | 100.0 |
| | | Manufacturing and Sales of machine tools, equipment and production techniques | |
| Yutaka Giken Co., Ltd. | Japan | Manufacturing | 69.7 |
| Honda Foundry Co., Ltd. | Japan | Manufacturing | 82.1 |
| Honda Lock Mfg. Co., Ltd. | Japan | Manufacturing | 100.0 |

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| | | | |
|---|--------|--|-------|
| Asama Giken Co., Ltd. | Japan | Manufacturing | 77.5 |
| Honda Finance Co., Ltd. | Japan | Finance | 100.0 |
| Suzuka Circuitland Co., Ltd. | Japan | Other (Leisure) | 86.0 |
| Honda Trading Corp. | Japan | Other (Trading) | 100.0 |
| American Honda Motor Co., Inc. | U.S.A. | Sales | 100.0 |
| Honda North America, Inc. | U.S.A. | | 100.0 |
| | | Coordination of Operation of Subsidiaries | |
| Honda of America Mfg., Inc. | U.S.A. | Manufacturing | 100.0 |
| American Honda Finance Corp. | U.S.A. | Finance | 100.0 |
| Honda Manufacturing of Alabama, LLC | U.S.A. | Manufacturing | 100.0 |
| Honda Transmission Mfg. of America Inc. | U.S.A. | Manufacturing | 100.0 |
| Celina Aluminum Precision Technology Inc. | U.S.A. | Manufacturing | 100.0 |
| Honda Power Equipment Mfg., Inc. | U.S.A. | Manufacturing | 100.0 |
| Honda R&D Americas, Inc. | U.S.A. | Research & Development | 100.0 |

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| Name of Company | Country of Incorporation | Function | Percentage |
|---|--------------------------|---|-------------------------------|
| | | | Ownership and Voting Interest |
| Cardington Yutaka Technologies Inc. | U.S.A. | Manufacturing | 100.0 |
| Honda of South Carolina Mfg., Inc. | U.S.A. | Manufacturing | 100.0 |
| Honda Trading America Corp. | U.S.A. | Other (Trading) | 100.0 |
| Honda Engineering North America, Inc. | U.S.A. | | 100.0 |
| | | Manufacturing and Sales of machine tools, equipment and production techniques | |
| Honda Canada Inc. | Canada | Manufacturing and Sales | 100.0 |
| Honda Canada Finance Inc. | Canada | Finance | 100.0 |
| Honda de Mexico, S.A. de C.V. | Mexico | Manufacturing and Sales | 100.0 |
| Honda Europe N.V. | Belgium | Sales | 100.0 |
| Honda Motor Europe Ltd. | U.K. | | 100.0 |
| | | Coordination of Operation of Subsidiaries and Sales | |
| Honda of the U.K. Manufacturing Ltd. | U.K. | Manufacturing | 100.0 |
| Honda Finance Europe plc. | U.K. | Finance | 100.0 |
| Honda Motor Europe (South) S.A. | France | Sales | 100.0 |
| Honda Europe Power Equipment S.A. | France | Manufacturing and Sales | 100.0 |
| Honda Motor Europe (North) G.m.b.H. | Germany | Sales | 100.0 |
| Honda Bank G.m.b.H. | Germany | Finance | 100.0 |
| Honda R&D Europe (Deutschland) G.m.b.H. | Germany | Research & Development | 100.0 |
| Honda Italia Industriale S.p.A. | Italy | Manufacturing and Sales | 100.0 |
| Montesa Honda S.A. | Spain | Manufacturing and Sales | 88.1 |
| Honda Automobile (China) Co., Ltd | China | Manufacturing | 65.0 |
| Honda Motorcycle and Scooter India (Private) Ltd. | India | Manufacturing and Sales | 100.0 |
| Honda Siel Cars India Ltd. | India | Manufacturing and Sales | 99.9 |
| P.T.Honda Precision Parts Manufacturing | Indonesia | Manufacturing | 100.0 |
| P.T. Honda Prospect Motor | Indonesia | Manufacturing and Sales | 51.0 |
| Honda Malaysia SDN BHD | Malaysia | Manufacturing and Sales | 51.0 |
| Honda Atlas Cars (Pakistan) Ltd. | Pakistan | Manufacturing and Sales | 51.0 |
| Honda Philippines, Inc. | Philippines | Manufacturing and Sales | 99.6 |
| Honda Cars Philippines, Inc. | Philippines | Manufacturing and Sales | 54.2 |
| Honda Taiwan Co., Ltd | Taiwan | Manufacturing and Sales | 100.0 |
| Asian Honda Motor Co., Ltd. | Thailand | | 100.0 |
| | | Coordination of Operation of Subsidiaries and Sales | |
| Honda Automobile (Thailand) Co., Ltd. | Thailand | Manufacturing and Sales | 91.4 |
| Thai Honda Manufacturing Co., Ltd. | Thailand | Manufacturing | 60.0 |
| Honda Vietnam Co., Ltd. | Vietnam | Manufacturing and Sales | 70.0 |
| Honda South America Ltda. | Brazil | | 100.0 |
| | | Coordination of Operation of Subsidiaries (Holding company) | |
| Honda Automoveis do Brasil Ltda. | Brazil | Manufacturing and Sales | 100.0 |
| Moto Honda da Amazonia Ltda. | Brazil | Manufacturing and Sales | 100.0 |
| Honda Componentes da Amazonia Ltda. | Brazil | Manufacturing | 100.0 |
| Honda Turkiye A.S. | Turkey | Manufacturing and Sales | 100.0 |
| Honda Australia Pty., Ltd. | Australia | Sales | 100.0 |
| Honda New Zealand Ltd. | New Zealand | Sales | 100.0 |

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Honda's manufacturing operations are principally conducted in 31 separate factories, five of which are located in Japan. The following table sets out information, as of March 31, 2004, with respect to Honda's principal manufacturing facilities, all of which are owned by the Company:

| Location | Number of Employees | Principal Products Manufactured |
|---------------------------------------|--------------------------------|---|
| Sayama, Saitama, Japan | 5,360 | Automobiles |
| Takanezawa-cho, Tochigi, Japan | 787 | Automobiles |
| Hamamatsu, Shizuoka, Japan | 3,564 | Motorcycles, power products and transmissions |
| Suzuka, Mie, Japan | 7,221 | Automobiles |
| Ohzu-machi, Kumamoto, Japan | 2,825 | Motorcycles, power products and engines |
| Marysville, Ohio, U.S.A. | 7,935 | Motorcycles, automobiles and all-terrain vehicles |
| Anna, Ohio, U.S.A. | 2,713 | Engines |
| East Liberty, Ohio, U.S.A. | 2,487 | Automobiles |
| Lincoln, Alabama, U.S.A. | 3,151 | Automobiles |
| Swepsonville, North Carolina, U.S.A. | 472 | Power products |
| Timmons ville, South Carolina, U.S.A. | 1,529 | All-terrain vehicles |
| Alliston, Ontario, Canada | 4,531 | Automobiles |
| El Salto, Mexico | 1,350 | Motorcycles and automobiles |
| Swindon, Wiltshire, U.K. | 3,733 | Automobiles and engines |
| Ormes, France | 174 | Power products |
| Atessa, Italy | 666 | Motorcycles, power products and engines |
| Barcelona, Spain | 277 | Motorcycles |
| Greater Noida, India | 844 | Automobiles |
| Gurgaon, India | 1,641 | Motorcycles |
| Karawang, Indonesia | 849 | Automobiles |
| Alor Gajah, Malaysia | 743 | Automobiles |
| Lahore, Pakistan | 331 | Automobiles |
| Manila, Philippines | 513 | Motorcycles and power products |
| Laguna, Philippines | 914 | Automobiles |
| Pingtung, Taiwan | 968 | Automobiles |
| Ayutthaya, Thailand | 1,867 | Automobiles |
| Bangkok, Thailand | 2,407 | Motorcycles and power products |
| Vinhphuc, Vietnam | 908 | Motorcycles |
| Sumare, Brazil | 1,026 | Automobiles |
| Manaus, Brazil | 5,133 | Motorcycles and power products |
| Gebze, Turkey | 449 | Automobiles |

In addition to its manufacturing facilities, the Company's properties in Japan include sales offices and other sales facilities in major cities, repair service facilities, and research and development facilities.

We believe our production facilities and other properties, including the principal manufacturing facilities above, are suitable and adequate for the development, manufacture and sales of Honda's products and parts.

As of March 31, 2004, the Company's property, with a net book value of approximately ¥11.4 billion, was subject to specific mortgages securing indebtedness.

Table of Contents***Capital Expenditures***

Manufacturing-related expenditures in fiscal 2004 were applied to the expansion of manufacturing facilities, streamlining efforts, and the replacement of older equipment. Other expenditures included funds used to augment sales and R&D facilities.

Total capital expenditures for the year amounted to ¥287.7 billion, down ¥29.2 billion from the previous year. Spending by business segment is shown below.

| | Fiscal years ended | |
|-------------------------------------|--------------------|------------------|
| | March 31, | |
| | (Millions of yen) | |
| | 2003 | 2004 |
| Motorcycle Business | ¥ 37,496 | ¥ 35,041 |
| Automobile Business | 270,263 | 240,416 |
| Financial Services | 646 | 430 |
| Power Products and Other Businesses | 8,586 | 11,854 |
| Total | ¥ 316,991 | ¥ 287,741 |

In the motorcycle business, we invested ¥35.0 billion to upgrade, modernize and rationalize various facilities in the fiscal year ended March 31, 2004. This included investments in reforming our production organization.

In the automobile business, we made capital investments associated with introducing new models and reforming our production organization. We also constructed a second production line at Honda Manufacturing of Alabama, LLC, where we manufacture finished vehicles and engines. Capital investments in this segment totaled ¥240.4 billion in the fiscal year ended March 31, 2004.

In the financial services segment, capital expenditures amounted to ¥0.4 billion in the fiscal year ended March 31, 2004. Capital investments in power products and other businesses, totaling ¥11.8 billion in the fiscal year ended March 31, 2004 were deployed to upgrade and modernize manufacturing facilities for power products and renovate facilities related to motor sports.

The Company did not sell or dispose of any major facilities in the fiscal year ended March 31, 2004.

Item 5. Operating and Financial Review and Prospects***A. Operating Results***

Executive Summary

In fiscal 2004, ended March 31, 2004, the U.S. economy showed signs of recovery, while Asian economies (excluding Japan) generally continued posting solid growth, especially in the latter half of the year. However, the economies of major European nations remained generally weak. Meanwhile, the Japanese economy, despite sluggish personal spending, moved into a moderate recovery mode, boosted by increased exports, increased corporate capital expenditures and other factors.

During the year under review, Honda sold 9,206,000 motorcycles, 2,983,000 automobiles and 5,047,000 power products, representing new records for Honda in each category. Consolidated net sales also reached a record high for Honda as a result of revenue gains in all business segments. However, operating income declined due primarily to the effects of a weakening U.S. dollar against the yen. Nevertheless income before income taxes and equity in income of affiliates, as well as net income, all increased to record highs for Honda.

Our basic philosophy is that by manufacturing products close to our customers, we can address customer needs more quickly and flexibly and thus achieve efficient and effective operations. For instance, approximately

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80% of all Honda automobiles sold in the United States are produced in North America. Meanwhile Honda has operations in various other regions of the world. By effectively utilizing our resources in those regions, we are pursuing what we call our *Made by Global Honda* strategy, in which we target further increases in customer satisfaction by broadening our product lineup while maximizing production efficiency and cost-competitiveness.

In the year under review, we expanded our global network in a number of ways. For example, we established a parts subsidiary in Asia, which has started exporting to other parts of Asia as well as Europe. We also increased exports of automobiles from Europe to North America.

Although the U.S. economy is expected to remain in recovery mode, we are concerned about a potential slowdown in personal expenditures in the United States in the second half of 2004. Meanwhile, we anticipate that economies in Asia and elsewhere will generally show solid growth. Nevertheless, the business outlook remains difficult to predict, due to such uncertainties as the world political situation and currency exchange rates. In Japan, competition is expected to further intensify, due to languishing personal spending and other factors.

Under such an environment, we reinforce our ability to swiftly and flexibly address changes in customer and societal needs and the business environment. Also, to improve the competitiveness of our products, we will strengthen our research and development and production capabilities and upgrade our sales capabilities. We also further enhance product quality and target initiatives to improve safety and protect the environment.

Overview

| | Years ended March 31, | | | | | U.S. dollars |
|---|-----------------------|-------------|-------------|-------------|-------------|--------------|
| | (Millions of yen) | | | | | (millions) |
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 |
| Income statement data: | | | | | | |
| Net sales and other operating revenue | ¥ 6,098,840 | ¥ 6,463,830 | ¥ 7,362,438 | ¥ 7,971,499 | ¥ 8,162,600 | \$ 77,232 |
| Operating income | 418,639 | 401,438 | 661,202 | 724,527 | 600,144 | 5,678 |
| Income before income taxes and equity in income of affiliates | 416,063 | 384,976 | 551,342 | 609,755 | 641,927 | 6,073 |
| Equity in income of affiliates | 16,786 | 25,704 | 42,515 | 61,972 | 75,151 | 711 |
| Net income | 262,415 | 232,241 | 362,707 | 426,662 | 464,338 | 4,393 |
| Research and development | 334,036 | 352,829 | 395,176 | 436,863 | 448,967 | 4,248 |
| Depreciation | 172,139 | 170,342 | 194,944 | 220,874 | 213,445 | 2,020 |
| Capital expenditures | 222,891 | 285,687 | 303,424 | 316,991 | 287,741 | 2,722 |

Honda's consolidated net sales and other operating revenue for fiscal 2004, ended March 31, 2004, amounted to ¥8,162.6 billion, up 2.4% from the previous fiscal year.

Operating income amounted to ¥600.1 billion, which was a decrease by 17.2% from the previous fiscal year. Although there were positive impacts from increased sales and cost cutting efforts, weakened U.S. dollar against the yen and an increase of selling, general and administrative expenses (SG&A) contributed to this decline.

MOTORCYCLE BUSINESS

Japan

In Japan, unit sales declined 6.7%, to 403,000 units. Sales of mini-sized motorcycles (126cc - 250cc) were solid, supported by strong sales of scooters, as were second-class motor-driven cycles (51cc - 125cc), which

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benefited from robust demand from large-scale corporate users. However, sales of 50cc and smaller models slowed following the initial popularity of newly released, low-priced scooters, as well as generally declining demand in the second half of the fiscal year. Sales of small-sized motorcycles (over 250cc) also declined, due to falling demand.

With respect to mini-sized and small-sized motorcycle models, one of the year's highlights was the strong performance of the *Fusion*, following a full model change at the end of the previous fiscal year. During the fiscal year, we upgraded our lineup with the introduction of the *Forza Type X*. We also released the *XR250 Motard*, as well as the *CBR600RR*, which features advanced technologies of *RC211V* incorporated in high-performance Moto GP racing motorcycles.

Seeking to take advantage of the success of the *Today* scooter, we began sales of two new Chinese-made scooters *Spacy 100* and *Dio* that are fully equipped with a wide range of features, including advanced environmental technologies.

In February 2004, we began sales of the *Smart Dio Z4*, which incorporates, the world's first electronic fuel injection system (Honda Programmed Fuel Injection System, or PGM-FI) for four-stroke 50cc motorcycles. In these ways, we worked to upgrade our lineup of attractive models with high-value-added leisure features that appeal to the needs of commuters for competitive pricing.

North America

In North America, unit sales rose 7.5%, to 656,000 units.

New products launched in fiscal 2004 included the *Valkyrie Rune*, a flagship custom bike with attractive styling, as well as the *CBR600RR*, *VTX1300C* and *CRF250R*. Healthy sales of the *XR/CRF* series and other models, such as the *CRF450F*, and Brazilian-made *CRF230F* and *CRF150F*, led to an 11.1% increase in sales of motorcycles, to 360,000 units. In June 2003, we commenced sales of the *Four Trax Rancher AT*, a 400cc ATV fitted with Honda's original automatic transmission, and in January 2004 we began sales of the *TRX450R*, a flagship sports ATV. Despite slow sales during the first half of the fiscal year, the launch of these new models and relatively intensive marketing and competitive pricing in the second half of the year resulted in higher overall sales. Consequently, unit sales of ATV and personal watercraft for the year rose 3.5%, to 296,000 units.

Europe

In Europe, unit sales declined 2.0%, to 299,000 units.

We began importing and selling the Indian-made *Lead* scooter and the Brazilian-made *XR125L*, appropriate for both on- and off-road use. Both models sold well in Europe. In the second half of the year, we released *CBR1000RR*, the Italian-made *CBF600* and the Thai-made *CBR125R*, and each of these motorcycle models recorded steady sales. The *CBR600RR*, one of our mainstay products, was the best selling motorcycle by unit sales in the super sports bike category. In Germany, the *CBF600* and the *CBR125R* were the first and second best selling motorcycles, respectively, by new registrations for the first three months of calendar 2004 in their particular categories.

Asia

In the Asian region, demand for motorcycles as a principal means of transportation has continued to grow. Total unit sales of motorcycles and motorcycle parts sold by Honda to its affiliates in the region jumped 18.0%, to nearly 7,017,000 units.

By country, sales in Thailand rose 24.4%, to nearly 1,307,000 units. This was due to continued healthy sales of the popular *Wave100*, as well as of the affordable *WaveZ*, and the *Wave125*, featuring a PGM-FI that delivers both low fuel consumption and low-toxicity gas emissions.

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P.T. Astra Honda Motors, an affiliate in Indonesia, recorded strong sales of the mainstay *Supra*, and in October 2003 began sales of the affordable *Supra Fit*. Local sales by Astra Honda Motors in calendar 2003 totaled 1,576,000 units.

In India, we experienced healthy sales of the top-selling *Splendor*, made by our affiliate Hero Honda Motors Ltd. (HHML). HHML also launched the *CD Dawn*, a 100cc sports bike. Honda Motorcycle & Scooter India (Private) Ltd. (HMSI), a subsidiary, launched the *Eterno*, a sleek 150cc geared scooter with attractive styling and low fuel consumption. Unit sales for both companies rose 29.5%, to 2,346,000 units.

In China, Sundiro Honda Motorcycle Co., Ltd., one of our affiliates in China, recorded healthy sales of the *Wave* and another affiliate, Jialing-Honda Motor Co., Ltd. began sales of the *CB125X*, a sports bike with a sharp design that sold well during calendar 2003. Unit sales of three affiliates, including Wuyang-Honda Motors (Guangzhou) Co., Ltd. for calendar 2003 rose 23.3%, to nearly 1,136,000 units.

Other regions

In other regions covering Latin America, the Middle East, Africa and Oceania unit sales grew 5.9%, to 831,000 units.

In Brazil, where the motorcycle market has continued to grow steadily, we began sales of the *CG150 Titan* in February 2004. This was the first full-model change since the *CG125* series was introduced more than four years earlier. Sales for the *CG150 Titan* have been strong.

AUTOMOBILE BUSINESS

Japan

Total domestic automobile demand in Japan remained largely unchanged, at 5,880,000 units in fiscal 2004.

Honda's unit sales in Japan declined 15.7%, to 716,000 units. Despite a decline in sales of some models, including the *Fit* subcompact, which has now been on the market for two years in Japan, we experienced strong sales of the *Life* mini-vehicle and the *Odyssey* minivan, each of which underwent a full model change.

New products for which we began sales in Japan included the *Element* light truck, which was developed and produced in the United States and imported to Japan as part of our "Made by Global Honda" strategy. We also launched the new *Inspire*, featuring the newly developed, V6 3.0L *i-VTEC* engine equipped with Variable Cylinder Management (VCM), as well as the world's first Collision Mitigation Brake System (CMS).

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In September 2003, we completed a full model change of the *Life* mini-vehicle, providing a functional trendy design and enhanced safety and environmental performance by incorporating advanced compatibility engineering body for improved crash safety, as well as offering the best fuel economy in its class. In October, we began sales of the new *Odyssey*. Adopting a newly developed low-floor platform, it combines both spaciousness and performance level. For two consecutive months from December 2003, the new *Odyssey* was the best selling vehicle in Japan in monthly vehicle registrations.

By strengthening our performance in the minivan segment, we are improving the range of models available, and in turn steadily increasing unit prices.

North America

In calendar 2003, automobile demand in the United States remained at historically high levels, totaling more than 16.68 million units.

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Honda maintained high sales volume for the mainstay *Accord* in the passenger car segment. Also, the Acura *TSX*, a newly released sports sedan, as well as the Acura *TL* luxury performance sedan, which underwent a full model change in October 2003, experienced strong sales. Demand for light truck models in North America continues to increase, and Honda's sales of light trucks, notably the *Element*, *Pilot* and Acura *MDX*, also increased significantly.

As a result, overall sales in North America increased 2.4%, to 1,558,000 units, record for Honda, despite a downturn in the Canadian market.

In 1982, Honda began manufacturing the *Accord* at its plant in Marysville, Ohio, becoming the first Japanese automobile manufacturer to establish local production of passenger cars in the United States. Since then, we have steadily expanded our production capacity with the addition of auto plants in Alliston, Canada in 1986, East Liberty, Ohio in 1989 and Lincoln, Alabama in 2001. We now have a very high local production ratio in North America, with approximately 80% of Honda automobiles sold in the United States made locally.

In April 2004, we completed the second production line at our Alabama plant, beginning with production of the popular *Pilot* SUV. As a result, we now have an annual production capacity in North America of 1,400,000 units.

Europe

In Europe, overall automobile demand remained almost unchanged, at 16.5 million units in calendar 2003. Nevertheless, Honda's unit sales jumped 11.6%, to 231,000 units. This was due mainly to an approximately 100% increase in sales of the *Accord* series, boosted by the commencement of sales of the *Accord Tourer* in April 2003, as well as steady demand for our mainstay *Civic* models and the *Jazz*, which has sold steadily since its launch.

Demand for diesel-powered automobiles continued to grow in Europe. Following the success of the diesel-powered *Civic*, which was introduced in 2002, we began sales of a new *Accord* model at the end of calendar 2003 equipped with the first Honda-made *i*-CTDi diesel engine. Sales of the diesel-powered *Accord*, which combines engine quietness and excellent fuel efficiency with high performance, greatly boosted sales in fiscal year ended March 31, 2004.

Asia

Our automobile business in Asia expanded substantially in the year under review. Unit sales of automobiles and automobile parts sold by Honda to the affiliates increased 66.3% to 341,000 units.

In China, the passenger car market continued to expand, with sales of more than two million vehicles recorded during calendar 2003. Guangzhou Honda, an affiliate recorded healthy sales of the *Accord* and the *Odyssey*, and also began sales of the *Fit Saloon* subcompact in September 2003. As a result, unit sales rose 98.1% to 117,000 units. To meet rapidly growing demand, Guangzhou Honda doubled its annual production capacity from 120,000 units to 240,000 units in February 2004.

Following its successful launch in Thailand, we began sales of the all-new *City* in Indonesia, Malaysia, the Philippines, Pakistan and India, starting in April 2003. In the ASEAN region, sales rose 47.3%, to 190,000 units, due largely to the launch of the *Jazz* subcompact in November 2003.

We raised the annual production capacity of our Thailand plant from 70,000 units to 120,000 units. In August 2003, we began production of manual transmissions in the Philippines, and in the following month we started making automatic transmissions in Indonesia. Both plants are now shipping products to the Europe and Asian regions, as part of our *Made by Global Honda* strategy.

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Other regions

Unit sales in other regions grew 30.5%, to 137,000 units, mainly due to increased sales in Brazil, Turkey and the Gulf States.

In Brazil, we began production and sales of the *Fit* subcompact, our second locally made model after the *Civic*, in April 2003.

POWER PRODUCTS AND OTHER BUSINESSES

In fiscal 2004, unit sales of power products rose 10.1%, to 5,047,000 units, due largely to increased sales of general-purpose engines, mainly in North America.

In Japan, unit sales of power products grew 1.1%, to 477,000 units. In North America, unit sales increased 26.2%, to 2,363,000 units, as the result of healthy demand for lawnmowers, as well as general-purpose engines. Unit sales in Europe decreased 2.2%, to 1,261,000 units. Unit sales in Asia decreased 5.8%, to 619,000 units. In other regions, unit sales increased 11.6%, to 327,000 units.

During fiscal 2004, the *Salad* mini-tiller, introduced in fiscal 2003, continued to record steady sales. We also introduced the *BF135/BF150* series of four-stroke outboard engines, which achieve relatively low emission levels and excellent operating performance through Honda's advanced technologies, on a worldwide basis. Further, in Japan and Europe we began sales of the *UMK435* trimmer equipped with the new *GX35*, a 360-degree-inclinable, four-stroke general-purpose engine that has excellent environmental performance. In North America and Europe, we began sales of high performance 4-stroke engines, the *GSV160A/GSV190A* series. In India, we began production and sales of the low noise portable *EXK2800/EXK2800S* generators, which meet the strictest noise regulations in the world.

As described in Note (1) (r) to our consolidated financial statements, because certain reclassifications have been made to our prior year consolidated financial statements for the fiscal years ended March 31, 2002 and 2003, to conform to the presentation used for the fiscal year ended March 31, 2004, the operating results analysis in this annual report compared to the previous fiscal year is based on these reclassified consolidated statements of income.

Application of Critical Accounting Policies

Critical accounting policies are those that require the application of our most difficult, subjective or complex judgments, often requiring us to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period, would have had a material impact on the presentation of our financial condition and results of operations. The following is not intended to be a comprehensive list of all our accounting policies. Our significant accounting policies are more fully described in note 1 to the consolidated financial statements. We have identified the following critical accounting policies with respect to our financial presentation.

Product Warranty

We warrant our product for specific periods of time. Product warranties vary depending upon the nature of the product, the geographic location of its sales and other factors. Our warranty expense accruals are costs for general warranties on products we sell, product recalls and service actions outside the general warranties. We provide for estimated warranty expenses at the time 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, including current sales trends, the expected number of units to be affected and the estimated average repair cost per unit for warranty claims. Our products contain certain parts manufactured by third party suppliers. As the manufacturing suppliers typically warrant these parts, expected receivables from warranties of these suppliers are deducted from our estimates of warranty expense accruals.

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We believe that the accounting estimate related to warranty expense accruals is a critical accounting estimate because changes in it can materially affect net income, and it requires us to estimate the frequency and amounts of future claims, which are inherently uncertain.

Our policy is to continuously monitor warranty expense accruals to determine their adequacy. Therefore, warranty expense accruals are maintained at an amount we deem adequate to cover estimated warranty expense.

Actual claims incurred in the future may differ from the original estimates, which may result in material revisions to the warranty expense accruals.

Allowance for Credit Losses

Our finance subsidiaries provide wholesale financing to dealers and retail lending and direct financing leases to customers mainly in order to support sales of our products principally in North America. We classify the receivables derived from those services as finance subsidiaries-receivables.

An allowance for credit losses is maintained to cover estimated losses on finance subsidiaries-receivables. To determine the overall allowance amount, receivables are segmented into pools with common characteristics such as product and collateral types. For each of these pools, we estimate losses primarily based on our historic loss experiences, delinquency rates, recovery rates and scale and composition of the portfolio, taking factors into consideration such as changing economic conditions and changes in operational policies and procedures.

We believe that the accounting estimate related to allowance for credit losses is a critical accounting estimate because it requires us to make assumptions about inherently uncertain items including future economic trends, quality of finance subsidiaries-receivables and other factors.

We review the adequacy of the allowance for credit losses, and the allowance for credit losses is maintained at an amount that we deem sufficient to cover the estimated credit losses on our owned portfolio of finance receivables.

Actual losses may differ from original estimate as a result of actual results varying from those assumed in our estimates.

As an example of the sensitivity of the allowance calculation, the following scenario demonstrates the impact that a deviation in one of the primary factors estimated as a part of our allowance calculation would have an effect on the provision and allowance for credit losses. If we had experienced a 10% increase in net credit losses during fiscal 2004 in our North America portfolio, the provision for fiscal 2004 and the allowance balance at the end of fiscal 2004 would have increased by approximately ¥4.1 and ¥2.4 billion, respectively. Note that these sensitivities may be asymmetric, and are specific to the base condition in fiscal 2004.

Additional narrative of the Change in provision for credit loss as below

The following table shows information related to our credit loss experience in our North America portfolio:

| | <u>2002</u> | <u>2003</u> | <u>(Billions of yen)</u> <u>2004</u> |
|--|-------------|-------------|---|
| Charge-offs (net of recoveries) | 7.4 | 13.2 | 16.2 |
| Provision for credit losses | 13.3 | 21.9 | 28.8 |
| Allowance for credit losses | 11.6 | 16.6 | 23.7 |
| Ending receivable balance | 2,500.6 | 3,051.0 | 3,301.5 |
| Average receivable balance | 2,075.8 | 2,692.0 | 3,201.0 |
| Charge-offs as a % of average receivable balance | 0.36% | 0.49% | 0.51% |
| Allowance as a % of ending receivable balance | 0.47% | 0.55% | 0.72% |

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Fiscal Year 2004 Compared with Fiscal Year 2003

Net charge-offs in our North America portfolio increased by ¥3.0 billion, or 23%, primarily due to the increase in the size of our owned portfolio of finance receivables, continued economic weakness contributing to increased customer defaults, and continued weakness in used car markets reducing recoveries from sales of repossessed vehicles.

However, charge-offs as a percentage of average receivables remained consistent with the previous fiscal year, increasing by only 0.02%.

This can be attributed to the growth in receivables in the current fiscal year, which reduced this percentage.

The provision for credit losses in our North America portfolio increased by ¥6.8 billion, or 31%, due to increased charge-offs and the increase in the allowance balance.

The allowance in our North America portfolio was increased by ¥7.0 billion, or 42%, primarily due to an increase in Finance receivables, as well as an increase in our estimate of probable credit losses in the portfolio.

We expect charge-offs to increase due recent growth in new loan contracts.

Historically, the majority of customer defaults occur when loans are between one-half to one year old. As a result of recent growth in new loan contracts, charge-offs were estimated to increase accordingly in one-half to one year. Therefore, we estimated the allowance as a percentage of the amount of receivables as of March 31, 2004 to be 0.72%, which was 0.17% higher than for the fiscal year ended March 31, 2003.

Fiscal Year 2003 Compared with Fiscal Year 2002

Net charge-offs in our North America portfolio increased by ¥5.7 billion, or 77%.

The significant increase in charge-offs was due primarily to an increase in contract over the prior fiscal year, the weakening economy, and weakness in used car markets. However, charge-offs as a percentage of average finance receivables increased by 0.13% (from 0.36% to 0.49%).

This can be attributed to the growth in finance receivables in fiscal 2003, which reduced this percentage.

The provision for credit losses increased by ¥8.6 billion, or 65%, and the allowance increased by ¥5.0 billion, or 43%, due to an increase in finance receivables, increased charge-offs, and an increase in our estimate of probable credit losses in the portfolio.

Allowance for Losses on Lease Residual Values

End-customers of vehicles leased under a direct financing lease typically have an option to buy the leased vehicle from the car dealership (dealer) for the estimated residual value of the vehicle or to return the leased vehicle to the dealer at the end of the lease term. Likewise, dealers have the option to return the vehicle to our finance subsidiaries or to buy the leased vehicle at the end of the lease term from our finance subsidiaries.

The likelihood that the leased vehicle will be purchased varies depending on the difference between the actual market value of the vehicle at the end of the lease and the residual value estimated at the time of inception of the lease.

Our finance subsidiaries initially determine the residual value of the leased vehicle by using our estimation of future used vehicle values, which take into consideration data gathered from third parties. Our finance subsidiaries recognize a loss on the excess of the actual residual value over the fair market value of a returned

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vehicle when the leased vehicle is returned to the finance subsidiary at the end of the lease term. Our finance subsidiaries purchase insurance to cover a portion of the estimated residual value at the end of the lease term of vehicles leased to customers under direct financing leases. An allowance for expected losses on lease residual values is maintained to cover estimated losses on the uninsured portion of the vehicles' residual values.

We project two important components of losses in determining our allowance for losses on lease residual values : expected frequency of returns, or the percentage of leased vehicles we expect to be returned by customers at the end of the lease term, and expected loss severity, or the expected difference between the residual value and the amount we receive through sales of returned vehicles plus proceeds from insurance. We estimate losses on lease residual values by evaluating several different factors, including trends in historical and projected used vehicle values and general economic measures.

We believe that the accounting estimate related to allowance for losses on lease residual values is a critical accounting estimate because it is highly susceptible to market volatility and requires us to make assumptions about future economic trends and lease residual values.

The allowance is maintained at an amount we deem adequate to cover estimated losses on the uninsured portion of the vehicles' lease residual values. Evaluating the adequacy of the allowance requires us to make assumptions of inherently uncertain factors, including changes in economic conditions. As a result, actual losses incurred may differ from original estimates.

If future auction values for all Honda and Acura vehicles in our US lease portfolio as of March 31, 2004, were to decrease by approximately ¥10,000 per unit from our present estimates, the total impact would be an increase of our allowance for losses on residual value by about ¥1.6 billion, which would be charged to our provision for losses on residual values in the current year.

Similarly, if future return rates for our existing portfolio of Honda and Acura vehicles were to increase by one percentage point from our present estimates, the total impact would be to increase our allowance for losses on residual values by about ¥0.4 billion, which would be charged to our provision for losses on residual values in the current year.

Note that these sensitivities may be asymmetric, and are specific to the base conditions in fiscal 2004.

Pension and Other Postretirement Benefits

We have various pension plans covering substantially all of our employees in Japan and in certain foreign countries. Benefit obligations and pension costs are based on assumptions of many factors, including discount rate, rate of salary increase and expected long-term rate of return on plan assets. The discount rate and expected long-term rate of return on plan assets are determined based on our evaluation of current market conditions including changes in interest rates. The salary increase assumptions reflect our actual experience as well as near-term outlook. Our assumed discount rate and rate of salary increase as of March 31, 2004 were 2.0% and 2.3%, respectively, and our assumed expected long-term rate of return for the year ended March 31, 2004 was 4.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2004 were 5.8-6.8% and 4.3-6.7%, respectively, and our assumed expected long-term rate of return for fiscal 2004 was 6.8-8.5% for foreign plans.

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We believe that the accounting estimates related to our pension plans are critical accounting estimates because changes in these estimates can materially affect our financial condition and results of operations.

Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expenses and recorded obligations in future periods.

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We believe that the assumptions used are appropriate. However, differences in actual experience or changes in assumptions could affect our pension costs and obligations, including our cash requirements to fund such obligations.

The following table shows the effect on our funded status, equity and pension expense from a 0.5% change in the assumed discount rate and the expected long-term rate of return.

Japanese Plans

(Billions of yen)

| <u>Assumptions</u> | <u>Percentage Point Change(%)</u> | <u>Funded status</u> | <u>Equity</u> | <u>Pension expense</u> |
|-----------------------------------|---|----------------------|---------------|------------------------|
| Discount rate | +0.5/-0.5 | -137.6/+157.2 | +69.3/-77.3 | -8.4/+11.9 |
| Expected long-term rate of return | +0.5/-0.5 | | | -4.0/+4.0 |

Foreign Plans

(Billions of yen)

| <u>Assumptions</u> | <u>Percentage Point Change(%)</u> | <u>Funded status</u> | <u>Equity</u> | <u>Pension expense</u> |
|-----------------------------------|---|----------------------|---------------|------------------------|
| Discount rate | +0.5/-0.5 | -21.9/+23.1 | +7.6/-7.1 | -2.4/+3.3 |
| Expected long-term rate of return | +0.5/-0.5 | | | -0.8/+0.8 |

(*1) Note that these sensitivities may be asymmetric, and are specific to the base conditions at March 31, 2004.

(*2) Funded status for fiscal 2004 is affected by March 31, 2004 assumptions.
Pension expense for fiscal 2004 is affected by March 31, 2003 assumptions.

Fiscal 2004 Compared with Fiscal 2003**Overview****Net Sales and Other Operating Revenue**

Honda's consolidated net sales and other operating revenue (hereafter "net sales") for fiscal 2004, ended March 31, 2004, amounted to ¥8,162.6 billion, up 2.4% from the previous fiscal year.

Of this amount, domestic net sales decreased by ¥120.2 billion, or 6.9%, to ¥1,628.4 billion, while overseas net sales increased by ¥311.3 billion, or 5.0% to ¥6,534.1 billion.

Operating Income

Operating income amounted to ¥600.1 billion, which was a decrease of 17.2% from the previous fiscal year.

This decrease was primarily due to negative impacts of the depreciation of the U.S. dollar against the yen and an increase in selling, general and administrative expenses, which offset positive impacts of increased revenue from increased unit sales and ongoing cost reduction effects.

Selling, General and Administrative Expenses / Research and Development Expenses

SG&A expenses for fiscal 2004 increased by ¥57.7 billion, or 4.0%, to ¥1,503.6 billion, reflecting increases in labor expenses, product warranty-related expenses and reserves with respect to our finance business in connection with growing unit sales in North America.

R&D expenses increased by ¥12.1 billion or 2.8%, to ¥448.9 billion.

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Income before Income Taxes and Equity in Income of Affiliates

Income before Income Taxes and Equity in Income of Affiliates was up 5.3%, to ¥641.9 billion. Other income & expenses, net improved by ¥156.5 billion from the previous fiscal year, due mainly to a decline in losses on derivative instruments and a decline in losses on impairment losses on available for sale marketable equity securities.

Equity in Income of Affiliates

Equity in income of affiliates increased 21.3%, to ¥75.1 billion, over the prior fiscal year. This increase was due mainly to increases in the results of affiliates in Asia.

Net Income

Net income amounted to ¥464.3 billion, an increase of 8.8%. The effective tax rate was 39.4%, a decline by 0.8 percentage points from the previous fiscal year.

Basic net income per common share amounted to ¥486.91, compared with ¥439.43 in fiscal 2003.

Segment Disclosure under Japanese Law

Honda discloses business and geographical segment information with respect to its U.S. GAAP consolidated financial results in accordance with the requirements of a Ministerial Ordinance under the Securities and Exchange Law of Japan. The segment reporting requirements under the Ministerial Ordinance differ in certain material respects from the segment reporting requirements under U.S. GAAP. The U.S. GAAP consolidated financial statements of Honda included in this Annual Report do not include segment information required under U.S. GAAP.

Under the Japanese segment reporting requirements, business segments are based on Honda's business organization and the similarity of the principal products within each segment, as well as the relevant markets for such products. The Motorcycle Business segment consists of motorcycles, ATVs, personal watercraft and relevant parts. The Automobile Business segment consists of automobiles and relevant parts. The Financial Services segment consists of financial and insurance services business. The Power Products and Other Businesses segment consists of other businesses, including power products and relevant parts.

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The following tables set out Honda's business and geographical segment information, prepared in accordance with Japanese segment reporting requirements, for the fiscal years ended March 31, 2003 and 2004.

(A) Business Segment Information**As of and for the year ended March 31, 2004**

(In millions of yen)

| | Motorcycle Business | Automobile Business | Financial Services | Power Products and Other Businesses | Total | Corporate Assets and Eliminations | Consolidated |
|--|------------------------|------------------------|-----------------------|--|--------------------|---|--------------------|
| Net Sales and other Operating revenue: | | | | | | | |
| Sales to unaffiliated customers | ¥ 996,290 | ¥ 6,592,024 | ¥ 242,696 | ¥ 331,590 | ¥ 8,162,600 | | ¥ 8,162,600 |
| Intersegment-sales | 0 | 0 | ¥ 3,138 | ¥ 10,070 | ¥ 13,208 | ¥ (13,208) | |
| Total | ¥ 996,290 | ¥ 6,592,024 | ¥ 245,834 | ¥ 341,660 | ¥ 8,175,808 | ¥ (13,208) | ¥ 8,162,600 |
| Cost of sales, SG&A and R&D expenses | ¥ 953,857 | ¥ 6,153,133 | ¥ 137,396 | ¥ 331,278 | ¥ 7,575,664 | ¥ (13,208) | ¥ 7,562,456 |
| Operating income | ¥ 42,433 | ¥ 438,891 | ¥ 108,438 | ¥ 10,382 | ¥ 600,144 | 0 | ¥ 600,144 |
| Assets | ¥ 764,893 | ¥ 3,727,259 | ¥ 3,818,915 | ¥ 247,451 | ¥ 8,558,518 | ¥ (229,750) | ¥ 8,328,768 |
| Depreciation And amortization | ¥ 25,156 | ¥ 181,266 | ¥ 359 | ¥ 6,664 | ¥ 213,445 | | ¥ 213,445 |
| Capital expenditures | ¥ 35,041 | ¥ 240,416 | ¥ 430 | ¥ 11,854 | ¥ 287,741 | | ¥ 287,741 |

As of and for the year ended March 31, 2003

(In millions of yen)

| | Motorcycle Business | Automobile Business | Financial Services | Power Products and Other Businesses | Total | Corporate Assets and Eliminations | Consolidated |
|--|------------------------|------------------------|-----------------------|--|-------|---|--------------|
| | | | | | | | |

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| | | | | | | | |
|--|-----------|-------------|-------------|-----------|-------------|-------------|-------------|
| Net Sales and other operating revenue: | | | | | | | |
| Sales to unaffiliated customers | ¥ 978,095 | ¥ 6,440,094 | ¥ 237,958 | ¥ 315,352 | ¥ 7,971,499 | | ¥ 7,971,499 |
| Intersegment-sales | 0 | 0 | ¥ 3,037 | ¥ 10,971 | ¥ 14,008 | ¥ (14,008) | |
| Total | ¥ 978,095 | ¥ 6,440,094 | ¥ 240,995 | ¥ 326,323 | ¥ 7,985,507 | ¥ (14,008) | ¥ 7,971,499 |
| Cost of sales, SG&A and R&D expenses | | | | | | | |
| | ¥ 920,865 | ¥ 5,888,702 | ¥ 133,182 | ¥ 318,231 | ¥ 7,260,980 | ¥ (14,008) | ¥ 7,246,972 |
| Operating income | ¥ 57,230 | ¥ 551,392 | ¥ 107,813 | ¥ 8,092 | ¥ 724,527 | 0 | ¥ 724,527 |
| Assets | | | | | | | |
| | ¥ 798,530 | ¥ 3,624,639 | ¥ 3,505,017 | ¥ 241,085 | ¥ 8,169,271 | ¥ (487,980) | ¥ 7,681,291 |
| Depreciation And amortization | | | | | | | |
| | ¥ 25,311 | ¥ 187,839 | ¥ 804 | ¥ 6,920 | ¥ 220,874 | | ¥ 220,874 |
| Capital expenditures | | | | | | | |
| | ¥ 37,496 | ¥ 270,263 | ¥ 646 | ¥ 8,586 | ¥ 316,991 | | ¥ 316,991 |

Table of Contents**(B) Geographical Segment Information**

As of and for the year ended March 31, 2004

(In millions of yen)

| | North | | | | | Total | Corporate | Consolidated |
|---|--------------------|--------------------|------------------|------------------|------------------|---------------------|----------------------------|--------------------|
| | Japan | America | Europe | Asia | Others | | Assets and Eliminations | |
| Net Sales and other operating revenue: | | | | | | | | |
| Sales to unaffiliated customers | ¥ 1,879,141 | ¥ 4,552,941 | ¥ 756,312 | ¥ 637,163 | ¥ 337,043 | ¥ 8,162,600 | | ¥ 8,162,600 |
| Transfers between geographical segments | ¥ 2,051,729 | ¥ 120,069 | ¥ 192,235 | ¥ 67,009 | ¥ 11,222 | ¥ 2,442,264 | ¥ (2,442,264) | |
| Total | ¥ 3,930,870 | ¥ 4,673,010 | ¥ 948,547 | ¥ 704,172 | ¥ 348,265 | ¥ 10,604,864 | ¥ (2,442,264) | ¥ 8,162,600 |
| Cost of sales, SG&A and R&D expenses | ¥ 3,738,419 | ¥ 4,362,860 | ¥ 922,704 | ¥ 659,500 | ¥ 324,466 | ¥ 10,007,949 | ¥ (2,445,493) | ¥ 7,562,456 |
| Operating income | ¥ 192,451 | ¥ 310,150 | ¥ 25,843 | ¥ 44,672 | ¥ 23,799 | ¥ 596,915 | ¥ 3,229 | ¥ 600,144 |
| Assets | ¥ 2,370,214 | ¥ 4,539,320 | ¥ 571,419 | ¥ 435,815 | ¥ 141,851 | ¥ 8,058,619 | ¥ 270,149 | ¥ 8,328,768 |

As of and for the year ended March 31, 2003

(In millions of yen)

| | North | | | | | Total | Corporate | Consolidated |
|---|--------------------|--------------------|------------------|------------------|------------------|---------------------|----------------------------|--------------------|
| | Japan | America | Europe | Asia | Others | | Assets and Eliminations | |
| Net Sales and other operating revenue: | | | | | | | | |
| Sales to unaffiliated customers | ¥ 1,975,518 | ¥ 4,580,004 | ¥ 663,032 | ¥ 487,415 | ¥ 265,530 | ¥ 7,971,499 | | ¥ 7,971,499 |
| Transfers between geographical segments | ¥ 1,943,465 | ¥ 131,906 | ¥ 161,551 | ¥ 35,710 | ¥ 8,865 | ¥ 2,281,497 | ¥ (2,281,497) | |
| Total | ¥ 3,918,983 | ¥ 4,711,910 | ¥ 824,583 | ¥ 523,125 | ¥ 274,395 | ¥ 10,252,996 | ¥ (2,281,497) | ¥ 7,971,499 |
| Cost of sales, SG&A and R&D expenses | ¥ 3,727,564 | ¥ 4,267,527 | ¥ 810,085 | ¥ 485,316 | ¥ 251,184 | ¥ 9,541,676 | ¥ (2,294,704) | ¥ 7,246,972 |
| Operating income | ¥ 191,419 | ¥ 444,383 | ¥ 14,498 | ¥ 37,809 | ¥ 23,211 | ¥ 711,320 | ¥ 13,207 | ¥ 724,527 |

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| | | | | | | | | |
|--------|-------------|-------------|-----------|-----------|-----------|-------------|----------|-------------|
| Assets | ¥ 2,392,252 | ¥ 4,182,861 | ¥ 535,507 | ¥ 362,432 | ¥ 109,827 | ¥ 7,582,879 | ¥ 98,412 | ¥ 7,681,291 |
|--------|-------------|-------------|-----------|-----------|-----------|-------------|----------|-------------|

Business segments

Motorcycles

In fiscal 2004, domestic units sales of motorcycles fell 6.7%, to 403,000 units. Overseas unit sales, by contrast, rose 15.1%, to 8,803,000 units. As a result, total unit sales of motorcycles amounted to 9,206,000 units, up 13.9%. Net sales in the motorcycle segment increased 1.9%, to ¥996.2 billion, due mainly to higher unit sales, which compensated for negative currency translation effects. Operating income, however, declined 25.9%, to ¥42.4 billion.

Automobiles

Domestic unit sales of automobiles in fiscal 2003 fell 15.7%, to 716,000 units, while overseas unit sales climbed 11.2%, to 2,267,000 units. Consequently, total unit sales of automobiles grew 3.3%, to 2,983,000 units, compared to the prior fiscal year. Net sales in this segment increased 2.4%, to ¥6,592.0 billion, thanks to increased unit sales overseas, which outweighed negative currency translation effects. Operating income fell 20.4%, to ¥438.8 billion.

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Financial Services

Net sales from Honda's financial services business rose 2.0%, to ¥245.8 billion, compared to the prior fiscal year. Operating income edged up 0.6%, to ¥108.4 billion.

Power Products and Other businesses

Domestic unit sales of power products grew 1.1%, to 477,000 units. Overseas unit sales climbed 11.1%, to 4,570,000 units. Accordingly, total unit sales of power products rose 10.1%, to 5,047,000 units, compared to the prior fiscal year.

Net sales from power products and other businesses increased 4.7%, to ¥341.6 billion, due mainly to higher unit sales of power products. Operating income increased 28.3%, to ¥10.3 billion.

Geographical segments

Geographical segments are based on the location of the Company and its subsidiaries.

Japan

Despite a decline in domestic sales of automobiles, net sales in Japan remained largely unchanged, at ¥3,930.8 billion, owing mainly to an increase in automobile exports. Domestic operating income also remained relatively unchanged, at ¥192.4 billion.

North America

Net sales in North America edged down 0.8%, to ¥4,673.0 billion, due mainly to negative currency translation effects, which offset increased unit sales of motorcycles, automobiles and power products. Operating income dropped 30.2%, to ¥310.1 billion over the prior fiscal year.

Europe

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Increased units sales of automobiles, together with positive currency translation effects, boosted net sales in Europe 15.0%, to ¥948.5 billion. Operating income increased 78.3%, to ¥25.8 billion over the prior fiscal year.

Asia

Net sales in Asia increased 34.6%, to ¥704.1 billion, as increased unit sales of motorcycles and automobiles compensated for negative currency translation effects. Operating income rose 18.2%, to ¥44.6 billion over the prior fiscal year.

Other Regions

Higher unit sales of motorcycles, automobiles and power products led to a 26.9% rise in net sales in other regions, to ¥348.2 billion over the prior fiscal year. Operating income was up 2.5%, to ¥23.7 billion over the prior fiscal year.

As described in Note (1) (r) to our consolidated financial statements, because certain reclassifications have been made to our prior year consolidated financial statements for the fiscal years ended March 31, 2002 and 2003, to conform to the presentation used for the fiscal year ended March 31, 2004, the operating results analysis in this annual report compared to the previous fiscal year is based on these reclassified consolidated statements of income.

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Disclosure of unaudited consolidated balance sheets divided into non-financial services businesses and finance subsidiaries and unaudited consolidated cash flow statements divided into non-financial services businesses and finance subsidiaries

In fiscal 2002, Honda began preparing and disclosing unaudited consolidated balance sheets divided into non-financial services businesses and finance subsidiaries, and unaudited consolidated cash flow statements divided into non-financial services businesses and finance subsidiaries, for investor relations purposes. For purposes of these disclosures, non-financial services include the Motorcycle, Automobile and Power Products and Other Businesses segments, and finance subsidiaries include the Financial Services segment, respectively, under the Japanese segment reporting requirements described above. See Annex A to this Annual Report.

Fiscal 2003 Compared with Fiscal 2002

Overview

Net Sales and Other Operating Revenue

Honda's consolidated net sales and other operating revenue (hereafter "net sales") for fiscal 2003, ended March 31, 2003, amounted to ¥7,971.4 billion, up 8.3% from the previous fiscal year.

Of that amount, domestic net sales decreased by ¥120.0 billion, or 6.4%, to ¥1,748.7 billion, while overseas net sales increased by ¥729.1 billion, or 13.3%, to ¥6,222.7 billion.

Operating Income

Operating income amounted to ¥724.5 billion, which was an increase by 9.6% from the previous fiscal year.

Increased net sales, predominantly in Europe and Asia, and the Company's cost-cutting strategies have more than offset deterioration mainly in the quality of our mix of vehicle as well as increases in selling, general and administrative (SG&A) expenses and research and development (R&D) expenses.

Selling, General and Administrative Expenses / Research and Development Expenses

Selling, general and administrative expenses for fiscal 2003 increased by ¥144.6 billion, to ¥1,445.9 billion, reflecting increases in product warranty-related expenses and labor expenses.

Research and development expenses increased by ¥41.6 billion, to ¥436.8 billion, over the prior fiscal year.

Income before Income Taxes and Equity in Income of Affiliates

Income before Income Taxes and Equity in Income of Affiliates was up 10.6%, to ¥609.7 billion, over the prior fiscal year.

Other income & expenses, including losses on securities sold, impairment losses on available for sale marketable equity securities, losses on currency exchanges and losses on derivative instruments, net deteriorated by ¥4.9 billion from the previous year. .

Equity in Income of Affiliates

Equity in income of affiliates increased 45.8%, to ¥61.9 billion. This increase was due mainly to increases in the results of operations of affiliates in Asia.

Net Income

Net income amounted to ¥426.6 billion, an increase of 17.6%. The effective tax rate was 40.2%, a decline by 1.7 percentage points from the previous fiscal year.

Basic net income per common share amounted to ¥439.43, compared with ¥372.23 in fiscal 2002.

Table of Contents**(A) Business Segment Information**

As of and for the year ended March 31, 2002

(In millions of yen)

| | Motorcycle Business | Automobile Business | Financial Services | Power Products and Other Businesses | Total | Corporate Assets and Eliminations | Consolidated |
|--|------------------------|------------------------|-----------------------|--|--------------------|---|--------------------|
| Net Sales and other operating revenue: | | | | | | | |
| Sales to unaffiliated customers | ¥ 947,900 | ¥ 5,929,742 | ¥ 201,906 | ¥ 282,890 | ¥ 7,362,438 | | ¥ 7,362,438 |
| Intersegment-sales | 0 | 0 | ¥ 7,409 | ¥ 10,968 | ¥ 18,377 | ¥ (18,377) | |
| Total | ¥ 947,900 | ¥ 5,929,742 | ¥ 209,315 | ¥ 293,858 | ¥ 7,380,815 | ¥ (18,377) | ¥ 7,362,438 |
| Cost of sales, SG&A and R&D expenses | ¥ 879,585 | ¥ 5,416,831 | ¥ 132,950 | ¥ 290,247 | ¥ 6,719,613 | ¥ (18,377) | ¥ 6,701,236 |
| Operating income | ¥ 68,315 | ¥ 512,911 | ¥ 76,365 | ¥ 3,611 | ¥ 661,202 | 0 | ¥ 661,202 |
| Assets | ¥ 754,512 | ¥ 3,377,470 | ¥ 2,917,170 | ¥ 240,735 | ¥ 7,289,887 | ¥ (349,092) | ¥ 6,940,795 |
| Depreciation and amortization | ¥ 22,129 | ¥ 165,508 | ¥ 786 | ¥ 6,521 | ¥ 194,944 | | ¥ 194,944 |
| Capital expenditures | ¥ 29,929 | ¥ 264,657 | ¥ 676 | ¥ 8,162 | ¥ 303,424 | | ¥ 303,424 |

(B) Geographical Segment Information

As of and for the year ended March 31, 2002

(In millions of yen)

| | Japan | North America | Europe | Asia | Others | Total | Corporate Assets and Eliminations | Consolidated |
|---|-------------|------------------|-----------|-----------|-----------|-------------|---|--------------|
| Net Sales and other operating revenue: | | | | | | | | |
| Sales to unaffiliated customers | ¥ 2,087,765 | ¥ 4,163,951 | ¥ 570,170 | ¥ 298,140 | ¥ 242,412 | ¥ 7,362,438 | | ¥ 7,362,438 |
| Transfers between geographical segments | ¥ 1,723,269 | ¥ 143,987 | ¥ 33,335 | ¥ 18,035 | ¥ 2,758 | ¥ 1,921,384 | ¥ (1,921,384) | |

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| | | | | | | | | |
|--------------------------------------|-------------|-------------|------------|-----------|-----------|-------------|---------------|-------------|
| Total | ¥ 3,811,034 | ¥ 4,307,938 | ¥ 603,505 | ¥ 316,175 | ¥ 245,170 | ¥ 9,283,822 | ¥ (1,921,384) | ¥ 7,362,438 |
| Cost of sales, SG&A and R&D expenses | ¥ 3,567,121 | ¥ 3,874,313 | ¥ 638,649 | ¥ 294,788 | ¥ 225,846 | ¥ 8,600,717 | ¥ (1,899,481) | ¥ 6,701,236 |
| Operating income | ¥ 243,913 | ¥ 433,625 | ¥ (35,144) | ¥ 21,387 | ¥ 19,324 | ¥ 683,105 | ¥ (21,903) | ¥ 661,202 |
| Assets | ¥ 2,177,095 | ¥ 3,679,762 | ¥ 514,535 | ¥ 241,613 | ¥ 133,188 | ¥ 6,746,193 | ¥ 194,602 | ¥ 6,940,795 |

Business segments

Motorcycles

In fiscal 2003, strong sales of the *Today* scooter model contributed to an increase in domestic unit sales of 6.9%, to 432,000 units. Overseas unit sales rose by 34.4%, to 7,648,000 units, due mainly to sales increases in Asia. As a result, total unit sales of motorcycles were 8,080,000 units, an increase of 32.6% over the prior fiscal year. Net sales from the Motorcycle segment increased by 3.2% to ¥978.0 billion, due mainly to increased unit sales combined with positive currency translation effects from depreciation of the yen against the Euro. Operating income decreased by 16.2% from the previous fiscal year, amounting to ¥57.2 billion.

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Automobiles

Unit sales in Japan decreased by 3.3%, to 849,000 units, mainly due to a decline in sales of minivans like the *Step Wagon* and *Stream*, although small cars such as the *Fit* and *Mobilio* recorded steady.

Overseas unit sales rose by 14.0%, to 2,039,000 units, due mainly to increased sales in North America led by the introduction of new models such as the *Pilot* and *Element*, together with increased sales of the *CR-V* and *Odyssey*. In addition, increased sales in Europe contributed to the increase in unit sales.

As a result, total unit sales of automobiles were 2,888,000 units, an increase of 8.3% from the prior fiscal year.

Net sales from Automobile segment increased 8.6%, amounting to ¥6,440.0 billion, due mainly to growth in overseas unit sales which offset the negative impact of currency translation from the appreciation of the yen against the U.S. dollar. Operating income grew 7.5%, to ¥551.3 billion over the previous fiscal year.

Financial Services

Net sales from Honda's financial services business rose 15.1%, to ¥240.9 billion. Operating income rose 41.2%, to ¥107.8 billion.

Power Products and Other Businesses

Unit sales of power products in Japan rose 15.4%, to 472,000 units. Overseas unit sales grew 16.9%, to 4,112,000 units, mainly due to brisk sales in North America and Europe. Total unit sales of power products rose 16.8%, to 4,584,000 units, which increased net sales of other businesses by 11.0%, to ¥326.3 billion. Operating income grew 124.1%, to ¥8.0 billion.

Geographical segments

Geographical segments are based on the location of the Company and its subsidiaries.

Japan

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Increased export sales of automobiles contributed to a 2.8% increase in net sales in Japan in fiscal 2003, amounting to ¥3,918.9 billion. Operating income decreased by 21.5% from the previous fiscal year, amounting to ¥191.4 billion.

North America

Net sales in North America increased by 9.4%, to ¥4,711.9 billion. This increase is attributed to increased unit sales of automobiles and power products, which offset negative effects of currency translation caused by the appreciation of the yen against the U.S. dollar. Operating income increased by 2.5%, to ¥444.3 billion.

Europe

Increased unit sales of automobiles and power products, together with positive effects of currency translation, contributed to a 36.6% increase in net sales in Europe, which amounted to ¥824.5 billion. Operating income improved by ¥49.6 billion, to ¥14.4 billion.

Asia and Other Regions

Increased unit sales of motorcycles, automobiles and power products contributed to a 42.1% increase in net sales, eliminating intraregional transactions, in Asia and other regions, to ¥788.4 billion. Operating income increased by 49.9%, to ¥61.0 billion.

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As described in Note (1) (r) to our consolidated financial statements, because certain reclassifications have been made to our prior year consolidated financial statements for the fiscal years ended March 31, 2002 and 2003, to conform to the presentation used for the fiscal year ended March 31, 2004, the operating results analysis in this annual report compared to the previous fiscal year is based on these reclassified consolidated statements of income.

B. Liquidity and Capital Resources

The policy of Honda is to support its business activities by maintaining sufficient capital resources, an ample level of liquidity and a sound balance sheet.

Honda's main business is the manufacture and sale of motorcycles, automobiles and power products. To support this business, it also provides retail financing and automobile leasing services for customers, as well as wholesale financing for dealers.

In its manufacturing and sales business, Honda requires operating capital mainly to purchase parts and materials required for production, as well as to control inventory of finished products and cover receivables from dealers. Honda also requires funds for capital expenditures, mainly to upgrade, rationalize and renew production facilities, as well as to expand and reinforce research and development and sales facilities.

Honda meets its operating capital requirements mainly through cash generated by operations. Honda funds its financial programs for customers and dealers primarily from corporate bonds, medium-term notes and commercial paper, as well as securitization of finance receivables.

Cash Flows

Consolidated cash and cash equivalents at end of year amounted to ¥724.4 billion as of March 31, 2004, up ¥177.0 billion from a year earlier.

Year-end cash and cash equivalents of business subsidiaries increased as net income, depreciation and other items sufficiently compensated for purchases of production-related property and equipment, as well as funds required for investments in Asian affiliates. Year-end cash and cash equivalents of finance subsidiaries, however, remained largely unchanged.

Net cash provided by operating activities amounted to ¥712.9 billion. Factors increasing cash flows included ¥464.3 billion in net income, ¥213.4 billion in depreciation and a ¥132.5 billion increase in trade payables related to Japanese and North American operations. By contrast, there was a ¥84.7 billion devaluation loss on derivative instruments and related others, which have no relation to cash flows.

Net cash used in investing activities totaled ¥967.4 billion. This was mainly due to a ¥749.4 billion increase in finance subsidiaries' receivables associated with higher sales of automobiles in North America and elsewhere, as well as ¥287.7 billion in purchases of property, plant and equipment to upgrade, streamline and renew production facilities in North America and Asia. These factors outweighed ¥50.6 billion, including

dividends from affiliates.

Net cash provided by financing activities was ¥459.5 billion. During the year, Honda raised ¥885.1 billion in long-term debt through the issue of bonds and medium-term notes, to meet capital requirements associated with an increase in liabilities of finance subsidiaries, as well as to repay ¥289.1 billion in long-term debt. By contrast, Honda also made ¥95.3 billion in payments for purchase of treasury stock and ¥33.5 billion in cash dividends paid.

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The ¥724.4 billion in cash and cash equivalents at end of year corresponds to approximately one month of net sales, and Honda believes it has sufficient liquidity for its business operations. At the same time, Honda is aware of the possibility that various factors, such as recession-induced market contraction and financial and foreign exchange market volatility, may adversely affect liquidity.

For this reason, financial subsidiaries carry total short-term borrowings of ¥1,170.5 billion in the form of commercial paper issued regularly to replace debt. This serves as alternative liquidity for a back-up credit line equivalent to ¥674.4 billion. In addition, Honda currently has ample credit limits, extended by prominent international banks, that are not subject to contracts.

Honda's short- and long-term debt securities are rated by credit rating agencies, such as Moody's Investors Service, Inc., and Standard & Poor's Rating Services. Major current ratings, which are shown below, indicate that Honda will be able to raise funds even if it requires more capital than its present level of liquidity would allow.

The following table shows the ratings of Honda's unsecured debt securities by Moody's and Standard & Poor's at the date of filing of this annual report.

| | Credit ratings for | |
|-----------------------------------|---------------------------|--------------------------|
| | Short-term unsecured debt | Long-term unsecured debt |
| | securities | securities |
| Moody's Investors Service | P-1 | A1 |
| Standard & Poor's Rating Services | A-1 | A+ |

The above ratings are based on information provided by Honda and other information deemed credible by the rating agencies. They are also based on the agencies' assessment of credit risk associated with designated securities issued by Honda. Each rating agency uses different standards for calculating Honda's credit rating, and also makes its own assessments. Ratings can be revised or nullified by agencies at any time. These ratings are not meant to serve as a recommendation for trading in or holding debt.

C. Research and Development

The aim of the Honda Group's research and development activities is to create original and internationally competitive products using advanced technologies. To this end, research and development activities is mainly conducted by subsidiaries managed with a high degree of independence, in which engineers can approach their tasks with greater independence.

Product-related research and development is spearheaded by the Honda Research Institute in Japan, Honda R&D Americas, Inc., in the United States and Honda R&D Europe (Deutschland) GmbH in Germany. All three entities work in close association with customers and business operations of their respective regions. Similarly, research and development with respect to production technologies, carried out mainly at Honda Engineering Co., Ltd., in Japan and Honda Engineering North America, Inc., is also working in close association with customers and business operations at local levels.

Total research and development expenditures for fiscal year ended March 31, 2004 amounted to ¥448.9 billion. Research and development activities for each business segment are outlined below.

Research and Development Activities

Motorcycle Business

Honda is committed to developing motorcycles with new value-added features that meet the individual needs of customers around the world, and to implementing timely local development of regional products at its overseas locations. At the same time, we focus on developing technologies that lead the industry in addressing safety and environmental issues.

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Major fiscal 2004 achievements in research and development activities in Japan include the release of the *Smart Dio Z4*. This scooter is equipped with the world's first electronically controlled programmed fuel injection (PGM-FI) system for use in a four-stroke 50cc engine and features enhanced start-up performance and response, as well as improved fuel economy and cleaner exhaust emissions. Also released in Japan was the *Spacy 100*, a scooter manufactured in China with a highly reliable four-stroke 100cc engine and air injection (secondary air supply) system that reduces pollutant gases in emissions.

In North America, we released the *FourTrax Rancher AT*, a 400cc four-wheel-drive ATV equipped with Honda's proprietary automatic transmission. In Europe, we began sales of the *CBF 600*, a sports bike fitted with an antilock braking system, as well as the *CBR 1000 RR*, which incorporates advanced technology and new styling developed originally for Honda's racing motorcycles. The *CBR 1000 RR* is a super sports model featuring an electronically controlled steering damper that optimizes dampening characteristics in accordance with riding speed and acceleration. In India, we began sales of the *Eterno*, a scooter with a wheel-side engine combining the engine and drive system in one unit, providing a compact design and excellent fuel economy.

Research and development expenses in the Motorcycle Business Segment in fiscal 2004 totaled ¥73.0 billion.

Automobile Business

In our Automobile Business Segment, we strive to develop innovative technologies and products by creativity-oriented development in response to customer needs. We also actively develop technologies that address environmental issues and provide enhanced safety performance.

Major achievements in Japan in fiscal 2004 include the development of the world's first Collision Mitigation Brake System (CMS). This innovative system determines the likelihood of a collision based on distance to the vehicle ahead and relative speeds, warns the driver to take preventive action and initiates braking to reduce the vehicle's speed. We also developed the E-Pretensioner, a seatbelt retraction mechanism that gently tightens seatbelts when a collision is likely, and also increases seatbelt tension to hold the driver more securely in place when a collision is deemed unavoidable. The E-Pretensioner and the CMS were installed in the *Inspire* and the *Odyssey*, both of which underwent a full model change. The new *Inspire* is also equipped with Honda's new V6 3.0-liter engine with a variable cylinder system that improves fuel economy by varying the number of cylinders employed depending on driving conditions. Another development was a crash-compatibility body frame structure, designed to provide both improved self-protection and reduced aggressivity toward other vehicles during a vehicle-to-vehicle collision; this technology was also installed in the newly remodeled *Life* and *Odyssey* models. The new *Odyssey* also features a low floor platform, providing a more spacious interior than the previous model while reducing the vehicle's roofline and offering powerful and sporty performance.

In North America, Honda released the all-new *Acura TSX* sports sedan, featuring a six-speed manual transmission. The *Acura TL*, newly remodeled luxury performance sedan is equipped with a new V6 3.2-liter engine that provides high performance yet meets California's strict LEV-2 ULEV exhaust emission regulations. In Europe, we began sales of the diesel-powered *Accord* with a lightweight and compact engine that meets Euro 4 emissions gas regulations thanks to highly intelligent combustion control technology and Honda's proprietary aluminum block manufacturing technology.

With respect to fuel cell vehicles, public road tests of the Honda *FCX* were held in Hokkaido, where the vehicle's driving performance and ability to start in sub-zero temperatures were proved. The *FCX* is equipped with the Honda FC STACK, a next-generation fuel cell stack that is considerably smaller than earlier Honda prototype units, but with greatly increased output and possessing the ability to start at 20 degrees below freezing.

Research and development expenses in the Automobile Business Segment in fiscal 2004 totaled ¥364.3 billion.

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Power Products and Other Businesses

In the Power Products Business, we seek to develop products that meet customers' lifestyles and needs while strengthening our lineup of products that address environmental issues.

We began sales of two new four-stroke outboard engines, the *BF150* and the *BF135*, around the world. Both engines provide outstanding performance and meet emission regulations for 2008 set by the California Air Resources Board owing to Honda's first ever lean-burn control system. We also began sales of the new *GX35*, a four-stroke engine with Honda's original oil lubrication system that allows operation in any position. The *GX35* was installed in the new *UMK435* bush-cutter, which began sales in the Japanese and European markets after undergoing a full model change. In India, we began sales of two low-noise generators, the *EXK 2800* and the *EXK2800S*. These generators meet the most stringent noise regulations in the world as a result of a noise dampening design with a three-chamber structure for the alternator (generator) and engine.

Research and development expenses in this segment in fiscal 2004 amounted to ¥11.5 billion.

In the area of fundamental research, Honda pursues steady and varied research activities into technologies that may lead to innovative applications in the future.

Major recent research projects include the test operation of a new hydrogen supply system as part of our development of fuel cell technology. In addition to extracting hydrogen from natural gas for delivery to fuel cell vehicles, the system also supplies heat and electricity. We have installed the system at the Los Angeles research facility of Honda R&D Americas and are conducting trials for supplying electricity to the facility while providing hydrogen to the Honda *FCX*.

Another in-house development, a new electrolysis unit that generates hydrogen from water, we believe is the most efficient electrolysis unit in the world. It has been incorporated in a solar-powered water electrolyzing hydrogen station, which has undergone trial operation at the Los Angeles facility since 2001. Advanced thin-film solar panels made by Honda Engineering have also been installed at the facility. The results are enhanced hydrogen production efficiency and lower amounts of energy consumed during the manufacture of hydrogen devices. Honda plans to continue with its tests in hydrogen production adopting these two methods, and to engage in research into hydrogen supply stations.

In the area of small aircraft, Honda has developed the HF118 Turbofan Engine, which is both lightweight and fuel-efficient. The engine has been mounted on the *HondaJet*, an experimental compact business jet that commenced test flights in the United States in December 2003.

Expenses incurred in fundamental research are distributed among each of Honda's business segments.

Patents and Licenses

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On March 31, 2004, Honda owned more than 8,900 patents and 600 utility model registrations in Japan and more than 13,000 patents abroad. Honda also had applications pending for more than 19,600 patents in Japan and for more than 15,500 patents abroad. Under Japanese law, a utility model registration is a right granted with respect to inventions of less originality than those which qualify for patents. While the Company considers that, in the aggregate, Honda's patents are important, it does not consider any one of such patents, or any related group of them, to be of such importance that the expiration or termination thereof would materially affect Honda's business.

D. Trend Information

See Item 5. A Operating and Financial Review and Prospects for information required by this item.

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In January 2003, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 03-2 Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities (EITF 03-2). EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees Pension Fund (EPF) plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the separation process of the substitutional portion from the entire EPF plan (which includes a corporation portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets. The separation process is considered the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. Honda EPF, including certain domestic subsidiaries, has decided to transfer the substitutional portion of its EPF to the government and received government approval of exemption from the obligation for benefits related to future employee service with respect to the substitutional portion of its EPF in April 2004 and is proceeding with the remaining steps to effectuate the transfer. The aggregate effect of this separation will be determined based on the Company's total pension benefits obligation as of the date the transfer is completed and the amount of plan assets required to be transferred. The Company has not yet determined the effect of the adoption on Honda's consolidated financial position and results of operations as the fair value of plan assets and the pension benefit obligation to be transferred, determined pursuant to a government formula, will not be determined until the transfer of such assets and obligation is completed.

*E. Off-Balance sheet Arrangements**(Special Purpose Entity)*

For the purpose of accelerating the receipt of cash related to our finance receivables, we periodically securitize and sell pools of these receivables. In these securitizations, we sell a portfolio of finance receivables to a special purpose entity, which is established for the limited purpose of buying and reselling finance receivables. We remain as a servicer of the finance receivables and are paid a servicing fee for our services. The special purpose entity transfers the receivables to a trust or bank conduit, which issues interest-bearing asset-backed securities or commercial paper, respectively, to investors. We retain certain subordinated interests in the sold receivables in the form of subordinated certificates, servicing assets and residual interests in certain cash reserves provided as credit enhancements for investors. We apply significant assumptions regarding prepayments, credit losses and average interest rates in estimating expected cash flows from the trust or bank conduit, which affect the recoverability of our retained interests in the sold finance receivables. We periodically evaluate these assumptions and adjust them, if appropriate, to reflect the performance of the finance receivables.

(Guarantee)

At March 31, 2004, we had guarantees of approximately ¥77.4 billion of bank loans of employees for their housing costs. If an employee defaults on his/her loan payments, we are required to perform under the guarantee. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is approximately ¥77.4 billion. As of March 31, 2004, no amount was accrued for any estimated losses under the obligations, as it was probable that the employees would be able to make all scheduled payments.

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The following table shows our contractual obligations at March 31, 2004:

Contractual Obligations

| | At March 31, 2004 | | | | |
|-------------------------|------------------------|------------------------|--------------|--------------|------------------|
| | (Millions of yen) | | | | |
| | Payments due by period | | | | |
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| Long-term debt | 1,881,737 | 487,125 | 1,010,203 | 377,142 | 7,267 |
| Operating leases | 94,911 | 24,350 | 27,549 | 12,341 | 30,671 |
| Purchase commitments(*) | 29,707 | 29,707 | | | |

(*) Honda had commitments for purchases of property, plant and equipment at March 31, 2004.

At March 31, 2004, we had no material capital lease obligations or long-term liabilities reflected on our balance sheet under U.S. GAAP other than those set forth in the table above.

Item 6. Director, Senior Management and Employees*A. Directors and Senior Management*

Honda's Articles of Incorporation provide for a Board of Directors of not more than 45 members and for a Board of Corporate Auditors of not more than seven Corporate Auditors. Directors and Corporate Auditors are elected at general meetings of shareholders. The Corporate Auditors are nominated by the Board of Directors as candidates for election. The normal term of office of a Director is one year and that of a Corporate Auditor is four years. Directors and Corporate Auditors may serve any number of consecutive terms.

The Board of Directors elects a President and may elect one Chairman and one or more Executive Vice Presidents, Senior Managing Directors and Managing Directors from among its members. The President represents a Company. In addition, the Board of Directors may elect, pursuant to its resolutions, Directors who shall each represent the Company. Under the Japanese Commercial Code, a representative director individually

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has authority to represent the Company generally in the conduct of its affairs. The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company.

Under the Japanese Commercial Code, the Corporate Auditors of the Company have the duty to examine the financial statements and business reports which are submitted by the Board of Directors to the general meeting of shareholders and also to supervise the administration of the Company's affairs by the Directors. Corporate Auditors are not required to be, and the Corporate Auditors of the Company are not, certified public accountants. They are entitled to participate in meetings of the Board of Directors but are not entitled to vote. In 1994, the Company established a Board of Corporate Auditors. Under the Japanese Commercial Code and other related laws, this Board must consist of at least three Corporate Auditors (at least one of whom must be from outside the Company). In addition, the Company is required to appoint independent certified public accountants as well as Corporate Auditors. Such independent certified public accountants have as their primary statutory duties the examination of the financial statements of the Company prepared in accordance with the Japanese Commercial Code proposed to be submitted by the Board of Directors to general meetings of shareholders and the reporting of their opinion thereon to the Corporate Auditors as well as to the Directors.

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The following table provides the names of all Directors and Corporate Auditors of the Company and the current positions held by such persons.

| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|---|---|-------------------------------|
| Directors | | |
| Takeo Fukui (November 28, 1944) | <p>Director of the Company from June 1988</p> <p>President and Director of the Company, appointed in June 2003</p> <p>Senior Managing Director of the Company, appointed in June 1999</p> <p>Motor Sports, appointed in June 1999</p> <p>President and Director of Honda R&D Co., Ltd., appointed in June 1998</p> <p>President and Director of Honda of America Mfg., Inc., appointed in June 1996</p> <p>Managing Director of the Company, appointed in June 1996</p> <p>Executive Vice President and Director of Honda of America Mfg., Inc., appointed in June 1994</p> <p>Senior Managing Director of Honda R&D Co., Ltd., appointed in June 1990</p> <p>Director of the Company, appointed in June 1988</p> | 9,100 |

Managing Director of Honda R&D Co., Ltd., appointed

in May 1987

President and Director of Honda Racing Corporation, appointed in
May 1987

Joined Honda in April 1969

Koichi Amemiya

Director of the Company from May 1986

15,022

(September 5, 1940)

Released from Chairman and Director positions of American Honda
Motor Co., Inc., in April 2004

Chairman and Director of American Honda Motor Co., Inc.,
appointed in June 2003

Chief Operating Officer for Regional Operations

(North America), appointed in April 2000

Executive Vice President and Director of the Company, appointed in
June 1997 (presently held)

Chief Operating Officer for Regional Operations

(the Americas), appointed in June 1994

President and Director of Honda North America, Inc., appointed in
October 1990 (presently held)

Senior Managing Director of the Company, appointed

in June 1990

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| <u>Name</u> <u>(Date of birth)</u> | <u>Current Positions and Biographies</u> <u>with Registrant</u> | <u>Number of Shares owned</u> |
|---|--|-------------------------------|
| | President and Director of American Honda Motor Co., Inc., appointed in June 1989 | |
| | Managing Director of the Company, appointed in June 1989 | |
| | Director of the Company, appointed in May 1986 | |
| | Executive Vice President and Director of American Honda Motor Co., Inc., appointed in May 1984 | |
| | Joined Honda in April 1963 | |
| | * President and Director of Honda North America, Inc. | |
| Michiyoshi Hagino (April 1, 1944) | Director of the Company from June 1990 | 11,200 |
| | General Supervisor, Purchasing Policy, appointed in April 2004 | |
| | General Supervisor, Information Systems, appointed in April 2000 | |
| | Senior Managing Director of the Company, appointed in June 1999 (presently held) | |
| | Chief Operating Officer for Automobile Operations, appointed in June 1999 | |
| | Managing Director of the Company, appointed in June 1996 | |

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Executive Vice President and Director of Honda R&D Co., Ltd.,
appointed in June 1994

Senior Managing Director of Honda R&D Co., Ltd., appointed in
June 1990

Director of the Company, appointed in June 1990

Managing Director of Honda R&D Co., Ltd., appointed
in June 1989

Joined Honda in April 1966

Minoru Harada

Director of the Company from June 1994

5,600

(January 9, 1947)

Chief Operating Officer for Motorcycle Operations, appointed in
April 2004

Senior Managing Director of the Company, appointed

in June 1999 (presently held)

President and Director of Honda Motor Europe Ltd., appointed in
June 1998

Chief Operating Officer for Regional Operations

(Europe, the Middle & Near East and Africa), appointed in June
1998

Managing Director of the Company, appointed in June 1997

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| <u>Name</u> <u>(Date of birth)</u> | <u>Current Positions and Biographies</u> <u>with Registrant</u> | <u>Number of Shares owned</u> |
|---------------------------------------|--|-------------------------------|
| | Director of the Company, appointed in June 1994 | |
| | General Manager of Asia & Oceania Division (Automobiles) for Overseas Regional Automobile Operations (Asia & Oceania, the Middle & Near East, Africa and Latin America), appointed in October 1993 | |
| | Joined Honda in April 1969 | |
| Motoatsu Shiraishi | Director of the Company from June 1994 | 6,200 |
| (October 14, 1946) | General Supervisor, Information Systems, appointed in April 2004 | |
| | Risk Management Officer, appointed in April 2003 (presently held) | |
| | Chief Operating Officer for Production Operations, appointed in April 2001 (presently held) | |
| | Senior Managing Director of the Company, appointed in June 2000 (presently held) | |
| | General Supervisor, Production, appointed in April 2000 (presently held) | |
| | Chief Operating Officer of Domestic Production for Regional Operations (Japan), appointed in June 1998 | |
| | President and Director of Honda Engineering Co., Ltd., appointed in June 1997 | |

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Managing Director of the Company, appointed in June 1997

Director of the Company, appointed in June 1994

General Manager of Auto Production Planning Office of
Automobile Planning Board, appointed in February 1993

Joined Honda in April 1969

Satoshi Aoki

Director of the Company from June 1995

6,300

(August 19, 1946)

Compliance Officer, appointed in April 2004

Senior Managing Director of the Company, appointed

in June 2000 (presently held)

Managing Director of the Company, appointed in June 1998

Chief Operating Officer for Business Management Operations,
appointed in June 1998 (presently held)

Director of the Company, appointed in June 1995

General Manager of Finance Division for Business Management
Operations, appointed in June 1994

Joined Honda in April 1969

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| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|--|---|------------------------|
| Satoshi Dobashi (July 7, 1947) | <p>Director of the Company from June 1996</p> <p>Senior Managing Director of the Company, appointed in June 2004 (presently held)</p> <p>Government & Industrial Affairs, appointed in April 2004</p> <p>Chief Officer of Driving Safety Promotion Center in Regional Sales Operations (Japan), appointed in April 2004 (presently held)</p> <p>Chief Operating Officer for Regional Sales Operations (Japan), appointed in April 2001 (presently held)</p> <p>Managing Director of the Company, appointed in June 1999</p> <p>Deputy Chief Operating Officer for Regional Operations (Japan), appointed in June 1999</p> <p>General Manager of Japan Automobile Sales Operations for Regional Operations (Japan), appointed in June 1998</p> <p>Director of the Company, appointed in June 1996</p> <p>General Manager of Corporate Project of the Company, appointed in December 1995</p> <p>Joined Honda in May 1970</p> | 3,400 |
| Atsuyoshi Hyogo | Director of the Company from June 1995 | 7,800 |

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(January 2, 1949)

President of Honda Motor (China) Investment Co., Ltd., appointed in February 2004

Chief Operating Officer for Regional Operations (China), appointed in April 2003 (presently held)

Managing Director of the Company, appointed in June 1998 (presently held)

Executive Vice President and Director of American Honda Motor Co., Inc., appointed in June 1996

Director of the Company, appointed in June 1995

President and Director of Honda Canada Inc., appointed in October 1993

Joined Honda in April 1972

* President of Honda Motor (China) Investment Co., Ltd.

Satoshi Toshida

Director of the Company from June 1995

3,000

(January 13, 1947)

Chief Operating Officer for Regional Operations

(Asia & Oceania), appointed in April 2003

President and Director of Honda Leasing (Thailand) Co.,Ltd., appointed in June 2002

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| <u>Name</u> <u>(Date of birth)</u> | <u>Current Positions and Biographies</u> <u>with Registrant</u> | <u>Number of Shares owned</u> |
|---------------------------------------|---|-------------------------------|
| | President and Director of Honda Automobile (Thailand) Co., Ltd., appointed in December 2000 | |
| | Managing Director of the Company, appointed in June 2000 (presently held) | |
| | Deputy Chief Operating Officer for Regional Operations (Asia & Oceania), appointed in June 1999 | |
| | President and Director of Honda Cars (Thailand) Co., Ltd., appointed in June 1998 | |
| | President and Director of Asian Honda Motor Co., Ltd., appointed in May 1996 (presently held) | |
| | Director of the Company, appointed in June 1995 | |
| | General Manager of Motorcycle Sales Division in Regional Operations (Asia & Oceania), appointed in April 1995 | |
| | Joined Honda in May 1973 | |
| | * President and Director of Asian Honda Motor Co., Ltd. | |
| Koki Hirashima | Director of the Company from June 1997 | 3,000 |
| (November 28, 1946) | Managing Director of the Company, appointed in June 2000 | |
| | President and Director of Honda of America Mfg., Inc., appointed in June 1998 (presently held) | |

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Executive Vice President and Director of Honda of America Mfg., Inc., appointed in June 1997

Director of the Company, appointed in June 1997

Executive Vice President of Honda of America Mfg., Inc., appointed in June 1993

Joined Honda in April 1969

* President and Director of Honda of America Mfg., Inc.

Koichi Kondo

Director of the Company from June 1997

3,068

(February 13, 1947)

Chief Operating Officer for Regional Operations (North America), appointed in April 2004

President and Director of American Honda Motor Co., Inc., appointed in June 2003 (presently held)

Executive Vice President and Director of American Honda Motor Co., Inc., appointed in April 2003

Managing Director of the Company, appointed in June 2002 (presently held)

Chief Operating Officer for Regional Operations

(South America), appointed in April 2000

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| <u>Name</u> <u>(Date of birth)</u> | <u>Current Positions and Biographies</u> <u>with Registrant</u> | <u>Number of Shares owned</u> |
|---------------------------------------|---|-------------------------------|
| | Director of the Company, appointed in June 1997 | |
| | President and Director of Honda Automoveis do Brasil Ltda., appointed in June 1996 | |
| | President and Director of Moto Honda da Amazonia Ltda., appointed in June 1996 | |
| | President and Director of Honda Motor do Brasil Ltda. (presently Honda South America Ltda.), appointed in June 1996 | |
| | Joined Honda in April 1970 | |
| | *President and Director of American Honda Motor Co., Inc. | |
| Yasuo Ikenoya | Director of the Company from June 1998 | 3,400 |
| (March 7, 1948) | Deputy Chief Operating Officer for Regional Operations (China), appointed in April 2004 | |
| | Managing Director of the Company, appointed in June 2002 (presently held) | |
| | Chief Operating Officer for Motorcycle Operations, appointed in April 2002 | |
| | Executive Vice President and Director of Honda R&D Co., Ltd., appointed in June 1999 | |
| | President and Director of Honda Racing Corporation, appointed in June 1998 | |

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Senior Managing Director of Honda R&D Co., Ltd., appointed in June 1998

Director of the Company, appointed in June 1998

General Manager of Kumamoto Factory of Motorcycle Operations in Regional Operations (Japan), appointed in June 1996

Joined Honda in April 1971

Toru Onda

Director of the Company from June 1999

4,000

(March 18, 1949)

Managing Director of the Company, appointed in June 2002

Chief Operating Officer for Purchasing Operations, appointed in April 2000 (presently held)

Director of the Company, appointed in June 1999

General Manager of Automobile Purchasing Division 1 for Purchasing Operations, appointed in June 1998

Joined Honda in April 1977

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| Name | Current Positions and Biographies | Number of Shares owned |
|-------------------------------|--|-------------------------------|
| <u>(Date of birth)</u> | <u>with Registrant</u> | |
| Akira Takano | Director of the Company from June 1996 | 4,100 |
| (August 18, 1949) | Chief Operating Officer for Customer Service Operations, appointed in April 2004 | |
| | Managing Director of the Company, appointed in June 2003 (presently held) | |
| | President and Director of Honda of the U.K. Manufacturing Ltd., appointed in June 1998 | |
| | Executive Vice President and Director of Honda Motor Europe Ltd., appointed in June 1998 | |
| | Director of the Company, appointed in June 1996 | |
| | Director of Honda R&D Co., Ltd., appointed in June 1995 | |
| | Joined Honda in April 1972 | |
| Takanobu Ito | Director of the Company from June 2000 | 3,000 |
| (August 29, 1953) | General Supervisor, Motor Sports, appointed in April 2004 | |
| | President and Director of Honda R&D Co., Ltd., appointed in June 2003 (presently held) | |
| | Motor Sports, appointed in June 2003 | |

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Managing Director of the Company, appointed in June 2003
(presently held)

Senior Managing Director of Honda R&D Co., Ltd., appointed in
June 2001

Director of the Company, appointed in June 2000

Executive Vice President of Honda R&D Americas, Inc., appointed
in April 1998

Joined Honda in April 1978

* President and Director of Honda R&D Co., Ltd.

Mikio Yoshimi

Director of the Company from June 1998

3,100

(September 6, 1947)

Managing Director of the Company, appointed in June 2004
(presently held)

Chief Operating Officer for Business Support Operations,
appointed in April 2004

Human Resources, Associate Relations and Administration for
Business Support Operations, appointed in April 2003

Human Resources and Associate Relations for Business Support
Operations, appointed in April 2002

President and Director of Honda Manufacturing of Alabama,
L.L.C., appointed in April 2000

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| <u>Name</u> <u>(Date of birth)</u> | <u>Current Positions and Biographies</u> <u>with Registrant</u> | <u>Number of Shares owned</u> |
|---|--|-------------------------------|
| | Director of the Company, appointed in June 1998 | |
| | Executive Vice President and Director of Honda of America Mfg., Inc., appointed in June 1998 | |
| | Joined Honda in April 1970 | |
| Shigeru Takagi (February 4, 1952) | Director of the Company from June 1998 | 3,000 |
| | Managing Director of the Company, appointed in June 2004 (presently held) | |
| | President and Director of Honda Motor Europe Ltd., appointed in April 2004 | |
| | Chief Operating Officer for Regional Operations (Europe), appointed in April 2004 (presently held) | |
| | Director of the Company, appointed in June 1998 | |
| | President and Director of Honda Canada Inc., appointed in June 1998 | |
| | Joined Honda in April 1974 | |
| | * President and Director of Honda Motor Europe Ltd. | |
| Hiroshi Kuroda (August 18, 1948) | Director of the Company from June 1999 | 3,000 |

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Managing Director of the Company, appointed in June 2004
(presently held)

Chief Operating Officer for Automobile Operations, appointed in
April 2004

Director of the Company, appointed in June 1999

Products for Automobile Operations, appointed in June 1999

Product Planning and Marketing Office for Automobile Operations,
appointed in June 1996

Joined Honda in April 1972

Satoru Kishi

Director of the Company from June 2001

None

(March 29, 1930)

Adviser of the Board of The Bank of Tokyo-Mitsubishi, Ltd.,
appointed in June 2002

Director of the Company, appointed in June 2001 (presently held)

Chairman of the Board of The Bank of Tokyo-Mitsubishi, Ltd.,
appointed in June 2000

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| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|---|--|------------------------|
| Hiroyuki Yoshino (November 2, 1939) | Director of the Company from May 1983 Director and Advisor of the Company, appointed in June 2003 Chief Operating Officer for Regional Operations (Japan), appointed in June 1999 President and Director of the Company, appointed in June 1998 President and Director of Honda R&D Co., Ltd., appointed in June 1994 Executive Vice President and Director of the Company, appointed in June 1992 Senior Managing Director of the Company, appointed in June 1990 President and Director of Honda of America Mfg., Inc., appointed in June 1988 Managing Director of the Company, appointed in June 1988 Director of the Company, appointed in May 1983 Executive Vice President and Director of Honda R&D Co., Ltd., appointed in May 1983 Director of Honda R&D Co., Ltd., appointed in March 1977 | 19,400 |

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| | | |
|----------------------|---|-------|
| Masaaki Kato | Joined Honda R&D Co., Ltd. in April 1963 Director of the Company from June 1998 | 5,800 |
| (September 16, 1949) | | |
| | President and Director of Honda Manufacturing of Alabama, L.L.C., appointed in April 2002 | |
| | Director of the Company in June 1998 (presently held) | |
| | General Manager of Human Resources Division in Business Support Operations and Manager of Human Resources Development Office, appointed in January 1998 | |
| | Joined Honda in April 1974 | |
| | * President and Director of Honda Manufacturing of Alabama, L.L.C. | |
| Akio Hamada | Director of the Company from June 1999 | 3,000 |
| (December 2, 1948) | | |
| | President and Director of Honda Engineering Co., Ltd., appointed in June 2001 | |
| | Director of the Company, appointed in June 1999 (presently held) | |
| | Stationed at Honda Canada Inc. in June 1998 | |
| | Joined Honda in April 1971 | |
| | * President and Director of Honda Engineering Co., Ltd. | |

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| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|---|--|------------------------|
| Teruo Kowashi (November 17, 1947) | <p>Director of the Company from June 2000</p> <p>Automobile Production for Production Operations, appointed in April 2004</p> <p>Production Planning & Logistics and General Manager of Automobile Production Planning Office in Production Operations, appointed in April 2001</p> <p>Director of the Company, appointed in June 2000 (presently held)</p> <p>General Manager of Production Planning Office in Automobile Operations, appointed in April 2000</p> <p>Joined Honda in January 1971</p> | 3,300 |
| Tetsuo Iwamura (May 30, 1951) | <p>Director of the Company from June 2000</p> <p>President and Director of Honda Automoveis do Brasil Ltda., appointed in April 2003</p> <p>President and Director of Moto Honda da Amazonia Ltda., appointed in April 2003 (presently held)</p> <p>President and Director of Honda South America Ltda., appointed in April 2003 (presently held)</p> <p>Chief Operating Officer for Regional Operations (South America), appointed in April 2003 (presently held)</p> | 3,000 |

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Director of the Company, appointed in June 2000 (presently held)

Chief Operating Officer for Service Parts Operations, appointed in April 2000

Joined Honda in April 1978

* President and Director of Honda South America Ltda.

* President and Director of Moto Honda da Amazonia Ltda.

* President and Director of Honda Automoveis do Brasil Ltda.

Takashi Yamamoto

Director of the Company from June 2000

3,000

(January 12, 1953)

Quality, Certification & Regulation Compliance, appointed in April 2004

Quality, Certification & Regulation Compliance and Service Technology, appointed in April 2002

Director of the Company, appointed in June 2000 (presently held)

General Manager of Automobile Purchasing Division 1 in Purchasing Operations, appointed in April 2000

Joined Honda in April 1977

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| <u>Name</u> <u>(Date of birth)</u> | <u>Current Positions and Biographies</u> <u>with Registrant</u> | <u>Number of Shares owned</u> |
|---|--|-------------------------------|
| Masaru Takabayashi (January 26, 1950) | Director of the Company from June 2001 General Manager of IT Division, appointed in April 2004 Director of the Company, appointed in June 2001 (presently held) General Manager of IT Division and Manager of IT Planning Office, appointed in April 2001 Joined Honda in April 1975 | 3,300 |
| Tatsuhiko Oyama (July 9, 1950) | Director of the Company from June 2001 Chief Operating Officer for Parts Operations, appointed in April 2003 President and Director of Honda Motorcycle Japan Co., Ltd., appointed in August 2001 Director of the Company, appointed in June 2001 (presently held) General Manager of Motorcycle Sales Division for Regional Sales Operations (Japan), appointed in April 2001 Joined Honda in April 1969 | 3,700 |
| Suguru Kanazawa (April 13, 1952) | Director of the Company from June 2002 Senior Managing Director of Honda R&D Co., Ltd., appointed in June 2002 | 3,000 |

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Director of the Company, appointed in June 2002 (presently held)

President and Director of Honda Racing Corporation, appointed in April 2002 (presently held)

Joined Honda in April 1977

* President and Director of Honda Racing Corporation

Manabu Nishimae

Director of the Company from June 2002

3,400

(August 13, 1954)

Deputy Chief Operating Officer for Regional Sales Operations (Japan) and General Manager of Automobile Sales Operations for Regional Sales Operations (Japan), appointed in April 2003

Director of the Company, appointed in June 2002 (presently held)

Chief Operating Officer for Power Products Operations, appointed in April 2002

Joined Honda in April 1977

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| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|---|---|------------------------|
| Fumihiko Ike (May 26, 1952) | Director of the Company, appointed in June 2003 Chief Operating Officer of Power Products Operations, appointed in April 2003 (presently held) Joined Honda in February 1982 | 3,000 |
| Masaya Yamashita (April 5, 1953) | Director of the Company, appointed in June 2003 General Manager of Automobile Purchasing Division 1 in Purchasing Operations, appointed in April 2002 (presently held) Joined Honda in April 1977 | 3,000 |
| Hiroshi Kobayashi (November 12, 1954) | Director of the Company from June 2003 President and Director of Honda Canada Inc., appointed in April 2004 Director of the Company, appointed in June 2003 (presently held) Executive Vice President and Director of Honda Motor Europe Ltd., appointed in April 2003 Joined Honda in April 1978 | 3,200 |
| Kazuo Sagawa (September 1, 1949) | * President and Director of Honda Canada Inc. Director of the Company, appointed in June 2004 General Manager of Saitama Factory of Production Operations, appointed in April 2003 | 3,800 |

Functional Operating Officer of the Company, appointed in April 2003 (presently held)

Executive Vice President and Director of Honda of the U.K. Manufacturing Ltd., appointed in April 2001

Deputy Chief Operating Officer of Domestic Production Operations in Regional Operations (Japan), appointed in April 2000

Assembly Plant Manager of Suzuka Factory of Domestic Production Operations in Regional Operations (Japan), appointed in June 1999

Assembly Plant Manager of Saitama Factory of Automobile Production Operations in Regional Operations (Japan), appointed in January 1998

Joined Honda in April 1968

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| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|---|---|------------------------|
| Kazuto Iiyama (October 7, 1951) | <p>Director of the Company, appointed in June 2004</p> <p>President and Director of Honda of the U.K. Manufacturing Ltd., appointed in April 2004</p> <p>Executive Vice President and Director of Honda Motor Europe Ltd., appointed in April 2004 (presently held)</p> <p>Executive Vice President of Honda of the U.K. Manufacturing Ltd., appointed in April 2003</p> <p>Functional Operating Officer of the Company, appointed in April 2002 (presently held)</p> <p>Executive Vice President of Honda Manufacturing of Alabama, L.L.C., appointed in November 2001</p> <p>Joined Honda in April 1975</p> <p>* Executive Vice President and Director of Honda Motor Europe Ltd.</p> <p>* President and Director of Honda of the U.K. Manufacturing Ltd.</p> | 3,000 |
| Hiroshi Oshima (December 2, 1952) | <p>Director of the Company, appointed in June 2004</p> <p>Corporate Communications, Motor Sports, appointed in April 2004</p> <p>General Manager of Corporate Communications Division in Business Support Operations, appointed in April 2000 (presently held)</p> | 3,000 |

| | | |
|---------------------|--|-------|
| Sho Minekawa | Joined Honda in April 1977 | |
| (October 27, 1954) | Director of the Company, appointed in June 2004 | 3,000 |
| | President of Guangzhou Honda Automobile Co., Ltd., appointed in April 2004 | |
| | Vice President of Guangzhou Honda Automobile Co., Ltd., appointed in April 2003 | |
| | General Manager of China Operation Office in Regional Operations (Asia & Oceania), appointed in April 2002 | |
| | President and Director of Honda New Zealand Ltd., appointed in June 1998 | |
| | Joined Honda in April 1978 | |
| | * President of Guangzhou Honda Automobile Co., Ltd. | |

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| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|--|---|------------------------|
| Corporate Auditors | | |
| Hiroshi Okubo (October 30, 1945) | Corporate Auditor (full-time), appointed in June 2004 Senior Managing Director of the Company, appointed in June 2003 Compliance Officer, appointed in April 2003 Managing Director of the Company, appointed in June 1999 Chief Operating Officer for Business Support Operations and Chief Officer of Driving Safety Promotion Center in Business Support Operations, appointed in June 1999 Director of the Company, appointed in June 1996 General Manager of Executive Office in Business Support Operations, appointed in June 1994 Joined Honda in April 1970 | 6,000 |
| Koji Miyajima (June 10, 1948) | Corporate Auditor (full-time), appointed in June 2003 Corporate Auditor, appointed in June 2001 General Manager of Overseas Operations Office No. 1 in Regional Operations (North America), appointed in April 2000 Joined Honda in April 1971 | 3,300 |
| Koukei Higuchi | | None |
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(March 14, 1936)

Advisor of The Tokio Marine and Fire Insurance Co., Ltd. from
June 2003

Corporate Auditor, appointed in June 2003

Chairman of The Tokio Marine and Fire Insurance Co., Ltd.,
appointed in June 2001

President of The Tokio Marine and Fire Insurance Co., Ltd.,
appointed in June 1996

Senior Executive Director of The Tokio Marine and Fire Insurance
Co., Ltd., appointed in June 1995

Executive Director of The Tokio Marine and Fire Insurance Co.,
Ltd., appointed in August 1991

Director of The Tokio Marine and Fire Insurance Co., Ltd.,
appointed in June 1989

Joined The Tokio Marine and Fire Insurance Co., Ltd. in April 1960

Kuniyasu Yamada

Corporate Auditor, appointed in June 2003

1,000

(July 21, 1944)

President of MTB Apple Planning Co., Ltd. from September 2002

President of The Issei Securities Co., Ltd., appointed in June 2001

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| Name (Date of birth) | Current Positions and Biographies with Registrant | Number of Shares owned |
|-----------------------------|---|------------------------|
| | Senior Executive Director of The Mitsubishi Trust and Banking Corp., appointed in June 1999 | |
| | Executive Director of The Mitsubishi Trust and Banking Corp., appointed in June 1996 | |
| | Director of The Mitsubishi Trust and Banking Corp., appointed in June 1993 | |
| | Joined The Mitsubishi Trust and Banking Corp. in April 1967 | |
| Fumihiko Saito | Corporate Auditor, appointed in June 2004 | None |
| (June 9, 1945) | Established Haarmann Hemmelrath Saito Law Office in June 2003 | |
| | Director of IBM Japan Limited in June 1999 | |
| | General Manager of Law Division for IBM Japan Limited in May 1999 | |
| | Partner of The Law Firm of Hamada & Matsumoto (presently The Law Firm of Mori Hamada & Matsumoto) in January 1979 | |
| | Joined The Law Firm of Hamada & Yanagida (presently The Law Firm of Mori Hamada & Matsumoto) in April 1973 | |

* denote representation of other companies

There is no family relationship between any director or executive officer and any other director or executive officer.

B. Compensation

Directors and Corporate Auditors receive monthly remuneration, the aggregate maximum monthly amount of which is approved at the annual general meeting of shareholders. Also, Directors and Corporate Auditors receive bonuses, the aggregate amount of which is approved at the annual general meeting of shareholders and is based on the Company's performance for the fiscal year. The amounts of the remuneration and bonuses approved to pay to Directors and Corporate Auditors are allocated among them at meetings of the Board of Directors and Corporate Auditors.

In accordance with customary Japanese business practice, when a Director or Corporate Auditor retires, a proposal to pay a lump sum retirement allowance is submitted at the general meeting of shareholders for approval. The amount of retirement allowance for a Director or Corporate Auditor generally reflects his position at the time of retirement, the length of his service as a Director or Corporate Auditor and other factors, as appropriate under Honda's internal regulations.

The total amount of remuneration paid to the Company's directors and corporate auditors during the fiscal year ended March 31, 2004 was 1,475 million yen, including 1,388 million yen paid to 39 directors (who include 3 directors who retired during that fiscal year) and 87 million yen paid to 6 corporate auditors (who include 2 corporate auditors who retired during that fiscal year). The amount of remuneration paid to the directors includes amount of wages paid to those directors who were also employees of the Company or directors of subsidiaries of the Company.

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The total amount of executive bonuses that were paid during the year ended March 31, 2004 was 480 million yen, including 441 million yen to our 36 directors as of the end of the year ended March 31, 2003 and 39 million yen to our 4 corporate auditors as of the end of the year ended March 31, 2003.

The total amount of retirement allowances for the 3 directors and 2 corporate auditors who retired during the fiscal year ended March 31, 2004 that were paid in accordance with a resolution of our shareholders at our Annual Ordinary General Meeting of Shareholders held in June 2003 was 1,021 million yen. This amount included 881 million yen to the 3 retired directors and 140 million yen to the 2 retired corporate auditors

C. Board Practices

See Item 6.A Director and Senior Management for information concerning the Company's Directors and Corporate Auditors required by this item.

D. Employees

The following tables list the number of Honda full-time employees as of March 31, 2004, 2003 and 2002.

As of March 31, 2004

| | Motorcycle | Automobile | Financial | Power Products |
|----------------|-------------------|-------------------|------------------|-----------------------|
| Total | Business | Business | Services | And Other |
| | Businesses | | | Businesses |
| 131,600 | 25,700 | 95,500 | 1,700 | 8,700 |

At March 31, 2004, Honda had approximately 131,600 full-time employees, including approximately 70,000 local nationals employed in its overseas operations.

As of March 31, 2003

| Total | Motorcycle | Automobile | Financial | Power Products |
|--------------|-------------------|-------------------|------------------|-----------------------|
|--------------|-------------------|-------------------|------------------|-----------------------|

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| | <u>Business</u> | <u>Business</u> | <u>Services</u> | <u>And Other Businesses</u> |
|---------|-----------------|-----------------|-----------------|---------------------------------|
| 126,900 | 24,100 | 92,100 | 1,700 | 9,000 |

At March 31, 2003, Honda had approximately 126,900 full-time employees, including approximately 65,000 local nationals employed in its overseas operations.

As of March 31, 2002

| | <u>Motorcycle Business</u> | <u>Automobile Business</u> | <u>Financial Services</u> | <u>Power Products And Other Businesses</u> |
|--------------|--------------------------------|--------------------------------|-------------------------------|--|
| <u>Total</u> | 22,400 | 87,800 | 1,400 | 9,000 |

At March 31, 2002, Honda had approximately 120,600 full-time employees, including approximately 59,000 local nationals employed in its overseas operations.

Most of the Company's regular employees in Japan, except management personnel, are required by the terms of the Company's collective bargaining agreement with its labor union to become members of the Federation of All Honda Workers' Union (AHWU) which is affiliated with the Japan Council of the International Metal Workers Federation. Approximately 84% of the employees of the Company and its Japanese subsidiaries were members of AHWU at March 31, 2004.

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In Japan, basic wages are negotiated annually and the average increases in wages of the Company's employees in fiscal 2002, 2003 and 2004 were 2.0%, 2.0% and 2.0%, respectively. In addition, in accordance with Japanese custom, each employee is paid a semi-annual bonus. Bonuses are negotiated during wage negotiations and are based on the overall performance of the Company or the applicable subsidiary in the previous year, the outlook for the current year and other factors.

The Company has had labor contracts with its labor union in Japan since 1970. These contracts are renegotiated with respect to basic wages and other working conditions. The regular employees of the Company's domestic subsidiaries are covered by similar contracts. Since 1957, neither the Company nor any of its subsidiaries has experienced any strikes or other labor disputes that materially affected its business activities. The Company considers labor relations with its employees to be very good.

E. Share ownership

The total amount of the Company's voting securities owned by its officers, directors and corporate auditors as a group as of June 23, 2004 is as follows.

| <u>Title of Class</u> | <u>Amount Owned</u> | <u>% of Class</u> |
|-----------------------|---------------------|-------------------|
| Common Stock | 179,490 shares | 0.018% |

The Company's full-time employees are eligible to participate in the Honda Employee Shareholders' Association, whereby participating employees contribute a portion of their salaries to the Association and the Association purchases shares of the Company's Common Stock on their behalf. As of March 31, 2004, the Association owned 2,598,465 shares of the Company's common stock.

Item 7. Major shareholders and Related Party Transactions*A. Major Shareholders*

As of March 31, 2004, 974,414,215 shares of Honda's Common Stock were issued and 940,915,951 shares were outstanding.

We are not aware of any persons or groups that owned beneficially more than five percent of the Company's outstanding Common Stocks as of March 31, 2004.

ADRs representing American Depositary Shares are issued by JPMorgan Chase Bank, as Depositary. The normal trading unit is 100 American Depositary Shares. Total issued shares of Honda as of the close of business on March 31, 2004 were 974,414,215 shares of Common Stock, of which 35,034,638 shares represented by ADRs and 94,238,843 shares not represented by ADRs were owned by residents of the United States. The number of holders of record of the Company's shares of Common Stock in the United States was 192 at March 31, 2004.

To the knowledge of Honda, it is not directly or indirectly owned or controlled by any other corporation, by any government, or by any other natural or legal person or persons severally or jointly. As far as is known to the Company, there are no arrangements, the operation of which may at a subsequent date, result in a change in control of the Company.

B. Related Party Transactions

Honda purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of business, including firms with which Honda is affiliated.

During the fiscal year ended March 31, 2004, Honda had sales of ¥122.2 billion and purchases of ¥551.7 billion with equity affiliates accounted under the equity method. As of March 31, 2003, Honda had receivables of ¥26.4 billion from affiliated companies, and had payables of ¥106.8 billion to affiliated companies.

Honda does not consider the amounts involved in such transactions to be material to its business.

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C. Interest of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

1 3. Consolidated Financial Statements

Honda's audited consolidated financial statements are included under Item 17 Financial Statements. Except for Honda's consolidated financial statements included under Item 17, no other information in this Annual Report has been audited by Honda's independent auditors.

4. Not applicable.

5. Not applicable.

6. Export Sales.

See Information on the Company Marketing and Distribution Overseas Sales.

7. Legal Proceedings.

Various legal proceedings are pending against us. We believe that such proceedings constitute routine litigation incidental to our business. With respect to product liability, personal injury claims or lawsuits, we believe that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by our insurance and reserves. Punitive damages are claimed in certain of these lawsuits. We are also subject to potential liability under other various lawsuits and claims.

Seventy-five purported class actions on behalf of all purchasers of new motor vehicles in the United States since January 1, 2001, have been filed in various state and federal courts against American Honda Motor Co., Inc., Honda Canada, Inc., General Motors, Ford, Daimler Chrysler,

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Toyota, Nissan and BMW and their Canadian affiliates, the National Automobile Dealers Association and the Canadian Automobile Dealers Association. Several of the state court actions also name Honda Motor Co., Ltd. as a defendant, as well as other Japanese and German parent companies of United States based subsidiaries. The federal court actions have been consolidated for coordinated pretrial proceedings in federal court in Maine and more than 30 California cases have been consolidated in the state court in San Francisco. Additionally, there are pending cases in eight other states.

The nearly identical complaints allege that the manufacturer defendants, aided by the association defendants, conspired among themselves and with their dealers to prevent United States citizens from purchasing vehicles produced for the Canadian market and sold by dealers in Canada. The complaints allege that new vehicle prices in Canada are 10 to 30% lower than those in the United States and that preventing the sale of these vehicles to United States citizens resulted in the payment of supracompetitive prices by United States consumers. The complaints seek treble damages under U.S. antitrust laws, but do not specify damages. No determination has been made to certify any of these cases as a class action. We believe our actions have been lawful and intend to vigorously defend these cases.

After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, we believe that the overall results of all lawsuits and pending claims should not result in liability to us that would be likely to have a material adverse effect on our consolidated financial position and results of operations.

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8. Profit Redistribution Policy

The Company considers redistribution of profits to our shareholders as one of the most important management issues. Accordingly, the Company attempts to increase its corporate value while carrying out its operations from a global standpoint. The Company intends to redistribute profits to our shareholders taking into consideration its projected comprehensive cash needs/requirements.

Regarding dividend payment, based on the long-term viewpoint, the Company intends to make payment taking into consideration the Company's consolidated earnings performance. In consideration of shareholder expectations, retained earnings will be applied toward financing the R&D activities that are essential for the future growth of the Company and capital expenditures and investment programs that will expand its operations for the purpose of improving its business results and strengthening its financial condition.

Acquisition of the Company's common stock will also be implemented at the optimal timing with the aim of improving efficiency in its capital structure.

B. Significant Changes

Except otherwise disclosed in this Annual Report on Form 20-F, no significant change has occurred since the date of the annual financial statements.

Item 9. The Offer and Listing

A. The Offer and Listing

Honda's shares have been listed on the Tokyo Stock Exchange (TSE) since 1958 and as of March 31, 2004, Honda's shares were traded over five stock exchanges in Japan.

Since February 11, 1977, American Depositary Shares (each representing one-half of one share of Common Stock and evidenced by American Depositary Receipts (ADRs)) have been listed and traded on the New York Stock Exchange (the NYSE), having been traded on the over-the-counter markets in the United States since 1962. In addition, European Shares (each representing ten shares of Common Stock and evidenced by European Depositary Receipts (EDRs)) have been traded in bearer form on the over-the-counter markets in several European countries since 1963. In June 1981, the shares of Common Stock were admitted to the official list of The Stock Exchange of London. In May 1983, the Company listed its shares on the stock exchanges in Zurich, Geneva and Basel in the form of Swiss Bearer Depositary Receipts. In June 1985, the shares of Common Stock were admitted to trading on the Paris Stock Exchange. As for the stock exchanges in Switzerland, the floor exchanges in Zurich, Basel and Geneva were consolidated to form a single national bourse—the Swiss Exchange, in 1997. The Paris Stock Exchange was merged with the exchanges in Amsterdam and Brussels and created Euronext in September 2000.

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The monthly average turnover of Honda's shares of Common Stock and American Depositary Shares for the fiscal year ended March 31, 2004 was approximately 51,630,000 shares of Common Stock on the TSE and approximately 8,982,400 American Depositary Shares on the NYSE.

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The following table sets out, for the periods indicated, the reported high and low sales prices of Honda's shares on the TSE in yen and its American Depositary Shares on the NYSE in U.S. dollars.

| Fiscal year | Yen per share of Common Stock | | U.S. dollars per American Depositary Share | |
|-------------|----------------------------------|--------|--|----------|
| | on the TSE | | on the NYSE* | |
| | High | Low | High | Low |
| 2000 | ¥5,880 | ¥3,380 | \$ 22.21 | \$ 17.73 |
| 2001 | 5,360 | 3,380 | 22.59 | 16.21 |
| 2002 | 5,920 | 3,090 | 23.09 | 13.65 |
| 2003 | | | | |
| 1st quarter | ¥5,990 | ¥4,630 | \$ 23.85 | \$ 19.25 |
| 2nd quarter | 5,460 | 4,620 | 23.10 | 19.65 |
| 3rd quarter | 5,170 | 3,990 | 20.99 | 17.01 |
| 4th quarter | 4,510 | 3,840 | 18.80 | 16.40 |
| 2004 | | | | |
| 1st quarter | 4,920 | 3,570 | 19.95 | 15.47 |
| 2nd quarter | 5,510 | 4,420 | 23.59 | 18.54 |
| 3rd quarter | 4,790 | 4,090 | 22.53 | 18.81 |
| 4th quarter | 5,140 | 4,300 | 23.40 | 20.55 |
| Jan - 2004 | 4,920 | 4,300 | 23.40 | 20.55 |
| Feb | 4,810 | 4,330 | 22.15 | 20.66 |
| Mar | 5,140 | 4,650 | 23.40 | 21.50 |
| Apr | 4,870 | 4,390 | 23.15 | 20.11 |
| May | 4,820 | 4,370 | 21.79 | 19.25 |
| Jun | 5,320 | 4,680 | 24.85 | 21.36 |

* Honda's common stock-to-ADR exchange ratio was changed from two shares of common stock to one ADR, to one share of common stock to two ADRs, effective January 10, 2002. Per American depositary share information has been restated for all periods presented to reflect this four-for-one ADR split.

B. Plan of distribution

Not applicable.

C. Markets

See Item 9.A, Offer and Listing Details

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of The Issue

Not applicable.

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Item 10. Additional Information

A. Share Capital

Not applicable

B. Memorandums and Article of Association

Set forth below is information relating to Honda's common stock, including brief summaries of the relevant provisions of Honda's articles of incorporation and share handling regulations as currently in effect, and of the Commercial Code of Japan and related legislation.

General

Honda's authorized share capital as of March 31, 2004 is 3,600,000,000 shares of common stock, of which 974,414,215 shares were issued. Under the Commercial Code, shares must be registered and are transferable by delivery of share certificates. In order to assert shareholders' rights against Honda, a shareholder must have its name and address registered on Honda's register of shareholders, in accordance with Honda's share handling regulations. The registered beneficial holder of shares underlying the ADSs or EDRs is the depository for the ADSs or EDRs, respectively. Accordingly, holders of ADSs or EDRs will not be able directly to assert shareholders' rights.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with the Japan Securities Depository Center, Inc. (the "Securities Center"). If a holder of shares is not a participating institution in the Securities Center, it must participate through a participating institution, such as a securities company or a bank having a clearing account with the Securities Center. All shares deposited with the Securities Center will be registered in the name of the Securities Center on Honda's register of shareholders. Each participating shareholder will in turn be registered on Honda's register of beneficial shareholders and be treated in the same way as shareholders registered on Honda's register of shareholders. For the purpose of transferring deposited shares, delivery of share certificates is not required. Entry of the share transfer in the books maintained by the Securities Center for participating institutions, or in the book maintained by a participating institution for its customers, has the same effect as delivery of share certificates. The registered beneficial owners may exercise the rights attached to the deposited shares, such as voting rights, and will receive dividends (if any) and notices to shareholders directly from Honda. The shares held by a person as a registered shareholder and those held by the same person as a registered beneficial owner are aggregated for these purposes. Beneficial owners may at any time withdraw and receive their share certificates from the Securities Center.

Objects and Purposes

Article 2 of the articles of incorporation of Honda states that its purpose is to engage in the following businesses:

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Manufacture, sale, lease and repair of motor vehicles, ships and vessels, aircrafts and other transportation machinery and equipment.

Manufacture, sale, lease and repair of prime movers, agricultural machinery and appliances, generators, processing machinery and other general machinery and apparatus, electric machinery and apparatus and precision machinery and apparatus.

Business of manufacture and sale of fiber products, paper products, leather products, lumber products, rubber products, chemical industry products, ceramic products, metal products and other products.

Overland transportation business, marine transportation business, air transportation business, warehouse business, travel business and other transport business and communication business.

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Business of sale of sporting goods, articles of clothing, stationeries, daily sundries, pharmaceuticals, drink and foodstuffs and other goods.

Financial business, nonlife insurance agency business, life insurance canvassing business, construction business such as building construction business and real estate business such as intermediation, etc. of real estate.

Publishing business, advertising business, translation business, interpretation business, management consultant business, information service business such as information processing, information communication, information provision, etc., industrial design planning and designing business, comprehensive guard and security business and worker dispatch business.

Management of parking garages, driving schools, training and education facilities, racecourses, recreation grounds, sporting facilities, marina facilities, hotels, restaurants and other facilities.

Manufacture, sale and furnishing of technology of apparatus, parts and supplies relating to each of the foregoing items and all other activities and investments relating to each of the foregoing items.

Dividends

Under its articles of incorporation, Honda's financial accounts will be closed on March 31 of each year and dividends, if any, will be paid to shareholders of record as of that date. In addition to year-end dividends, the board of directors may by resolution declare an interim cash dividend to shareholders of record as of September 30 of each year. Under the Commercial Code, however, Honda cannot declare or pay dividends unless specified non-consolidated financial criteria are met based on the amount of its net assets, stated capital, additional paid-in capital, legal reserves, the excess, if any, of unamortized expenses incurred in preparation for commencement of business and in connection with research and development over the aggregate of the amounts referred above and the amount of share subscription moneys paid.

Under its articles of incorporation, Honda is not obligated to pay any dividends which are left unclaimed for a period of three full years after the date on which they first became payable.

Capital and Reserves

The entire amount of the issue price of the shares to be issued in the future will be required to be accounted for as stated capital, although Honda may account for an amount not exceeding one-half of such issue price as additional paid-in capital by resolution of the board of directors. Honda may at any time transfer the whole or any part of its additional paid-in capital and legal reserve to stated capital by resolution of the board of directors. The whole or any part of retained earnings which may be distributed as annual dividends may also be transferred to stated capital by resolution of an ordinary general meeting of shareholders. Honda may, by a resolution of an ordinary general meeting of shareholders (in the case of the reduction of stated capital, a special resolution of a general meeting of shareholders), reduce stated capital, additional paid-in capital and/or legal reserve (in the case of the latter two reserves, in aggregate, the remainder after such reduction should not be less than one-quarter of Honda's stated capital).

Stock Splits

Honda may at any time split its shares into greater number of Shares by resolution of the board of directors. When the board of directors approves a stock split, it may also amend the articles of incorporation of Honda without shareholder approval to increase the number of its authorized shares in proportion to the stock split.

Upon stock splits, shareholders will not be required to exchange share certificates held by them for new share certificates. In respect of deposited shares, new shares resulting from the stock split will be deposited with the Securities Center, and shareholders who directly possess share certificates will receive additional certificates representing the additional shares resulting from the stock split.

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Consolidation of Shares

Honda may at any time consolidate the shares into a smaller number of shares by a special resolution of the general meeting of shareholders. A representative director of Honda must disclose the reason for the consolidation of the shares at the general meeting of shareholders.

Japanese Unit Share System

Consistent with the requirements of the Commercial Code, the articles of incorporation of Honda adopts unit share system called as *tan-gen-kabu*, under which 100 shares constitute one unit of shares. The board of directors of Honda by itself may reduce, but not to increase, the number of shares that constitute a unit or abolish the unit share system entirely by a board resolution. An increase in the number of shares that constitute one unit requires a resolution of a general shareholders' meeting. In any case, the number of shares constituting one unit may not exceed the fewer of 1,000 shares and one-two hundredths (1/200) of the number of all issued shares.

The articles of incorporation of Honda provides that Honda may not issue share certificates for a number of shares not constituting an integral number of units. Because the transfer of shares normally requires delivery of the share certificates for the shares being transferred, shares constituting a fraction of a unit and for which no share certificates are issued may not be transferable, however, a holder of shares constituting less than one unit may at any time require Honda to purchase such shares at the market price in accordance with the Company's share handling regulations (see below). Because the transfer of ADRs does not require changes in the ownership of the underlying shares, holders of ADRs evidencing ADSs that constitute less than one unit of shares are not affected by these restrictions in their ability to transfer the ADRs. However, because transfers of less than one unit of the underlying shares are normally prohibited under the unit share system, under the deposit agreement, the right of ADR holders to surrender their ADRs and withdraw the underlying shares for sale in Japan may only be exercised as to whole units.

Right of a Holder of Shares Representing Less Than One Unit to Require Honda to Purchase or sell Its Shares

A holder of shares representing less than one unit may at any time require Honda to purchase its shares. These shares will be purchased at (a) the closing price of the shares reported by the Tokyo Stock Exchange on the day when the request for purchase reaches the share handling agent, or (b) if no sale takes place on the Tokyo Stock Exchange on that day, then the price at which the first sale of shares is effected on the Tokyo Stock Exchange thereafter. In each case, Honda will request the payment of an amount determined by Honda as an amount equal to the brokerage commission required for the sale and purchase of the shares. A holder of shares representing less than one unit may, in accordance with the provisions of the share handling regulations, make request to the effect that such number of shares should be sold to it that will, when added to the shares less than one unit already held by that shareholder, constitute one unit. However, because holders of ADSs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise many shareholder rights as a practical matter.

Other Rights of a Holder of Shares Representing Less Than One Unit

A holder of shares representing less than one unit has the following rights:

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to receive, if any, dividends (including interim dividends),

to receive shares or cash by way of a stock split, upon consolidation of shares or upon a capital decrease, merger, share exchange or share transfer for the purpose of making Honda a wholly-owned subsidiary of another company or upon a split-up of Honda,

to be allotted rights to subscribe for new shares and stock acquisition rights when such subscription rights are granted to shareholders,

to participate in any distribution of surplus assets upon the liquidation of Honda, and

to require Honda to issue replacement certificates for lost, stolen or destroyed share certificates, if issued.

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A shareholder who owns shares representing less than one unit will not be able to exercise any other rights, including voting rights and the right to examine Honda's accounting books and records.

Voting rights under the unit share system

Under the unit share system, the shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights.

Other than described above, the holders of shares representing less than one unit have the same rights as the holders of shares constituting one unit.

Voting Rights

Honda holds its ordinary general meeting of shareholders in June of each year at its head office or in its vicinity, or in Wako City, Saitama Prefecture, Japan. In addition, Honda may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice. Under the Commercial Code, notice of any shareholders' meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with Honda's share holding regulations, at least two weeks prior to the date of the meeting.

A shareholder is generally entitled to one vote per unit of shares as described in this paragraph and under "Japanese Unit Share System" above. In general, under the Commercial Code, a resolution can be adopted at a meeting of shareholders by a majority of the shares having voting rights represented at the meeting. The Commercial Code and Honda's Articles of Incorporation require a quorum for the election of directors and corporate auditors of not less than one-third of the total number of voting rights of all shareholders. Honda's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder whose voting rights are in turn more than one-quarter directly or indirectly owned by Honda does not have voting rights.

Shareholders may exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights. Shareholders who intend to be absent from a general meeting of shareholders may exercise their voting rights in writing. In addition, they may exercise their voting rights by electronic means if the board of directors decides to accept such means.

The Commercial Code provides that a quorum of the majority of voting rights of all shareholders must be present at a shareholders' meeting to approve any material corporate actions such as:

the amendment of the articles of incorporation (except amendments that the board of directors are authorized to make under the Commercial Code),

the removal of a director or corporate auditor,

the dissolution, merger, consolidation or split-up of Honda,

the transfer of the whole or an important part of Honda's business,

the taking over of the whole of the business of any other corporation,

any issuance of new shares at a specially favorable price (or any issuance of stock acquisition rights with specially favorable conditions) to persons other than shareholders, and

the share exchange or share transfer for the purpose of establishing 100% parent-subsidary relationships.

At least two-thirds of the voting rights of all shareholders represented at the meeting must approve these actions.

Pursuant to the terms of the Deposit Agreement, upon receipt of notice of any meeting of holders of Common Shares of the Registrant, the Depositary will mail to the record holders of ADRs and publish a notice

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which will contain the information in the notice of the meeting. The record holders of ADRs at the close of business on a date specified by the Depositary and the holders of EDRs will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Common Stock of the Registrant represented by their respective Depositary Receipts. The Depositary will endeavor, in so far as practicable, to vote the amount of Common Stock of the Registrant represented by such Depositary Receipts in accordance with such instructions, and the Registrant has agreed to take all action which may at any time be deemed necessary by the Depositary in order to enable the Depositary to so vote such Common Stock. In the absence of such instructions, the Depositary has agreed to use its best efforts to give a discretionary proxy to a person designated by the Registrant. However, such proxy may not be given with respect to any proposition of which the Depositary has knowledge regarding any contest related to the action to be taken at the meeting, or the purpose of which is to authorize a merger, consolidation or any other matter which may substantially affect the rights or privileges of the Common Stock of the Registrant or other securities, property or cash received by the Depositary or the Custodian in respect thereof.

Subscription Rights and Stock Acquisition Rights

Holders of shares have no preemptive rights under Honda's articles of incorporation. Under the Commercial Code, the board of directors may, however, determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, such rights must be given on uniform terms to all shareholders as of a specified record date by at least two weeks' prior public notice to shareholders of the record date. In addition, individual notice must be given to each of these shareholders at least two weeks prior to the date of expiration of the subscription rights.

Honda also may decide to grant the stock acquisition rights (shinkabu-yoyakuken), with or without bonds, to any person including shareholders, by resolution of its board of directors unless issued under specially favorable conditions. The holder of such rights may exercise its rights within the subscription period by paying subscription moneys all as prescribed in the terms of such rights.

Liquidation Rights

In the event of a liquidation of Honda, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the number of shares they own.

Liability to Further Calls or Assessments

All of Honda's currently issued shares, including shares represented by the ADSs, are fully paid and nonassessable.

Transfer Agent

The Chuo Mitsui Trust and Banking Company, Limited is the transfer agent for the shares. Chuo Mitsui's office is located at 33-1, Shiba 3-chome, Minato-ku, Tokyo, 105-8574, Japan. Chuo Mitsui maintains Honda's register of shareholders and records transfers of record ownership upon presentation of share certificates.

Record Date

The close of business on March 31 is the record date for Honda's year-end dividends, if paid. A holder of shares constituting one or more whole units who is registered as a holder on Honda's register of shareholders at the close of business as of March 31 is also entitled to exercise shareholders' voting rights at the ordinary general meeting of shareholders with respect to the fiscal year ended on March 31. The close of business on September 30 of each year is the record date for interim dividends, if paid. In addition, Honda may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' public notice.

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The shares generally trade ex-dividend or ex-rights on the Japanese stock exchanges on the third business day before a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

Repurchase by Honda of Shares

Honda may acquire its own shares through Japanese stock exchanges on which its shares are listed, by way of tender offer (pursuant to a resolution of the board of directors or an ordinary resolution of a general meeting of shareholders), from a specific party (pursuant to a special resolution of a general meeting of shareholders) or from a subsidiary of Honda (pursuant to a resolution of the board of directors). When such acquisition is made by Honda from a specific party other than a subsidiary of Honda, any shareholder may make a request directly to a representative director of Honda, five days prior to the relevant shareholders' meeting, that Honda also acquire the shares held by such shareholder. Any such acquisition of shares (other than the acquisition by Honda of its own shares from its subsidiary) must satisfy certain requirements, including the requirement that the total amount of the purchase price not exceed the amount of retained earnings available for dividend payments plus the amount of any reduction of the stated capital, additional paid-in capital or legal reserve (if such reduction of the stated capital, additional paid-in capital or legal reserve has been authorized pursuant to a resolution of the relevant general meeting of shareholders), minus the amount to be paid by way of appropriation of retained earnings for the relevant fiscal year and any transfer of retained earnings to stated capital. In the case of the acquisition by Honda of its own shares from its subsidiary, the total amount of the purchase price may not exceed the amount of the retained earnings available for interim dividend payment minus the amount of any interim dividend paid. However, if it is anticipated that the net assets on the balance sheet as at the end of the relevant fiscal year will be less than the aggregate amount of the stated capital, additional paid-in capital and certain other items, Honda may not purchase such shares. Honda may hold the shares acquired in compliance with the provisions of the Commercial Code, and, generally, may dispose of or utilize for any purpose or cancel such shares by a resolution of the board of directors; provided, however, that disposal of shares acquired to a person other than shareholders with specially favorable conditions will require a special resolution of the general meeting of shareholders.

Reports to Shareholders

Honda currently furnishes shareholders with notices of shareholders' meetings, business reports, including financial statements, and notices of resolutions adopted at the shareholders' meetings, all of which are in Japanese. Such notices as described above may be furnished by electronic means to those shareholders who have approved such way of furnishing notices. Pursuant to its articles of incorporation, Honda must publish notices to shareholders in Japanese in the *Nihon Keizai Shimbun*, a Japanese newspaper of general circulation.

Report of Substantial Shareholdings

The Securities and Exchange Law of Japan and regulations under the Law require any person who has become a holder (together with its related persons) of more than 5% of the total issued shares of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market (including ADSs representing such shares) to file with the Director of a competent Local Finance Bureau, within five business days, a report concerning those shareholdings. A similar report must also be filed to reflect any change of 1% or more in any shareholding or any change in material matters set out in reports previously filed. Copies of any report must also be furnished to the company and to all Japanese stock exchanges on which the company's shares are listed or, in the case of shares traded on the over-the-counter market, the Japan Securities Dealers Association. For this purpose, shares issuable to a 5% or greater shareholder upon exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by that holder and the company's total issued share capital.

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Daily Price Limits under Japanese Stock Exchange Rules

Share prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges set daily price limits, which limit the maximum range of fluctuation within a single trading day. Daily price limits are set in absolute yen according to the previous day's closing price or special quote. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his shares at such price on a particular trading day, or at all.

C. Material Contracts

All contracts concluded by Honda during the two years preceding this filing were entered into in the ordinary course of business.

D. Exchange Controls

There are no laws, decrees, regulations or other legislation which materially affect our ability to import or export capital for our use or our ability to pay dividends to nonresident holders of our shares.

E. Taxation

Japanese Taxes

The following is a summary of the principal Japanese tax consequences to owners of our shares or ADSs who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which income from our shares is attributable. The tax treatment is subject to possible changes in the applicable Japanese laws or double taxation conventions occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor. Potential investors should consult their own tax advisers as to:

the overall tax consequences of the acquisition, ownership and disposition of shares or ADSs, including specifically the tax consequences under Japanese law;

the laws of the jurisdiction of which they are resident; and

any tax treaty between Japan and their country of residence.

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Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations.

In the absence of any applicable tax convention or agreement reducing the maximum rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to a non-resident or a non-Japanese corporation is 20%. With respect to dividends paid on listed shares issued by Japanese corporations (such as our shares) to any corporate or individual shareholder (including non-resident shareholders), the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends to be paid between January 1, 2004 and March 31, 2008, and (ii) 15% for dividends to be paid thereafter, except for dividends paid to any individual shareholder who holds 5% or more of the issued shares of us. Japan has entered into income tax treaties, conventions or agreements, whereby the maximum withholding tax rate is generally set at 15% for portfolio investors with, among others, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, the United Kingdom and, prior to July 1, 2004, the United States. In the case of the Japan U.S. tax treaty, however, as a result of its recent amendment, the maximum withholding tax rate will be reduced to 10% for portfolio investors with effect from July 1, 2004. Under Japanese tax law, the maximum rate applicable under the tax treaties, conventions or agreements shall be applicable except when such maximum rate is more than the Japanese statutory rate.

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On March 30, 2004, a new Convention Between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the New Treaty) entered into force and replaced the old Convention Between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the Old Treaty). Under the Old Treaty, which remained in effect until June 30, 2004 with respect to Japanese withholding taxes, a portfolio investor that is a U.S. holder (as defined below in -United States Taxes) was generally subject to Japanese withholding tax on dividends on our shares or ADSs at a rate of 15%. Under the New Treaty, which is effective for distributions on shares and ADSs made on and after July 1, 2004, a portfolio investor that is a U.S. holder is generally subject to Japanese withholding tax on dividends on our shares or ADSs at a rate of 10%.

To obtain the benefits of the reduced withholding rate on dividends under the Old Treaty or the New Treaty, a U.S. holder must file an application for reduced withholding with the Japanese tax authorities at least one day before the date of the dividend distribution. A U.S. holder of our ADSs must file, through the depositary, one application form for exemption from withholding tax for eight months for the purpose of investigating tax status of the holder one day before the dividend payment and a second one for reduced withholding in accordance with the New Treaty within eight months after the end of our fiscal year in which the annual dividend is paid or, in the case of interim dividend, within eight months after the record date for such interim dividend. For this purpose, a U.S. holder must file proof of its taxpayer status, its residence and its beneficial ownership of the shares or ADSs. The depositary may require the U.S. holder also to provide other information in accordance with the Japanese tax laws and regulations. A U.S. holder that does not submit an application for reduced withholding before a dividend is paid can file a claim for refund of the Japanese tax withheld in excess of the reduced tax under the Old Treaty or New Treaty with the Japanese tax authorities.

Gains derived from the sale outside Japan of common stock or Depositary Receipts by a non-resident of Japan or a non-Japanese corporation, or from the sale of common stock within Japan by a non-resident of Japan or by a non-Japanese corporation not having a permanent establishment in Japan, are in general not subject to Japanese income or corporation taxes. Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired common stock or Depositary Receipt as a legatee, heir or donee, even if the individual is not a Japanese resident.

United States Taxes

This section describes the material U.S. federal income tax consequences of the ownership of shares or ADSs by U.S. Holders, as defined below. It applies only to persons who hold shares or ADSs as capital assets for tax purposes.

This section is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the Old Treaty and the New Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

For purposes of the Old Treaty, the New Treaty and the Code, U.S. holders of ADRs evidencing ADSs will be treated as the owners of the Shares represented by those ADRs. Exchanges of shares for ADRs and ADRs for shares, generally will not be subject to U.S. federal income tax. For purposes of this discussion, a U.S. holder is a Beneficial owner of shares or ADSs that is for United States federal income tax purposes, that is (i) a citizen or resident individual of the United States, (ii) a domestic corporation, (iii) an estate whose income is subject to United States federal income tax regardless of its source, or (iv) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust; and that, for this purposes of the Old Treaty or the New Treaty, as applicable, (i) does not maintain a permanent establishment or fixed base in Japan to which shares or ADSs are

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attributable and through which the beneficial owner carries on or has carried on business (or in the case of an individual, performs or has performed independent personal services) and (ii) is not otherwise ineligible for benefits under the Old Treaty or the New Treaty, as the case may be, with respect to income and gain from the shares or ADSs.

This section does not apply to a person who is a member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of the voting stock of Honda, a person that holds shares or ADSs as part of a straddle or a hedging or conversion transaction, or a person whose functional currency is not the U.S. dollar.

This summary is not a comprehensive description of all the tax considerations that may be relevant with respect to a U.S. holder's shares or ADSs. Each beneficial owner of shares or ADSs should consult its own tax advisor regarding the U.S. federal, state and local and other tax consequences of owning and disposing of shares and ADSs in its particular circumstances.

Taxation of Dividends

Under the U.S. federal income tax laws and subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of any dividend paid by Honda out of its current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) is subject to United States federal income taxation. A U.S. holder must include any Japanese tax withheld from the dividend payment in this gross amount even though it does not in fact receive it. Dividends paid to a noncorporate U.S. holder in taxable years beginning after December 31, 2002 and before January 1, 2009 that constitute qualified dividend income will be taxable to such holder at a maximum tax rate of 15% provided that the noncorporate U.S. holder holds shares or ADSs for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. The Internal Revenue Service has announced that it will permit taxpayers to apply a proposed legislative change to this holding period requirement as if such change were already effective. This legislative technical correction would change the minimum required holding period, retroactive to January 1, 2003, to more than 60 days during the 121 day period beginning 60 days before the ex-dividend date. Dividends that Honda pays with respect to the shares or ADSs generally will be qualified dividend income. A U.S. holder must include the dividend in its taxable income when the holder, in the case of shares, or the Depository, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The amount of the dividend distribution that a U.S. holder must include in its income will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date of the dividend distribution, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the U.S. holder includes the dividend payment in income to the date it converts the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the U.S. for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of U.S. holder's basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with the Old Treaty or the New Treaty, as applicable, and paid over to Japan will be creditable against a U.S. holder's United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to a U.S. holder under Japanese law or under the Old Treaty or the New Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. holder's United States federal income tax liability. Please see "Japanese Taxation," above, for the procedures for obtaining a reduced rate of withholding under a treaty or a tax refund.

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Dividends will be income from sources outside the United States, but generally will be passive income or financial services income which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a U.S. holder.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if a U.S. holder sells or otherwise disposes of its shares or ADSs, it will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the U.S. dollar value of the amount that it realizes and its tax basis, determined in U.S. dollars, in its shares or ADSs. Capital gain of a noncorporate U.S. holder that is recognized on or after May 6, 2003 and before January 1, 2009 will generally be taxed at a maximum rate of 15% where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the U.S. for foreign tax credit limitation purposes.

Passive Foreign Investment Company Rules

Honda believes that its shares and ADRs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. Moreover, the application of the PFIC rules to a corporation such as Honda which among other things is engaged in leasing and financing through several subsidiaries is not entirely clear.

In general, Honda will be a PFIC with respect to a U.S. holder if for any taxable year in which it held our ADRs or shares:

at least 75% of Honda's gross income for the taxable year is passive income; or

at least 50% of the value, determined on the basis of a quarterly average, of Honda's assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If Honda is treated as a PFIC, and a U.S. holder does not make a mark-to-market election, as described below, that U.S. holder will be subject to special rules with respect to:

any gain it realizes on the sale or other disposition of its shares or ADRs; and

any excess distribution that Honda makes to it (generally, any distributions to it during a single taxable year that are greater than 125% of the average annual distributions received by it in respect of the shares or ADRs during the three preceding taxable years or, if

shorter, its holding period for the shares or ADRs).

Under these rules:

the gain or excess distribution will be allocated ratably over its holding period for the shares or ADSs,

the amount allocated to the taxable year in which it realized the gain or excess distribution will be taxed as ordinary income,

the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

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Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If a U.S. holder owns shares or ADRs in a PFIC that are treated as marketable stock, it may also make a mark-to-market election. If it makes this election, it will not be subject to the PFIC rules described above. Instead, in general, it will include as ordinary income each year the excess, if any, of the fair market value of its shares or ADSs at the end of the taxable year over its adjusted basis in its shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. It will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of its shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Its basis in the shares or ADSs will be adjusted to reflect any such income or loss amount.

In addition, notwithstanding any election that a U.S. holder makes with regard to the shares or ADSs, dividends that a U.S. holder receives from Honda will not constitute qualified dividend income to such holder if Honda is a PFIC either in the taxable year of the distribution or the preceding taxable year. Dividends that a U.S. holder receives that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, the U.S. holder must include the gross amount of any such dividend paid by Honda out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in the U.S. holder's gross income, and it will be subject to tax at rates applicable to ordinary income.

If a U.S. holder owns shares or ADSs during any year that Honda is a PFIC, it must file Internal Revenue Service Form 8621.

Possible Changes to the Treaty

U.S. holders should be aware that, on June 10, 2003, the U.S. Treasury Department announced that the United States and Japan have agreed in principle to the terms of a new bilateral income tax treaty to replace the Treaty. As of the date of the filing of this Form 20-F, a new treaty has not been finalized. There can be no certainty whether a new treaty will ultimately go into effect, what the provisions of such new treaty might be, and whether such provisions will affect U.S. holders.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

Honda is subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, it will file annual reports on Form 20-F within six months of its fiscal year-end and furnish other reports and information on Form 6-K with the Securities and Exchange Commission. These reports and other information can be inspected without charge at the public reference room at the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. You can also obtain copies of such material by mail from the public reference room of the Securities and Exchange Commission at prescribed fees. You may obtain information on the operation of the Securities and Exchange public reference room by calling the Securities and Exchange Commission in the United States at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. Also, as a foreign private issuer, Honda is exempt from the rules under the Securities Exchange Act of 1934 prescribing the furnishing and content of proxy statements to shareholders.

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Not applicable.

Item 11. Quantitative and Qualitative Disclosure About Market Risk

Honda is exposed to market risks, which are changes in foreign currency exchanges rates, in interest rates and in prices of marketable equity securities. Honda is party to derivative financial instruments in the normal course of business in order to manage risks associated with changes in foreign currency exchanges rates and in interest rates. Honda does not hold any derivative financial instruments for trading purposes.

Foreign Currency Risk

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.

The tables below provide information about our derivatives related to foreign exchange risk as of March 31, 2003 and 2004. For forward exchange contracts and currency options, the table presents the contract amounts and fair value. All forward exchange contracts and currency options to which we are a party have original maturities of less than one year.

Foreign Exchange Risk

| | 2003 | | | 2004 | | |
|----------------------------------|---------------------|------------|--------------------------|---------------------|------------|--------------------------|
| | (Millions of yen) | | | (Millions of yen) | | |
| | Contract amounts | Fair value | Average contractual rate | Contract amounts | Fair value | Average contractual rate |
| Forward Exchange Contract | | | | | | |
| To sell US\$ | ¥ 187,765 | (1,650) | 119.96 | ¥ 260,110 | 4,345 | 107.34 |
| To sell EUR | 82,117 | (2,613) | 127.92 | 67,123 | 2,176 | 132.80 |
| To sell CAD | 33,616 | (1,052) | 81.45 | 22,716 | 110 | 80.93 |
| To sell GBP | 26,126 | 198 | 189.01 | 21,695 | (13) | 191.70 |
| To sell other foreign currencies | 22,532 | (339) | various | 14,140 | 315 | various |

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| | | | | | | |
|---------------------------------|-------------------|-------------------|---------|-------------------|-------------------|---------|
| To buy US\$ | 4,536 | 56 | 118.41 | 3,774 | (74) | 107.62 |
| To buy other foreign currencies | 64 | (1) | various | 32 | 6 | various |
| Cross-currencies | 185,909 | 1,176 | various | 173,108 | (437) | various |
| | <u> </u> | <u> </u> | | <u> </u> | <u> </u> | |
| Total | ¥ 542,665 | (4,225) | | ¥ 562,698 | 6,428 | |
| | <u> </u> | <u> </u> | | <u> </u> | <u> </u> | |

| Currency Option | (Millions of yen) | | Average contractual rate | (Millions of yen) | | Average contractual rate |
|---|---------------------|-------------------|--------------------------|---------------------|-------------------|--------------------------|
| | Contract amounts | Fair value | | Contract amounts | Fair value | |
| Option purchased to sell US\$ | ¥ 141,001 | 1,257 | various | ¥ 50,497 | 1,454 | various |
| Option written to sell US\$ | 141,879 | (1,096) | various | 64,497 | (192) | various |
| Option purchased to sell other currencies | 12,804 | 90 | various | 2,050 | 151 | various |
| Option written to sell other currencies | 21,744 | (396) | various | 4,099 | (10) | various |
| Option purchased to buy other currencies | 6,166 | 74 | various | | | various |
| Option written to buy other currencies | 6,166 | (40) | various | | | various |
| | <u> </u> | <u> </u> | | <u> </u> | <u> </u> | |
| Total | ¥ 329,760 | (111) | | ¥ 121,143 | 1,403 | |
| | <u> </u> | <u> </u> | | <u> </u> | <u> </u> | |

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Honda is exposed to market risk for changes in interest rates related primarily to its debt obligations and finance receivables. In addition to short-term financing such as commercial paper, Honda has long-term debt with both fixed and floating rates. Our finance receivables are primarily fixed rate. Interest swap agreements are mainly used to convert floating rate financing to (normally 3-5 years) fixed rate financing in order to match financing costs with income from finance receivables. Foreign currency and interest rate swap agreements used among different currencies, also serve to hedge foreign currency exchange risk as well as interest rate risk.

The following tables provide information about Honda's financial instruments that were sensitive to changes in interest rates at March 31, 2003 and 2004. For finance receivables and long-term debt, these tables present principal cash flows, fair value and related weighted average interest rates. For interest rate swaps and currency and interest rate swaps, the table presents notional amounts, fair value and weighted average interest rates. Variable interest rates are determined using formulas such as LIBOR+ α and an index at the fiscal year end.

Interest Rate Risk**Finance Subsidiaries-Receivables**

| | 2003 | | 2004 | | | | | | | | Average interest rates |
|---|---------------------|------------------|---------------------|------------------------|----------------|----------------|----------------|----------------|---------------|------------------|------------------------|
| | (Millions of yen) | | (Millions of yen) | | | | | | | | |
| | Total | Fair value | Total | Expected maturity date | | | | | | Fair value | |
| | | | Within 1year | 1-2year | 2-3year | 3-4year | 4-5year | Thereafter | | | |
| Direct Finance Leases: | | | | | | | | | | | |
| JP¥ | ¥ 12,580 | * | ¥ 22,817 | 13,357 | 4,892 | 2,801 | 1,181 | 584 | 2 | * | 5.90% |
| US\$ | 1,495,739 | * | 1,454,460 | 460,147 | 390,696 | 402,437 | 201,161 | 19 | | * | 5.03% |
| Other | 193,128 | * | 244,439 | 74,845 | 58,389 | 58,946 | 51,886 | 329 | 44 | * | 6.23% |
| Total - Direct Finance Leases | ¥ 1,701,447 | * | ¥ 1,721,716 | 548,349 | 453,977 | 464,184 | 254,228 | 932 | 46 | * | |
| Other Finance Receivables : | | | | | | | | | | | |
| JP¥ | ¥ 336,198 | 304,648 | ¥ 331,559 | 124,041 | 88,982 | 59,307 | 34,020 | 15,616 | 9,593 | 301,749 | 5.90% |
| US\$ | 1,253,115 | 1,272,876 | 1,510,120 | 513,342 | 297,993 | 288,009 | 253,294 | 142,095 | 15,387 | 1,522,724 | 5.03% |
| Other | 230,514 | 224,201 | 264,546 | 140,520 | 50,044 | 38,162 | 25,036 | 9,902 | 882 | 256,201 | 7.38% |
| Total - Other Finance Receivables | ¥ 1,819,827 | 1,801,725 | ¥ 2,106,225 | 777,903 | 437,019 | 385,478 | 312,350 | 167,613 | 25,862 | 2,080,674 | |
| Retained interest in the sold pool of finance | 67,024 | 67,024 | 61,072 | | | | | | | 61,072 | |

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| | | | |
|----------------|-------------|-------------|--|
| receivables ** | | | |
| Total | ¥ 3,588,298 | ¥ 3,889,013 | |

* : Under accounting principles generally accepted in the United States of America, disclosure of fair values of direct finance leases is not required.
 ** : The retained interest in the sold pool of finance receivables is accounted for as trading securities and is reported at fair value.

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Long-Term Debt (including current maturities)

| | 2003 | | | 2004 | | | | | | | Average interest rates |
|---|---------------------|------------------|--------------------|------------------------|----------------|----------------|----------------|----------------|--------------|------------------|------------------------|
| | (Millions of yen) | | | (Millions of yen) | | | | | | | |
| | Total | Fair value | Total | Expected maturity date | | | | | | Fair value | |
| Within 1year | | | | 1-2year | 2-3year | 3-4year | 4-5year | Thereafter | | | |
| Japanese yen bonds | ¥ 141,000 | 142,250 | ¥ 171,000 | 30,000 | | 61,000 | 50,000 | 30,000 | | 170,989 | 0.75% |
| Japanese yen medium-term notes | 228,788 | 231,608 | 379,707 | 45,500 | 93,079 | 56,607 | 96,511 | 84,810 | 3,200 | 382,677 | 0.53% |
| U.S. dollar medium-term notes | 764,833 | 767,662 | 1,028,039 | 388,252 | 334,339 | 215,239 | | 90,209 | | 1,033,548 | 1.54% |
| U.S. dollar commercial paper | 210,223 | 210,223 | 184,690 | | 184,690 | | | | | 184,690 | 1.04% |
| Loans and others - primarily fixed rate | 99,680 | 99,838 | 118,301 | 23,373 | 45,682 | 19,567 | 20,963 | 4,649 | 4,067 | 118,482 | 2.60% |
| Total | ¥ 1,444,524 | 1,451,581 | ¥ 1,881,737 | 487,125 | 657,790 | 352,413 | 167,474 | 209,668 | 7,267 | 1,890,386 | |

Interest Rate Swaps

| Notional principal | currency | Receive/Pay | 2003 | | 2004 | | | | | | | Average receive rate | Average pay rate |
|--------------------|-------------|--------------------|---------------------|--------------------|---------------------|------------------------|----------------|----------------|----------------|--------------|-----------------|----------------------|------------------|
| | | | (Millions of yen) | | (Millions of yen) | | | | | | | | |
| | | | Contract amounts | Fair value | Contract amounts | Expected maturity date | | | | | | | |
| 1year | 1-2year | 2-3year | 3-4year | 4-5year | | | | | | | | | |
| JP¥ | Float/ Fix | ¥ 10,268 | (174) | ¥ 5,499 | 20 | 108 | 2,076 | 1,160 | 1,135 | 1,000 | (103) | 0.84% | 1.32% |
| US\$ | Float/ Fix | 1,791,621 | (40,293) | 1,997,417 | 187,539 | 379,131 | 792,942 | 637,805 | | | (21,866) | 1.12% | 2.69% |
| | Fix/Float | 2,404 | 94 | 114,145 | | 2,114 | 22,194 | | 89,837 | | 4,064 | 3.60% | 1.30% |
| | Float/Float | 65,028 | 13 | 71,975 | 47,666 | 24,309 | | | | | (2) | 1.26% | 1.21% |
| CA\$ | Float/Fix | 312,719 | (2,311) | 238,581 | 18,831 | 54,534 | 54,406 | 93,439 | 17,371 | | (5,409) | 2.29% | 4.10% |
| | Fix/Float | | | 19,877 | 5,205 | 2,374 | | 35 | 12,263 | | 261 | 4.28% | 2.25% |
| | Float/Float | 55,349 | 227 | 19,878 | | | | 19,878 | | | (94) | 2.25% | 2.35% |
| GBP | Float/ Fix | 32,633 | (539) | 66,232 | 24,266 | 19,327 | 14,966 | 6,316 | 1,357 | | 83 | 4.45% | 4.72% |
| | Fix/ Float | 17,050 | 58 | 22,575 | 7,651 | 6,873 | 4,926 | 2,514 | 611 | | 83 | 4.82% | 4.19% |
| NZD | Float/ Fix | 664 | (1) | | | | | | | | | | |
| Total | | ¥ 2,287,736 | (42,926) | ¥ 2,556,179 | 291,178 | 488,770 | 891,510 | 761,147 | 122,574 | 1,000 | (22,983) | | |

Currency & Interest Rate Swaps

| | | | 2003 | | 2004 | | | | | | | | | |
|----------------------------|-------------------------|-------------|------------------------|---------------|---------------------|--------|---------|---------|---------|---------|----------------|---------------|----------------------------|------------------------|
| | | | (Millions of yen) | | (Millions of yen) | | | | | | | | | |
| | | | Expected maturity date | | | | | | | | | | | |
| Receiving side currency | Paying side currency | Receive/Pay | Contract amounts | Fair value | Contract amounts | Within | | | | | There after | Fair value | Average receive rate | Average pay rate |
| | | | | | | 1year | 1-2year | 2-3year | 3-4year | 4-5year | | | | |
| JP¥ | US\$ | Fix/Float | ¥ 150,579 | 319 | ¥ 255,323 | 16,605 | 69,789 | 29,113 | 73,444 | 66,372 | | 25,836 | 0.63% | 1.40% |
| | | Float/Float | 63,685 | 1,623 | 81,678 | 22,227 | 9,055 | 23,517 | 13,490 | 13,389 | | 8,540 | 0.22% | 1.37% |
| JP¥ | EUR | Fix/Float | 11,253 | (995) | 12,000 | 12,000 | | | | | | 198 | 0.05% | 2.04% |
| JP¥ | CAS | Float/Float | 13,848 | 50 | 8,647 | 1,072 | 4,301 | | | | 3,274 | (329) | 0.65% | 2.47% |
| JP¥ | GBP | Fix/Float | 43,626 | (587) | 13,028 | 13,028 | | | | | | (70) | 0.06% | 4.45% |
| Other | Other | Fix/Float | 1,893 | (290) | 1,665 | 1,665 | | | | | | 39 | 8.95% | 1.12% |
| | | Float/Float | 17,857 | 291 | 29,915 | 29,915 | | | | | | (260) | 1.35% | 4.53% |
| Total | | | ¥ 302,741 | 411 | ¥ 402,256 | 96,512 | 83,145 | 52,630 | 86,934 | 79,761 | 3,274 | 33,954 | | |

Equity Price Risk

Honda is exposed to equity price risk as a result of its holdings of marketable equity securities. Marketable equity securities included in Honda's investment portfolio are generally securities of domestic Japanese companies and are held for purposes other than trading. At March 31, 2003 and 2004, the estimated fair value of marketable equity securities was ¥66.8 billion and ¥98.3 billion, respectively.

Additionally, Honda has convertible notes and convertible preferred stocks with conversion features that enable Honda to convert its investment into common shares of the issuer. Convertible features are accounted for as embedded derivatives.

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The conversion features are measured at fair value in our consolidated balance sheets, and the changes in fair value are recognized as other income or expense in our consolidated statements of income.

Item 12. Description of Securities to be Registered

Not applicable.

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use Proceeds

None.

Item 15. Controls and Procedures

Under the supervision and the participation of our management, including our Chief Executive Officer and Chief Operating Officer for Business Management Operations (who is our principal financial officer), we performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934) as of March 31, 2004. Based on that evaluation, our Chief Executive Officer and Chief Operating Officer for Business Management Operations concluded that our disclosure controls and procedures were effective as of that date.

No significant changes were made in our internal control over financial reporting during the fiscal year ended March 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

The Board of Corporate Auditors of the Company has determined that the Company does not have an audit committee financial expert as defined in Item 16A of Form 20-F serving on the Board of Corporate Auditors.

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The Company believes that the combined knowledge, skills and experience of the Board of Corporate Auditors, and their authority to engage outside experts as they deem appropriate to provide them with advice on matters related to their responsibilities, enable them, as a group, to act effectively in the fulfillment of their tasks and responsibilities required under the Sarbanes-Oxley Act of 2002.

Item 16B. Code of Ethics

Honda has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of Honda's code of ethics is attached as an exhibit to this annual report on Form 20-F.

Item 16C. Principal Accountant Fees and Services

Our Principal Accountant, who conducted audits of our consolidated financial statements under accounting principles generally accepted in the United States of America or its affiliates, is our independent auditor under applicable SEC rules and billed the following fees to us for professional services:

| | Millions of yen | |
|--------------------|-----------------|-------|
| | 2003 | 2004 |
| Audit Fees | 570 | 581 |
| Audit-Related Fees | 78 | 221 |
| Tax Fees | 391 | 484 |
| All Other Fees | 131 | 2 |
| Total | 1,170 | 1,288 |

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Audit fees means fees for audit services, which are professional services provided by independent auditors for the audit of our annual financial statements or for services that are normally provided by independent auditors with respect to any submissions required under applicable laws and regulations.

Audit-related fees means fees for audit-related services, which are assurance services provided by independent auditors that are reasonably related to the carrying out of auditing or reviewing of our financial reports and other related services. For example, this category includes fees for financial statement audits of employee benefit plans, accounting consulting, internal control reviews, attest services that are not required by statute or regulation, and consultation concerning financial accounting and reporting standards.

Tax fees means fees for tax services, which are services provided by independent auditors related to tax compliance, tax advice and tax planning.

All other fees means fees for all other services, which are any services provided by independent auditors other than the audit services, audit-related services and tax services set forth above. This category includes fees for training and other miscellaneous support services.

Pre-approval policies and procedures of the Board of Auditors

Under applicable SEC rules, our Board of Corporate Auditors must pre-approve audit services, audit-related services, tax services and other services to be provided by our principal accountant to ensure that the independence of our principal accountant under such rules is not impaired as a result of the provision of any of these services.

While, as a general rule, specific pre-approval must be obtained for these services to be provided, our Board of Corporate Auditors has adopted pre-approval policies and procedures which list particular audit and non-audit services that may be provided without specific pre-approval. Our Board of Corporate Auditors reviews this list of services on an annual basis. All services to be provided to us by our principal accountant and its affiliates that are not specifically set forth in this list must be specifically pre-approved by our Board of Corporate Auditors.

Each of our business departments or subsidiaries receiving services from our principal accountant or its affiliate must submit a report to our Board of Corporate Auditors each fiscal year including the details of each service received during that fiscal year and the fees paid for each service. Our Board of Corporate Auditors takes this report into consideration at the time of reviewing the list of services attached to its pre-approval policies and procedures.

Item 16D. Exemption from the Listing Standards for Audit Committees

Not applicable.

Item 17. Financial Statements

See Consolidated Financial Statements and Schedule attached hereto.

Item 18. Financial Statements

Not applicable.

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Item 19. Exhibits

- 1.1 Articles of Incorporation of the registrant (English translation)
- 1.2 Share Handling Regulations of the registrant (English translation) (1)
- 1.3 Regulations of Board of Directors of the registrant (English translation) (1)
- 1.4 Regulation of the Board of Corporate Auditors of the registrant (English translation) (1)
- 2.1 Specimen common stock certificates of the registrant (English translation) (2)
- 2.2 Deposit Agreement dated as of December 19, 1962, as amended and restated as of October 1, 1982 (including changes from Amendment to Deposit Agreement dated as of April 1, 1989) among the registrant, Morgan Guaranty Trust Company of New York (now JP Morgan Chase Bank), as Depositary, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (3)
- 2.3 Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (3)
- 2.4 Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (4)
- 8.1 List of Significant Subsidiaries (See Organizational Structure in Item 4.C. of this Form 20-F)
- 11.1 Code of Ethics
- 12.1 Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a)
- 12.2 Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a)
- 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
- 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350

-
- (1) Incorporated by reference to the registrant's annual report on Form 20-F filed on July 15, 2003.
 - (2) Incorporated by reference to the registrant's annual report on Form 20-F filed on September 27, 2001.
 - (3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995.
 - (4) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001.

The Company has not included as exhibits certain instruments with respect to its long-term debt, the amount of debt authorized under each of which does not exceed 10% of its total assets, and it agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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**Annex A. Unaudited Consolidated Balance Sheets Divided into Non-Financial
Services Businesses and Finance Subsidiaries**

| At March 31, 2003 and 2004 | Yen(millions) | | % of |
|--|--------------------|--------------------|--------------|
| | 2003 | 2004 | total |
| Assets | | | |
| Non-financial services businesses | | | |
| Current Assets: | ¥ 2,987,609 | ¥ 3,033,178 | 36.4 |
| Cash and cash equivalents | 530,343 | 707,917 | |
| Trade accounts and notes receivable | 450,241 | 377,049 | |
| Inventories | 751,980 | 765,433 | |
| Other current assets | 1,255,045 | 1,182,779 | |
| Investment and advances | 557,971 | 743,427 | 8.9 |
| Property, plant and equipment, at cost | 1,376,137 | 1,418,397 | 17.0 |
| Other assets | 325,398 | 269,073 | 3.3 |
| Total assets | 5,247,115 | 5,464,075 | 65.6 |
| Finance Subsidiaries | | | |
| Cash and cash equivalents | 17,061 | 16,504 | 0.2 |
| Finance subsidiaries short-term receivables, net | 1,106,917 | 1,271,171 | 15.3 |
| Finance subsidiaries long-term receivables, net | 2,231,804 | 2,378,345 | 28.6 |
| Other assets | 149,235 | 152,895 | 1.8 |
| Total assets | 3,505,017 | 3,818,915 | 45.9 |
| Eliminations | (1,070,841) | (954,222) | (11.5) |
| Total assets | ¥ 7,681,291 | ¥ 8,328,768 | 100.0 |
| Liabilities and Stockholders Equity | | | |
| Non-financial services businesses | | | |
| Current liabilities: | ¥ 1,950,980 | ¥ 2,017,607 | 24.2 |
| Short-term debt | 241,039 | 200,784 | |
| Current portion of long-term debt | 9,753 | 6,912 | |
| Trade payables | 835,302 | 913,649 | |
| Accrued expenses | 653,570 | 691,637 | |
| Other current liabilities | 211,316 | 204,625 | |
| Long-term debt | 32,805 | 28,370 | 0.3 |
| Other liabilities | 789,031 | 724,331 | 8.8 |
| Total liabilities | 2,772,816 | 2,770,308 | 33.3 |
| Finance subsidiaries | | | |
| Short-term debt | 1,400,962 | 1,170,538 | 14.1 |
| Current portion of long-term debt | 294,596 | 482,563 | 5.8 |
| Accrued expenses | 128,870 | 127,232 | 1.5 |
| Long-term debt | 1,111,069 | 1,378,346 | 16.5 |
| Other liabilities | 269,252 | 287,705 | 3.5 |
| Total liabilities | 3,204,749 | 3,446,384 | 41.4 |

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| | | | |
|--|--------------------|--------------------|--------------|
| Eliminations | (925,994) | (762,324) | (9.2) |
| Total liabilities | 5,051,571 | 5,454,368 | 65.5 |
| Common stock | 86,067 | 86,067 | 1.0 |
| Capital surplus | 172,529 | 172,719 | 2.1 |
| Legal reserves | 29,391 | 32,418 | 0.4 |
| Retained earnings | 3,161,664 | 3,589,434 | 43.1 |
| Accumulated other comprehensive income (loss) | (763,165) | (854,573) | (10.3) |
| Treasury stock | (56,766) | (151,665) | (1.8) |
| Total stockholders equity | 2,629,720 | 2,874,400 | 34.5 |
| Total liabilities and stockholders equity | ¥ 7,681,291 | ¥ 8,328,768 | 100.0 |

Table of Contents**Unaudited Consolidated Statements of Cash Flows Divided into Non-Financial****Service Businesses and Finance Subsidiaries**

| | Yen(millions) | | | |
|--|------------------|------------------|------------------|------------------|
| | 2003 | | 2004 | |
| | Non-financial | | Non-financial | |
| | services | Finance | services | Finance |
| Year ended March 31, 2003 and 2004 | businesses | Subsidiaries | businesses | Subsidiaries |
| Cash flows from operating activities: | | | | |
| Net income | ¥412,636 | ¥ 14,265 | ¥423,794 | ¥40,569 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation | 220,070 | 804 | 213,086 | 359 |
| Deferred income taxes | (18,139) | 86,572 | 34,532 | 78,890 |
| Equity in income of affiliates | (62,638) | | (75,424) | |
| Loss on derivative instruments and related others | (1,956) | 38,939 | (74,469) | (10,314) |
| Decrease (increase) in trade accounts and notes receivable | (19,774) | | 53,035 | |
| Decrease (increase) in inventories | (146,574) | | (51,836) | |
| Increase (decrease) in trade payables | 28,273 | | 130,322 | |
| Other, net | 131,705 | 163 | (104,351) | 65,493 |
| Net cash provided by operating activities | 543,603 | 140,743 | 548,689 | 174,997 |
| Cash flows from investing activities: | | | | |
| Decrease (increase) in investments and advances | (122,255) | (551) | 94,562 | 12 |
| Capital expenditures | (316,345) | (646) | (287,311) | (430) |
| Proceeds from sales of property, plant and equipment | 16,273 | 165 | 14,398 | 4,759 |
| Decrease (increase) in finance subsidiaries-receivables | | (796,314) | | (745,872) |
| Net cash used in investing activities | (422,327) | (797,346) | (178,351) | (741,531) |
| Cash flows from financing activities: | | | | |
| Increase (decrease) in short-term debt | (70,207) | 156,825 | (37,401) | (97,505) |
| Proceeds from long-term debt | 8,240 | 767,749 | 11,663 | 885,084 |
| Repayment of long-term debt | (9,886) | (283,589) | (11,169) | (278,079) |
| Proceeds from issuance of common stock | | 16,967 | | 57,280 |
| Cash dividends paid | (30,221) | (194) | (33,566) | |
| Increase (decrease) in commercial paper classified as long-term debt | | (2,131) | | 280 |
| Payment for purchase of treasury stock | (56,717) | | (95,312) | |
| Net cash provided by (used in) financing activities | (158,791) | 655,627 | (165,785) | 567,060 |
| Effect of exchange rate changes on cash and cash equivalents | (22,940) | (606) | (26,979) | (1,083) |
| Net change in cash and cash equivalents | (60,455) | (1,582) | 177,574 | (557) |

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| | | | | |
|--|-----------------|-----------------|-----------------|----------------|
| Cash and cash equivalents at beginning of year | <u>590,798</u> | <u>18,643</u> | <u>530,343</u> | <u>17,061</u> |
| Cash and cash equivalents at end of year | <u>¥530,343</u> | <u>¥ 17,061</u> | <u>¥707,917</u> | <u>¥16,504</u> |

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Notes:

1. Subsidiaries engaged in financial services are referred to as finance subsidiaries. Other subsidiaries are referred to as non-financial services businesses.
2. Free cash flow (the net of cash flows from operating activities and cash flows from investing activities) for non-financial services businesses was ¥121,276 million, while finance subsidiaries generated a negative free cash flow of ¥656,603 million in fiscal 2003. Non-financial services businesses lend to finance subsidiaries.

These cash flows are included in the decrease (increase) in investments and advances, increase (decrease) in short-term debt, proceeds from long-term debt and repayment of long-term debt. Excluding the increase in loans to finance subsidiaries (¥124,908 million), free cash flow for non-financial services businesses in fiscal 2003 was ¥246,184 million.

3. Free cash flow (the net of cash flows from operating activities and cash flows from investing activities) for non-financial services businesses was ¥370,338 million, while finance subsidiaries generated a negative free cash flow of ¥566,534 million in fiscal 2004. Excluding the increase in loans to finance subsidiaries (¥112,116 million), free cash flow for non-financial services businesses in fiscal 2004 was ¥258,222 million.
4. For each cash flow item shown above, the sum of the amounts for the non-financial services businesses and the finance subsidiaries do not necessarily equal the consolidated amounts reflected in the Company's audited consolidated statements of cash flows appearing elsewhere in this annual report due to the existence of intercompany transactions such as loans from the non-financial services businesses to the finance subsidiaries described in Notes 2 and 3 which have not been eliminated in the unaudited consolidated statements of cash flows presented above.

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HONDA MOTOR CO., LTD.
(Honda Giken Kogyo Kabushiki Kaisha)
(A Japanese Company)
AND SUBSIDIARIES

Consolidated Financial Statements
and
Report of Independent Registered
Public Accounting Firm

March 31, 2004

To be Included in
The Annual Report
Form 20-F
Filed with
The Securities and Exchange Commission
Washington, D.C., U.S.A.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

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Notes to Consolidated Financial Statements

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Schedule

Schedule:

Number

Valuation and Qualifying Accounts - Years ended March 31, 2002, 2003 and 2004

II

All other schedules are omitted as permitted by the rules and regulations of the Securities and Exchange Commission as the required information is presented in the consolidated financial statements or notes thereto, or the schedule is not applicable.

Financial statements of affiliates are omitted because such affiliates do not constitute individually a significant subsidiary. However, summarized financial information on a group basis is set forth in note 4 of notes to consolidated financial statements.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Honda Motor Co., Ltd.:

We have audited the consolidated financial statements of Honda Motor Co., Ltd. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company's consolidated financial statements do not disclose certain information required by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the segment information referred to in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2003 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/S/ KPMG AZSA & Co.

Tokyo, Japan

April 27, 2004

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Balance Sheets****March 31, 2003 and 2004**

| | Yen (millions) | |
|--|--------------------|--------------------|
| | 2003 | 2004 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | ¥ 547,404 | ¥ 724,421 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥8,343 million in 2003 and ¥9,177 million in 2004 | 444,498 | 373,416 |
| Finance subsidiaries-receivables, net (note 2) | 1,097,541 | 1,264,620 |
| Inventories (note 3) | 751,980 | 765,433 |
| Deferred income taxes (note 8) | 202,376 | 222,179 |
| Other current assets (note 6) | 248,561 | 303,185 |
| Total current assets | 3,292,360 | 3,653,254 |
| Finance subsidiaries-receivables, net (note 2) | 2,230,020 | 2,377,338 |
| Investments and advances: | | |
| Investments in and advances to affiliates (note 4) | 272,753 | 298,242 |
| Other, including marketable equity securities (note 5) | 140,218 | 242,824 |
| Total investments and advances | 412,971 | 541,066 |
| Property, plant and equipment, at cost (note 6): | | |
| Land | 342,991 | 354,762 |
| Buildings | 942,747 | 968,159 |
| Machinery and equipment | 2,023,724 | 2,072,347 |
| Construction in progress | 72,112 | 49,208 |
| | 3,381,574 | 3,444,476 |
| Less accumulated depreciation | 1,987,231 | 2,008,945 |
| Net property, plant and equipment | 1,394,343 | 1,435,531 |
| Other assets (notes 6 and 8) | 351,597 | 321,579 |
| Total assets | ¥ 7,681,291 | ¥ 8,328,768 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Short-term debt (note 6) | ¥ 877,954 | ¥ 734,271 |
| Current portion of long-term debt (note 6) | 304,342 | 487,125 |
| Trade payables: | | |
| Notes | 26,076 | 29,096 |

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| | | |
|---|-------------------|-------------------|
| Accounts | 804,595 | 882,141 |
| Accrued expenses | 777,492 | 813,733 |
| Income taxes payable (note 8) | 64,179 | 31,194 |
| Other current liabilities (notes 6 and 8) | 267,752 | 357,259 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 3,122,390 | 3,334,819 |
| | <u> </u> | <u> </u> |
| Long-term debt (note 6) | 1,140,182 | 1,394,612 |
| Other liabilities (notes 6, 7, 8 and 10) | 788,999 | 724,937 |
| | <u> </u> | <u> </u> |
| Total liabilities | 5,051,571 | 5,454,368 |
| | <u> </u> | <u> </u> |
| Stockholders' equity: | | |
| Common stock, authorized 3,600,000,000 shares; issued 974,414,215 shares in 2003 and 2004 | 86,067 | 86,067 |
| Capital surplus | 172,529 | 172,719 |
| Legal reserves (note 9) | 29,391 | 32,418 |
| Retained earnings (note 9) | 3,161,664 | 3,589,434 |
| Accumulated other comprehensive income (loss) (notes 5, 8, 10 and 12) | (763,165) | (854,573) |
| Treasury stock, at cost 12,797,465 shares in 2003 and 33,498,264 shares in 2004 | (56,766) | (151,665) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 2,629,720 | 2,874,400 |
| | <u> </u> | <u> </u> |
| Commitments and contingent liabilities (notes 15 and 16) | | |
| Total liabilities and stockholders' equity | ¥ 7,681,291 | ¥ 8,328,768 |
| | <u> </u> | <u> </u> |

See accompanying notes to consolidated financial statements.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Income**

Years ended March 31, 2002, 2003 and 2004

| | Yen (millions) | | |
|---|------------------|------------------|------------------|
| | 2002 | 2003 | 2004 |
| Net sales and other operating revenue (note 2) | ¥ 7,362,438 | ¥ 7,971,499 | ¥ 8,162,600 |
| Operating costs and expenses: | | | |
| Cost of sales (note 1(r) and 2) | 5,004,764 | 5,364,204 | 5,609,806 |
| Selling, general and administrative (note 1(r)) | 1,301,296 | 1,445,905 | 1,503,683 |
| Research and development | 395,176 | 436,863 | 448,967 |
| | <u>6,701,236</u> | <u>7,246,972</u> | <u>7,562,456</u> |
| Operating income | 661,202 | 724,527 | 600,144 |
| Other income (notes 1(p), 1(r) and 5): | | | |
| Interest | 7,445 | 7,445 | 9,299 |
| Other | 1,898 | 5,741 | 54,909 |
| | <u>9,343</u> | <u>13,186</u> | <u>64,208</u> |
| Other expenses (notes 1(c), (p), (r) and 5): | | | |
| Interest | 16,769 | 12,207 | 10,194 |
| Other | 102,434 | 115,751 | 12,231 |
| | <u>119,203</u> | <u>127,958</u> | <u>22,425</u> |
| Income before income taxes and equity in income of affiliates | 551,342 | 609,755 | 641,927 |
| Income taxes (note 8): | | | |
| Current | 223,064 | 176,632 | 139,318 |
| Deferred | 8,086 | 68,433 | 113,422 |
| | <u>231,150</u> | <u>245,065</u> | <u>252,740</u> |
| Income before equity in income of affiliates | 320,192 | 364,690 | 389,187 |
| Equity in income of affiliates (note 4) | 42,515 | 61,972 | 75,151 |
| Net income | <u>¥ 362,707</u> | <u>¥ 426,662</u> | <u>¥ 464,338</u> |

Yen

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| | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|---|-------------|-------------|-------------|
| Basic net income per common share (note 1(n)) | ¥ 372.23 | ¥ 439.43 | ¥ 486.91 |

See accompanying notes to consolidated financial statements.

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity****Years ended March 31, 2002, 2003 and 2004**

| | Yen (millions) | | |
|---|----------------|-----------|-----------|
| | 2002 | 2003 | 2004 |
| Common stock: | | | |
| Balance at beginning of year | ¥ 86,067 | ¥ 86,067 | ¥ 86,067 |
| Balance at end of year | 86,067 | 86,067 | 86,067 |
| Capital surplus: | | | |
| Balance at beginning of year | 172,529 | 172,529 | 172,529 |
| Reissuance of treasury stock | | | 190 |
| Balance at end of year | 172,529 | 172,529 | 172,719 |
| Legal reserves: | | | |
| Balance at beginning of year | 27,929 | 28,969 | 29,391 |
| Transfer from retained earnings (note 9) | 1,040 | 422 | 3,027 |
| Balance at end of year | 28,969 | 29,391 | 32,418 |
| Retained earnings: | | | |
| Balance at beginning of year | 2,428,293 | 2,765,600 | 3,161,664 |
| Net income for the year | 362,707 | 426,662 | 464,338 |
| Cash dividends (note 9) | (24,360) | (30,176) | (33,541) |
| Transfer to legal reserves (note 9) | (1,040) | (422) | (3,027) |
| Balance at end of year | 2,765,600 | 3,161,664 | 3,589,434 |
| Accumulated other comprehensive income (loss) (notes 5, 8, 10 and 12): | | | |
| Balance at beginning of year | (484,527) | (479,175) | (763,165) |
| Other comprehensive income (loss) for the year, net of tax | 5,352 | (283,990) | (91,408) |
| Balance at end of year | (479,175) | (763,165) | (854,573) |
| Treasury stock: | | | |
| Balance at beginning of year | | (49) | (56,766) |
| Purchase of treasury stock | (49) | (56,717) | (95,318) |
| Reissuance of treasury stock | | | 419 |

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| | | | |
|---|-------------|-------------|-------------|
| Balance at end of year | (49) | (56,766) | (151,665) |
| Total stockholders' equity | ¥ 2,573,941 | ¥ 2,629,720 | ¥ 2,874,400 |
| Disclosure of comprehensive income: | | | |
| Net income for the year | ¥ 362,707 | ¥ 426,662 | ¥ 464,338 |
| Other comprehensive income (loss) for the year, net of tax (notes 5, 8, 10 and 12) | | | |
| Adjustments from foreign currency translation | 119,401 | (169,391) | (195,941) |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | (10,882) | (1,047) | 21,246 |
| Reclassification adjustments for losses realized in net income | 2,975 | 7,137 | |
| Minimum pension liabilities adjustment | (106,142) | (120,689) | 83,287 |
| | 5,352 | (283,990) | (91,408) |
| Total comprehensive income for the year | ¥ 368,059 | ¥ 142,672 | ¥ 372,930 |

See accompanying notes to consolidated financial statements.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****Years ended March 31, 2002, 2003 and 2004**

| | Yen (millions) | | |
|--|------------------|--------------------|------------------|
| | 2002 | 2003 | 2004 |
| Cash flows from operating activities (note 11): | | | |
| Net income | ¥ 362,707 | ¥ 426,662 | ¥ 464,338 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 194,944 | 220,874 | 213,445 |
| Deferred income taxes | 8,086 | 68,433 | 113,422 |
| Equity in income of affiliates | (42,515) | (61,972) | (75,151) |
| Provision for credit and lease residual losses on finance subsidiaries-receivables | 22,139 | 39,377 | 46,940 |
| Loss (gain) on derivative instruments and related others, net | 21,740 | 36,983 | (84,783) |
| Decrease (increase) in assets: | | | |
| Trade accounts and notes receivable | 5,539 | (16,842) | 50,925 |
| Inventories | 10,191 | (146,574) | (51,836) |
| Other current assets | 69,243 | (104,583) | (154,320) |
| Other assets | (28,577) | (44,820) | (24,018) |
| Increase (decrease) in liabilities: | | | |
| Trade accounts and notes payable | (14,101) | 28,675 | 132,541 |
| Accrued expenses | 75,772 | 130,615 | 64,830 |
| Income taxes payable | 20,551 | 3,964 | (31,068) |
| Other current liabilities | (41,717) | 17,708 | 13,763 |
| Other liabilities | 59,762 | 30,412 | 43,656 |
| Other, net | 26,186 | 59,215 | (9,742) |
| Net cash provided by operating activities | 749,950 | 688,127 | 712,942 |
| Cash flows from investing activities: | | | |
| Decrease (increase) in investments and advances | 1,392 | (16,041) | 40,598 |
| Payment for purchase of available-for-sale securities | (4,605) | (3,904) | (61) |
| Proceeds from sales of available-for-sale securities | 3,689 | 40,682 | 10,082 |
| Capital expenditures | (303,424) | (316,991) | (287,741) |
| Proceeds from sales of property, plant and equipment | 7,416 | 16,438 | 19,157 |
| Acquisitions of finance subsidiaries-receivables | (2,900,128) | (3,265,076) | (3,564,012) |
| Collections of finance subsidiaries-receivables | 1,615,182 | 1,710,833 | 1,993,892 |
| Proceeds from sales of finance subsidiaries-receivables | 693,907 | 760,500 | 820,650 |
| Net cash used in investing activities | (886,571) | (1,073,559) | (967,435) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term debt | 5,997 | (47,959) | (7,910) |
| Proceeds from long-term debt | 624,070 | 775,987 | 885,162 |
| Repayment of long-term debt | (298,718) | (292,063) | (289,107) |
| Cash dividends paid (note 9) | (24,360) | (30,176) | (33,541) |

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| | | | |
|--|-----------------|-----------------|-----------------|
| Increase (decrease) in commercial paper classified as long-term debt | 649 | (2,131) | 280 |
| Payment for purchase of treasury stock, net | | (56,717) | (95,312) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by (used in) financing activities | 307,638 | 346,941 | 459,572 |
| Effect of exchange rate changes on cash and cash equivalents | 20,905 | (23,546) | (28,062) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net change in cash and cash equivalents | 191,922 | (62,037) | 177,017 |
| Cash and cash equivalents at beginning of year | 417,519 | 609,441 | 547,404 |
| | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of year | ¥ 609,441 | ¥ 547,404 | ¥ 724,421 |
| | <u> </u> | <u> </u> | <u> </u> |

See accompanying notes to consolidated financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years ended March 31, 2002, 2003 and 2004

(1) General and Summary of Significant Accounting Policies

(a) 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 31 separate factories, 5 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, India, Indonesia, Malaysia, Pakistan, the Philippines, Taiwan, Thailand, Vietnam, Brazil and Turkey.

Net sales and other operating revenue by category of activity for the year ended March 31, 2004 were derived from: motorcycle business 12.2%, automobile business 80.8%, financial services 3.0%, power products and other businesses 4.0%. Operating income by category of activity for the year ended March 31, 2004 was derived from: motorcycle business 7.1%, automobile business 73.1%, financial services 18.1%, and power products and other businesses 1.7%. The total assets at March 31, 2004 were attributable to: motorcycle business 9.2%, automobile business 44.7%, financial services 45.9%, power products and other businesses 3.0%, and corporate assets (net of company-wide accounts eliminated in consolidation) (2.8%).

Honda sells motorcycles, automobiles and power products in most countries in the world. For the year ended March 31, 2004, 77.0% of net sales and other operating revenue (¥6,283,459 million) was derived from subsidiaries operating outside Japan (2003: ¥5,995,981 million, 2002: ¥5,274,673 million). Net sales and other operating revenue for the year ended March 31, 2004 was geographically broken down based on the location of customers as follows: Japan 20.0%, North America 55.7%, Europe 9.4%, Asia 9.8% and others 5.1%. For the year ended March 31, 2004, 67.4% of operating income (¥404,464 million) was generated from foreign subsidiaries, disregarding the effect of elimination of unrealized profits between domestic operations and foreign operations (2003: ¥519,901 million, 2002: ¥439,192 million). Also, 68.3% of Honda's assets at March 31, 2004 (¥5,688,405 million) was identified with foreign operations (2003: ¥5,190,627 million).

(b) 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.

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

(c) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. In December 2003, the FASB issued FIN 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FIN 46. Honda applied FIN 46R as of March 31, 2004. The implementation of FIN 46R did not have a significant effect on Honda's consolidated financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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, for each of the years in the three-year period ended March 31, 2004 were ¥4,512 million, ¥9,658 million and ¥11,753 million, respectively.

Investments in 20% to 50% owned affiliates in which the Company has the ability to exercise significant influence over their operating and financial policies are accounted for using the equity method.

(d) 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 accounting principles generally accepted in the United States of America. 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.

(e) 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 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 recognized 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

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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 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 March 31, 2003 and 2004 were not significant.

(f) Cash Equivalents

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(g) Inventories

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

(h) Investments in Securities

Honda classifies its debt and equity securities in one of three 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 equity securities classified as trading securities are reported at fair value, with unrealized gains and losses included in earnings. Other debt and 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 March 31, 2003 or 2004, except for retained interests in the sold pools of finance receivables, which are accounted for as trading securities and included in finance receivables. Honda did not hold any held-to-maturity securities at March 31, 2003 or 2004.

Honda periodically reviews the fair value of investment securities. 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.

(i) Goodwill

On April 1, 2002, Honda adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Intangible Assets" and ceased amortizing its goodwill at that time. SFAS No. 142 requires that goodwill be not amortized, but instead be tested for impairment at least annually. Prior to adopting SFAS No. 142, Honda amortized goodwill on a straight-line basis over the expected periods to be benefited, generally five years. The adoption of SFAS No. 142 did not have a material effect on Honda's consolidated financial position and results of operations. Honda completed its transitional impairment test of goodwill effective April 1, 2002 and its annual test effective March 31, 2003 and 2004 as prescribed by SFAS No. 142 and concluded no impairment needed to be recognized. The carrying amount of goodwill at March 31, 2003 and 2004 were ¥15,566 million and ¥17,666 million, respectively.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Net income and basic net income per common share exclusive of goodwill amortization expense recognized under previous accounting standards on an after-tax basis in the three-year period ended March 31, 2004 is as follows:

| | Yen (millions) | | |
|-----------------------------------|-------------------|-----------|-----------|
| | 2002 | 2003 | 2004 |
| Reported net income | ¥ 362,707 | ¥ 426,662 | ¥ 464,338 |
| Add back: Goodwill Amortization | 2,056 | | |
| Adjusted net income | ¥ 364,763 | ¥ 426,662 | ¥ 464,338 |
| | | | |
| | | | |
| | Yen | | |
| | 2002 | 2003 | 2004 |
| Basic net income per common share | | | |
| Reported net income | ¥ 372.23 | ¥ 439.43 | ¥ 486.91 |
| Goodwill amortization | 2.11 | | |
| Adjusted net income | ¥ 374.34 | ¥ 439.43 | ¥ 486.91 |

(j) Depreciation

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

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

AssetLife

| | |
|-------------------------|----------------|
| Buildings | Up to 50 years |
| Machinery and equipment | 2 to 20 years |

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

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which retains the fundamental provisions in SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. Honda adopted the provisions of SFAS No. 144 on April 1, 2002. The adoption of SFAS No. 144 did not have a material effect on Honda's consolidated financial position and results of operations.

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 fair value of the assets. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(l) 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.

(m) Product-Related Expenses

Advertising and sales promotion costs are expensed as incurred. Advertising expenses for each of the years in the three-year period ended March 31, 2004 were ¥213,836 million, ¥234,670 million and ¥239,332 million, respectively. 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, product recalls and service actions outside the general warranties.

(n) 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 year. The weighted average number of common shares outstanding for the years ended March 31, 2002, 2003 and 2004 was 974,408,513, 970,952,677 and 953,638,262, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2002, 2003 or 2004.

(o) Foreign Currency Translation

Foreign currency financial statement amounts are translated into Japanese yen on the basis of the year-end rate for all assets and liabilities and the weighted average rate for the year 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.

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Foreign currency receivables and payables are translated at the applicable current rates on the balance sheet date. All revenue 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.

Foreign currency transaction gains (losses) included in other income (expenses) other for each of the years in the three-year period ended March 31, 2004 are as follows:

| Yen | | |
|------------|-------|----------|
| (millions) | | |
| 2002 | 2003 | 2004 |
| ¥ (46,678) | ¥ 520 | ¥ 13,668 |

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(p) Derivative Financial Instruments

The Company and certain of its subsidiaries have 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 adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133, on April 1, 2001, which requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is immediately recognized in earnings.

The cumulative effect adjustments upon the adoption of SFAS No. 133 and SFAS No. 138, net of the related income tax effect, resulting in a decrease to net income of ¥89 million and a decrease to other comprehensive income of ¥5,998 million. Due to the immateriality of the amount, the cumulative effect adjustment to net income of ¥89 million and the cumulative effect adjustment to other comprehensive income of ¥5,998 million were recognized in other expenses in the consolidated statements of income for the year ended March 31, 2002.

As Honda does not apply hedge accounting subsequent to the adoption of SFAS No.133 and SFAS138, changes in the fair value of its derivative instruments are recognized in earnings in the period of the change. The amount recognized in earnings included in other expenses other during the year ended March 31, 2002 and 2003, excluding the cumulative effect adjustment, was ¥14,039 and ¥19,910 million, respectively, while included in other income other during the year ended March 31, 2004 was ¥122,583 million. 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 ¥806 million gain, ¥12,778 million loss and ¥36,410 million loss in other income (expenses) other during the years ended March 31, 2002, 2003 and 2004, respectively. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries of ¥31,424 million loss, ¥45,988 million loss and ¥38,894 million loss are included in other income (expenses) other during the years ended March 31, 2002, 2003 and 2004. These gains and losses are presented on a net basis.

(q) Shipping and Handling Costs

Shipping and handling costs included in selling, general and administrative expenses for each of the years in the three-year period ended March 31, 2004 are as follows:

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Yen

(millions)

| 2002 | 2003 | 2004 |
|-----------|-----------|-----------|
| ¥ 134,358 | ¥ 144,791 | ¥ 146,698 |

(r) Reclassifications

Certain reclassifications have been made to the prior years consolidated financial statements to conform to the presentation used for the year ended March 31, 2004.

Certain gains and losses on sale and disposal of property, plant and equipment, which were previously recorded in other income (expenses), have been reclassified to selling, general and administrative expenses in the

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

year ended March 31, 2004. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries, which were previously recorded in cost of sales, have been reclassified to and included in other income (expenses) other. As a result of these reclassifications, operating profit for the years ended March 31, 2002 and 2003 increased by ¥21,906 million and ¥35,078 million, respectively.

(2) Finance Subsidiaries-Receivables and Securitizations

Finance subsidiaries-receivables represent finance receivables generated by finance subsidiaries. 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.

Finance subsidiaries-receivables, net, consisted of the following at March 31, 2003 and 2004:

| | Yen | |
|---|------------------|------------------|
| | (millions) | |
| | 2003 | 2004 |
| Direct financing leases | ¥ 1,701,447 | ¥ 1,721,716 |
| Retail | 1,550,787 | 1,822,873 |
| Wholesale | 241,039 | 256,588 |
| Term loans to dealers | 28,001 | 26,764 |
| Total finance receivables | 3,521,274 | 3,827,941 |
| Retained interests in the sold pools of finance receivables | 67,024 | 61,072 |

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| | | |
|--|------------------|------------------|
| | 3,588,298 | 3,889,013 |
| Less: | | |
| Allowance for credit losses | 18,628 | 26,327 |
| Allowance for losses on lease residual values | 22,355 | 26,124 |
| Unearned interest income and fees | 219,754 | 194,604 |
| | <u>3,327,561</u> | <u>3,641,958</u> |
| Finance subsidiaries-receivables, net | 3,327,561 | 3,641,958 |
| Less current portion | 1,097,541 | 1,264,620 |
| | <u>2,230,020</u> | <u>2,377,338</u> |
| Noncurrent finance subsidiaries-receivables, net | ¥ 2,230,020 | ¥ 2,377,338 |

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2004 and thereafter:

| <u>Years ending March 31</u> | <u>Yen (millions)</u> |
|------------------------------|---------------------------|
| 2005 | ¥ 1,326,252 |
| 2006 | 890,996 |
| 2007 | 849,662 |
| 2008 | 566,578 |
| 2009 | 168,545 |
| After five years | 25,908 |
| | <u>2,501,689</u> |
| Total | ¥ 3,827,941 |

Net sales and other operating revenue and cost of sales include finance income and related cost of finance subsidiaries for each of the years in the three-year period ended March 31, 2004 as follows:

| | <u>Yen (millions)</u> | | |
|----------------|---------------------------|-------------|-------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> |
| Finance income | ¥ 209,315 | ¥ 240,995 | ¥ 245,834 |
| Finance cost | 62,444 | 42,507 | 35,796 |

Finance subsidiaries of the Company periodically sell finance receivables. Finance subsidiaries sold retail finance receivables subject to limited recourse provisions during the year ended March 31, 2002, 2003 and 2004 totaling approximately ¥694,149 million, ¥735,047 million and ¥793,261 million, respectively, to investors. Pre-tax net gains on such sales for each of the years in the three-year period ended March 31, 2004, which are included in finance income in the table above, are ¥13,060 million, ¥10,144 million and ¥3,821 million, respectively. Finance subsidiaries sold direct financing lease receivables subject to limited recourse provisions totaling approximately ¥24,791 million in 2002. The sale resulted in a net loss of ¥183 million for 2002, which is included in the gain on sale of receivables in 2002. No direct financing lease receivables were sold in 2003 and 2004.

Finance subsidiaries serviced approximately ¥984,898 million and ¥1,001,891 million of receivables for investors at March 31, 2003 and 2004, respectively.

Retained interests in securitizations were comprised of the following at March 31 2003 and 2004:

| | Yen | |
|---------------------------|-----------------|---------------|
| | (millions) | |
| | 2003 | 2004 |
| Subordinated certificates | ¥ 34,621 | 30,775 |
| Residual interests | 32,403 | 30,297 |
| Total | ¥ 67,024 | 61,072 |

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The changes in retained interest in securitizations for each of the years in the three-year period ended March 31, 2004 are as follows:

| | Yen | | |
|---|------------|-----------|----------|
| | (millions) | | |
| | 2002 | 2003 | 2004 |
| Balance at beginning of year | ¥ 88,898 | ¥ 106,879 | ¥ 67,024 |
| Additions | 39,835 | 40,060 | 41,045 |
| Repurchases | (8,914) | (45,404) | (7,716) |
| Amortization and fair value adjustments | (4,408) | 2,582 | 868 |
| Cash received | (15,729) | (27,317) | (32,140) |
| Foreign exchange translation | 7,197 | (9,776) | (8,009) |
| Balance at end of year | ¥ 106,879 | ¥ 67,024 | ¥ 61,072 |

At March 31, 2004, the significant assumptions used in estimating the retained interest in the sold pools of finance receivables are as follows:

| | Weighted average |
|-----------------------------------|------------------|
| | Assumption |
| Prepayment speed | 1.49% |
| Expected credit losses | 0.34% |
| Residual cash flows discount rate | 9.73% |

The sensitivity of the current fair value to immediate 10% and 20% adverse changes from expected levels for each significant assumption above mentioned were immaterial.

Key economic assumptions used in initially estimating the fair values at the date of the securitizations during each of the years in the three-year period ended March 31, 2004 are as follows:

| 2002 | 2003 | 2004 |
|------|------|------|
|------|------|------|

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| | | | |
|-----------------------------------|-----------------|-----------------|-----------------|
| Weighted average life (years) | 2.40 to 3.92 | 3.84 to 4.24 | 3.45 to 4.50 |
| Prepayment speed | 0.75% to 1.30% | 1.00% to 1.50% | 1.00% to 1.50% |
| Expected credit losses | 0.20% to 0.35% | 0.21% to 0.35% | 0.22% to 0.81% |
| Residual cash flows discount rate | 5.96% to 12.00% | 6.67% to 12.00% | 5.30% to 12.00% |

The outstanding balance of securitized financial assets at March 31, 2004 is summarized as follows:

| | Yen (millions) |
|-------------------------------|--------------------|
| | 2004 |
| Receivables sold: | |
| Retail | ¥ 994,258 |
| Direct financing leases | 7,633 |
| Total receivables sold | ¥ 1,001,891 |

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(3) Inventories**

Inventories at March 31, 2003 and 2004 are summarized as follows:

| | Yen | |
|-----------------|------------------|------------------|
| | (millions) | |
| | 2003 | 2004 |
| Finished goods | ¥ 504,548 | ¥ 521,146 |
| Work in process | 23,728 | 22,237 |
| Raw materials | 223,704 | 222,050 |
| | <u>¥ 751,980</u> | <u>¥ 765,433</u> |

(4) Investments and Advances-Affiliates

Certain combined financial information in respect of affiliates accounted for on the equity method at March 31, 2003 and 2004, and for each of the years in the three-year period ended March 31, 2004 is shown below:

| | Yen | |
|---|------------------|------------------|
| | (millions) | |
| | 2003 | 2004 |
| Current assets | ¥ 693,288 | ¥ 713,957 |
| Other assets, principally property, plant and equipment | 739,974 | 796,967 |
| | <u>1,433,262</u> | <u>1,510,924</u> |
| Current liabilities | 543,836 | 548,466 |
| Other liabilities | 136,951 | 146,039 |
| | <u>680,787</u> | <u>694,505</u> |
| Net assets | ¥ 752,475 | ¥ 816,419 |

| | Yen | | |
|--|-------------|-------------|-------------|
| | (millions) | | |
| | 2002 | 2003 | 2004 |
| Net sales | ¥ 2,299,994 | ¥ 2,527,293 | ¥ 2,646,166 |
| Net income | 103,632 | 153,422 | 168,905 |
| Cash dividends received by Honda during the year | 11,580 | 26,741 | 46,780 |

Sales to affiliates by the Company and its subsidiaries and sales among such affiliates are made on the same basis as sales to unaffiliated parties.

Honda's equity in undistributed income of affiliates at March 31, 2003 and 2004 included in retained earnings was ¥166,907 million and ¥194,417 million, respectively.

Trade receivables and trade payables include the following balances with affiliates at March 31, 2003 and 2004, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2004:

| | Yen | |
|------------------------|------------|----------|
| | (millions) | |
| | 2003 | 2004 |
| Trade receivables from | ¥ 24,085 | ¥ 26,487 |
| Trade payables to | 90,035 | 106,831 |

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

| | Yen | | |
|----------------|------------|-----------|-----------|
| | (millions) | | |
| | 2002 | 2003 | 2004 |
| Purchases from | ¥ 536,404 | ¥ 555,257 | ¥ 551,757 |
| Sales to | 131,389 | 107,985 | 122,241 |

(5) Investments and Advances-Other

Investments and advances-other at March 31, 2003 and 2004 consisted of the following:

| | Yen | |
|--------------------------------|------------|-----------|
| | (millions) | |
| | 2003 | 2004 |
| Marketable equity securities | ¥ 66,841 | ¥ 98,300 |
| Nonmarketable preferred stocks | 16,200 | 16,200 |
| Convertible preferred stocks | 4,291 | 18,739 |
| Convertible notes | 6,010 | 49,759 |
| Guaranty deposits | 32,162 | 31,040 |
| Life insurance contracts | 4,385 | 4,181 |
| Advances | 1,786 | 4,064 |
| Other | 8,543 | 20,541 |
| | ¥ 140,218 | ¥ 242,824 |

Certain information with respect to available-for-sale securities, all of which are marketable equity securities at March 31, 2003 and 2004, is summarized below:

Yen
(millions)

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| | 2003 | 2004 |
|-------------------------|-------------|-------------|
| Cost | ¥ 34,063 | ¥ 30,928 |
| Fair value | 66,841 | 98,300 |
| Gross unrealized gains | 34,207 | 67,694 |
| Gross unrealized losses | 1,429 | 322 |

Realized gains and losses from available-for-sale securities included in other expenses (income) other for each of the years in the three-year period ended March 31, 2004, were, ¥11,356 million net losses, ¥21,797 million net losses and ¥3,468 million net gains, respectively.

Gross unrealized losses on available-for-sale securities and fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2004 were as follows:

| | Yen | |
|---------------------|-----------------------|------------------------------|
| | (millions) | |
| | 2004 | |
| | Fair value | Unrealized losses |
| Less than 12 months | ¥ 155 | ¥ (31) |
| 12 months or longer | 926 | (291) |
| | 1,081 | (322) |

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(6) Short-term and Long-term Debt**

Short-term debt at March 31, 2003 and 2004 is as follows:

| | Yen | |
|-----------------------|------------------|------------------|
| | (millions) | |
| | 2003 | 2004 |
| Short-term bank loans | ¥ 220,499 | ¥ 258,556 |
| Medium-term notes | 325,737 | 85,979 |
| Commercial paper | 331,718 | 389,736 |
| | <u>¥ 877,954</u> | <u>¥ 734,271</u> |

The weighted average interest rates on short-term debt outstanding at March 31, 2003 and 2004 were 1.99% and 1.58%, respectively.

Long-term debt at March 31, 2003 and 2004 is as follows:

| | Yen | |
|-----------------------------------|------------|---------|
| | (millions) | |
| | 2003 | 2004 |
| Honda Motor Co., Ltd.: | | |
| Loans, maturing through 2031: | | |
| Unsecured, principally from banks | ¥ 278 | ¥ 253 |
| | 278 | 253 |
| Subsidiaries: | | |
| Commercial paper | 210,350 | 184,958 |
| Loans, maturing through 2024: | | |
| Secured, principally from banks | 22,059 | 20,571 |

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| | | |
|--|--------------------|--------------------|
| Unsecured, principally from banks | 59,597 | 71,603 |
| 1.31% Japanese yen unsecured bond due 2005 | 30,000 | 30,000 |
| 0.69% Japanese yen unsecured bond due 2006 | 60,000 | 60,000 |
| 0.81% Japanese yen unsecured bond due 2006 | 1,000 | 1,000 |
| 0.47% Japanese yen unsecured bond due 2007 | 50,000 | 50,000 |
| 0.79% Japanese yen unsecured bond due 2008 | | 30,000 |
| Medium-term notes, maturing through 2010 | 1,011,367 | 1,433,620 |
| Less unamortized discount, net | 127 | 268 |
| | <u>1,444,246</u> | <u>1,881,484</u> |
| Total long-term debt | 1,444,524 | 1,881,737 |
| Less current portion | 304,342 | 487,125 |
| | <u>¥ 1,140,182</u> | <u>¥ 1,394,612</u> |

The loans maturing through 2031 and through 2024 are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.70% to 32.13% per annum at March 31, 2004 and weighted average interest rate on total outstanding long-term debt at March 31, 2003 and 2004 is 3.23% and 2.55%, respectively. Property, plant and equipment with a net book value of approximately ¥12,240 million and ¥11,425 million at March 31, 2003 and 2004, respectively, were subject to specific mortgages securing indebtedness.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

At March 31, 2003 and 2004, ¥210,350 million and ¥ 184,958 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. The weighted average interest rate on commercial paper at March 31, 2003 and 2004 was approximately 1.88% and 1.04%, respectively.

Medium-term notes are unsecured, and their interest rates range from 0.59% to 8.95% at March 31, 2003 and from 0.53% to 8.95% at March 31, 2004.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2004 and thereafter:

| Years ending March 31: | Yen (millions) |
|-------------------------------|---------------------------|
| 2005 | ¥ 487,125 |
| 2006 | 657,790 |
| 2007 | 352,413 |
| 2008 | 167,474 |
| 2009 | 209,668 |
| After five years | 7,267 |
| | 1,394,612 |
| Total | ¥ 1,881,737 |

Certain of the Company's subsidiaries have entered into currency swap and interest rate swap agreements for hedging currency and interest rate exposures resulting from the issuance of long-term debt. Fair value of contracts related to currency swaps and interest rate swaps are included in other assets/liabilities and/or other current assets/liabilities in the consolidated balance sheets, as appropriate (see note 13). Unless a right of setoff exists, the offsetting of assets and liabilities is not made in the consolidated balance sheets.

At March 31, 2004, Honda had unused line of credit facilities amounting to ¥729,857 million, of which ¥344,023 million related to commercial paper programs and ¥385,834 million related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

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At March 31, 2004, Honda also had committed lines of credit amounting to ¥692,467 million, none of which was in use. The committed lines are used to back up the commercial paper programs. Borrowings under those committed lines of credit generally are available at the prime interest rate.

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Certain debenture trust agreements provide that Honda must give additional security upon request of the trustee.

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(7) Other Liabilities**

Other liabilities at March 31, 2003 and 2004 are summarized as follows:

| | Yen (millions) | |
|--|-------------------|------------------|
| | 2003 | 2004 |
| Allowance for product warranty, net of current portion | ¥ 130,307 | ¥ 151,286 |
| Minority interest | 52,546 | 59,185 |
| Additional minimum pension liabilities (note 10) | 555,206 | 419,747 |
| Deferred income taxes | 8,740 | 44,456 |
| Other | 42,200 | 50,263 |
| | <u>¥ 788,999</u> | <u>¥ 724,937</u> |

(8) Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2004 were allocated as follows:

| | Yen (millions) | | |
|--|-------------------|------------------|------------------|
| | 2002 | 2003 | 2004 |
| Income | ¥ 231,150 | ¥ 245,065 | ¥ 252,740 |
| Stockholders' equity Accumulated other comprehensive income (loss) (note 12) | (80,772) | (85,643) | 43,620 |
| | <u>¥ 150,378</u> | <u>¥ 159,422</u> | <u>¥ 296,360</u> |

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Income before income taxes and equity in income of affiliates by domestic and foreign source and income tax expense (benefit) for each of the years in the three-year period ended March 31, 2004 consisted of the following:

| | | Yen | | | |
|--------------|--|------------------|------------------|------------------|------------------|
| | | (millions) | | | |
| | | Income before | Income taxes | | |
| | | income taxes | Current | Deferred | Total |
| 2002: | | | | | |
| Japanese | | ¥ 161,330 | ¥ 92,672 | ¥ (19,970) | ¥ 72,702 |
| Foreign | | 390,012 | 130,392 | 28,056 | 158,448 |
| | | <u>¥ 551,342</u> | <u>¥ 223,064</u> | <u>¥ 8,086</u> | <u>¥ 231,150</u> |
| 2003: | | | | | |
| Japanese | | ¥ 176,515 | ¥ 114,809 | ¥ (33,664) | ¥ 81,145 |
| Foreign | | 433,240 | 61,823 | 102,097 | 163,920 |
| | | <u>¥ 609,755</u> | <u>¥ 176,632</u> | <u>¥ 68,433</u> | <u>¥ 245,065</u> |
| 2004: | | | | | |
| Japanese | | ¥ 204,695 | ¥ 106,672 | ¥ (16,448) | ¥ 90,224 |
| Foreign | | 437,232 | 32,646 | 129,870 | 162,516 |
| | | <u>¥ 641,927</u> | <u>¥ 139,318</u> | <u>¥ 113,422</u> | <u>¥ 252,740</u> |

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The significant components of deferred income tax expense for each of the years in the three-year period ended March 31, 2004 are as follows:

| | Yen | | |
|--|----------------|-----------------|------------------|
| | (millions) | | |
| | 2002 | 2003 | 2004 |
| Deferred tax expense (exclusive of the effects of the other components listed below) | ¥ 8,375 | ¥ 73,783 | ¥ 120,097 |
| Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates | | (2,298) | 3,491 |
| Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets | (289) | (3,052) | (10,166) |
| | <u>¥ 8,086</u> | <u>¥ 68,433</u> | <u>¥ 113,422</u> |

The Company is subject to a national corporate tax of 30%, an inhabitant tax of between 5.19% and 6.21% and a deductible business tax between 9.6% and 10.08%, which in the aggregate resulted in a statutory income tax rate of approximately 41% for each of the years in the three-year period ended March 31, 2004. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, which reduce standard business tax rates from 9.60% to 7.68% as well as additionally levying business tax based on corporate size. It will be effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate will be lowered to approximately 40% for deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2004. The foreign subsidiaries are subject to taxes based on income at rates ranging from 25% to 41%.

The effective tax rate for Honda for each of the years in the three-year period ended March 31, 2004 differs from the Japanese statutory income tax rate for the following reasons:

| | 2002 | 2003 | 2004 |
|--|--------------|--------------|--------------|
| Statutory income tax rate | 41.0% | 41.0% | 41.0% |
| Valuation allowance provided for current year operating losses of subsidiaries | 2.9 | 0.8 | 2.6 |
| Difference in statutory tax rates of foreign Subsidiaries | (1.0) | (2.1) | (1.4) |
| Reversal of valuation allowance due to utilization of operating loss carryforwards | (0.2) | (0.6) | (1.6) |
| Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates | | (0.4) | 0.5 |
| Other | (0.8) | 1.5 | (1.7) |
| Effective tax rate | <u>41.9%</u> | <u>40.2%</u> | <u>39.4%</u> |



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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2004 are presented below:

| | Yen | |
|---|------------|-----------|
| | (millions) | |
| | 2003 | 2004 |
| Deferred tax assets: | | |
| Inventory valuation | ¥ 63,142 | ¥ 24,051 |
| Allowance for dealers and customers | 109,500 | 130,514 |
| Foreign tax credit | 32,735 | 10,166 |
| Operating loss carryforwards | 73,839 | 73,772 |
| Minimum pension liabilities adjustment | 221,481 | 167,224 |
| Other accrued pension liabilities | 78,544 | 89,263 |
| Other | 129,502 | 141,723 |
| Total gross deferred tax assets | 708,743 | 636,713 |
| Less valuation allowance | 65,040 | 71,726 |
| Net deferred tax assets | 643,703 | 564,987 |
| Deferred tax liabilities: | | |
| Inventory valuation | (12,191) | (13,658) |
| Depreciation and amortization, excluding lease transactions | (35,590) | (50,100) |
| Lease transactions | (231,557) | (268,461) |
| Undistributed earnings of subsidiaries and affiliates | (43,493) | (22,737) |
| Net unrealized gains on marketable equity Securities | (13,111) | (26,934) |
| Other | (21,617) | (53,995) |
| Total gross deferred tax liabilities | (357,559) | (435,885) |
| Net deferred tax asset | ¥ 286,144 | ¥ 129,102 |

Deferred income taxes at March 31, 2003 and 2004 are reflected in the consolidated balance sheets under the following captions:

Yen
(millions)

| | <u>2003</u> | <u>2004</u> |
|--------------------------------------|-------------------|-------------------|
| Current assets-Deferred income taxes | ¥ 202,376 | ¥ 222,179 |
| Other assets | 224,105 | 162,323 |
| Other current liabilities | (131,597) | (210,944) |
| Other liabilities | (8,740) | (44,456) |
| | <u> </u> | <u> </u> |
| Net deferred tax asset | ¥ 286,144 | ¥ 129,102 |
| | <u> </u> | <u> </u> |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that Honda will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2003 and 2004.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The net change in the total valuation allowance for the years ended March 31, 2002, 2003 and 2004 was an increase of ¥14,904 million, ¥3,911 million and ¥6,686 million, respectively. The valuation allowance primarily relates to valuation allowance for deferred tax assets associated with net operating loss carryforwards incurred by certain foreign subsidiaries. The Company has performed an analysis for each of these subsidiaries to assess their ability to realize such deferred tax assets, taking into consideration projections for future taxable income, historical performance, tax planning strategies, market conditions and other factors, as appropriate. Considering these factors, management believes it is more likely than not that these subsidiaries will realize their respective deferred tax assets (principally net operating loss carry forwards), net of existing valuation allowance within the foreseeable future.

At March 31, 2004, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of ¥188,338 million, which are available to offset future taxable income, if any. Periods available to offset future taxable income vary in each tax jurisdiction and range from one year to an indefinite period as follows:

| | Yen |
|--------------------|------------------|
| | (millions) |
| Within 1 year | ¥ 900 |
| 1 to 5 years | 20,167 |
| 5 to 15 years | 25,588 |
| Indefinite periods | 141,683 |
| | <u>¥ 188,338</u> |

At March 31, 2003 and 2004, Honda did not recognize deferred tax liabilities of ¥16,710 million and ¥31,193 million, respectively, for certain portions of the undistributed earnings of the Company's foreign subsidiaries because such portions were considered permanently reinvested. At March 31, 2003 and 2004, the undistributed earnings not subject to deferred tax liabilities were ¥725,263 million and ¥1,557,268 million, respectively.

(9) Dividends and Legal Reserves

The Japanese Commercial Code provides that earnings in an amount equal to at least 10% of appropriations of retained earnings that are paid in cash shall be appropriated as a legal reserve until an aggregated amount of capital surplus and the legal reserve equals 25% of stated capital. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends and appropriations to the legal reserves charged to retained earnings during the years in the three-year period ended March 31, 2004 represent dividends paid out during those years and the related appropriations to the legal reserves. Cash dividends per share for each of the years in the three-year period ended March 31, 2004 were ¥25, ¥31 and ¥35, respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥23 per share aggregating ¥21,641 million to be proposed in June 2004.

(10) Pension and Other Postretirement Benefits

The Company and its subsidiaries have various pension plans covering substantially all of their employees in Japan and in certain foreign countries. Benefits under the plans are primarily based on the combination of years of service and compensation. The funding policy is to make periodic contributions as required by applicable regulations. Plan assets consist primarily of listed equity securities and bonds.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Retirement benefits for directors, excluding certain benefits, are provided in accordance with management policy. There are occasions where officers other than directors receive special lump-sum payments at retirement. Such payments are charged to income as paid since amounts vary with circumstances and it is impractical to compute a liability for future payments.

In January 2003, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 03-2 Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities (EITF 03-2). EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees Pension Fund (EPF) plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the separation process of the substitutional portion from the entire EPF plan (which includes a corporation portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets. The separation process is considered the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. Honda EPF, including certain domestic subsidiaries, has decided to transfer the substitutional portion of its EPF to the government and received government approval of exemption from the obligation for benefits related to future employee service with respect to the substitutional portion of its EPF in April 2004 and is proceeding with the remaining steps to effectuate the transfer. The aggregate effect of this separation will be determined based on the Company's total pension benefits obligation as of the date the transfer is completed and the amount of plan assets required to be transferred. The Company has not yet determined the effect of the adoption on Honda's consolidated financial position and results of operations as the fair value of plan assets and the pension benefit obligation to be transferred, determined pursuant to a government formula, will not be determined until the transfer of such assets and obligation is completed.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Reconciliations of beginning and ending balances of the pension benefit obligations and the fair value of the plan assets are as follows:

| | Yen (millions) | | | |
|---|--------------------|--------------------|------------------|------------------|
| | Japanese plans | | Foreign plans | |
| | 2003 | 2004 | 2003 | 2004 |
| Change in benefit obligations: | | | | |
| Benefit obligations at beginning of year | ¥ (1,365,694) | ¥ (1,537,055) | ¥ (161,172) | ¥ (185,645) |
| Service cost | (44,733) | (49,309) | (12,663) | (13,022) |
| Interest cost | (34,142) | (30,741) | (10,944) | (12,164) |
| Plan participants' contributions | (6,669) | (7,487) | (684) | (811) |
| Actuarial gain (loss) | (136,938) | (7,626) | (14,128) | (19,748) |
| Benefits paid | 29,205 | 29,339 | 1,523 | 1,814 |
| Amendment | 21,916 | (15,523) | (30) | 54 |
| Foreign exchange translation | | | 12,453 | 17,129 |
| Benefit obligations at end of year | (1,537,055) | (1,618,402) | (185,645) | (212,393) |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 692,926 | 625,240 | 146,063 | 140,482 |
| Actual return on plan assets | (89,316) | 132,336 | (19,816) | 37,688 |
| Employer contributions | 44,166 | 58,819 | 26,447 | 34,169 |
| Plan participants' contributions | 6,669 | 7,487 | 684 | 811 |
| Benefits paid | (29,205) | (29,339) | (1,523) | (1,814) |
| Foreign exchange translation | | | (11,373) | (16,487) |
| Fair value of plan assets at end of year | 625,240 | 794,543 | 140,482 | 194,849 |
| Funded status | (911,815) | (823,859) | (45,163) | (17,544) |
| Unrecognized actuarial loss | 801,885 | 662,232 | 60,725 | 49,317 |
| Unrecognized net transition obligations | 7,796 | 6,761 | 454 | 374 |
| Unrecognized prior service cost (benefit) | (89,438) | (68,002) | 4,824 | 3,995 |
| Net amount recognized | (191,572) | (222,868) | 20,840 | 36,142 |
| Adjustments to recognize additional minimum liabilities (note 7): | | | | |
| Intangible assets | | | | (1,056) |
| Amount included in accumulated other Comprehensive income (loss) | (549,236) | (410,570) | (5,970) | (8,121) |
| Prepaid (accrued) pension cost recognized in the consolidated balance sheets | ¥ (740,808) | ¥ (633,438) | ¥ 14,870 | ¥ 26,965 |

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| | _____ | _____ | _____ | _____ |
|--|---------------|---------------|------------|------------|
| Pension plans with accumulated benefit obligations in excess of plan assets: | | | | |
| Projected benefit obligations | ¥ (1,537,055) | ¥ (1,613,967) | ¥ (72,844) | ¥ (87,498) |
| Accumulated benefit obligations | (1,366,048) | (1,424,689) | (56,673) | (67,494) |
| Fair value of plan assets | 625,240 | 790,951 | 42,723 | 63,984 |
| | _____ | _____ | _____ | _____ |

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Pension expense for each of the years in the three-year period ended March 31, 2004 included the following:

| | Yen (millions) | | |
|--|-------------------|-----------------|-----------------|
| | 2002 | 2003 | 2004 |
| <i>Japanese plans:</i> | | | |
| Service cost-benefits earned during the year | ¥ 39,506 | ¥ 44,733 | ¥ 49,309 |
| Interest cost on projected benefit obligations | 35,240 | 34,142 | 30,741 |
| Expected return on plan assets | (30,083) | (31,711) | (32,041) |
| Net amortization and deferral | 13,349 | 23,223 | 38,058 |
| | <u>¥ 58,012</u> | <u>¥ 70,387</u> | <u>¥ 86,067</u> |
| <i>Foreign plans:</i> | | | |
| Service cost-benefits earned during the year | ¥ 10,434 | ¥ 12,663 | ¥ 13,022 |
| Interest cost on projected benefit obligations | 9,149 | 10,944 | 12,164 |
| Expected return on plan assets | (9,739) | (9,593) | (12,947) |
| Net amortization and deferral | (978) | (1,781) | 2,069 |
| | <u>¥ 8,866</u> | <u>¥ 12,233</u> | <u>¥ 14,308</u> |

Weighted-average assumptions used to determine benefit obligation at March 31, 2003 and 2004 were as follows:

| | 2003 | 2004 |
|-------------------------|----------|----------|
| <i>Japanese plans:</i> | | |
| Discount rate | 2.0% | 2.0% |
| Rate of salary increase | 2.3% | 2.3% |
| <i>Foreign plans:</i> | | |
| Discount rate | 5.5~7.0% | 5.8~6.8% |
| Rate of salary increase | 4.0~6.7% | 4.3~6.7% |

Weighted-average assumptions used to determine net periodic benefit cost for each of the years in the three-year period ended March 31, 2004 were as follows:

| | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|-----------------------------------|-------------|-------------|-------------|
| <i>Japanese plans:</i> | | | |
| Discount rate | 3.0% | 2.5% | 2.0% |
| Rate of salary increase | 2.8% | 2.5% | 2.3% |
| Expected long-term rate of return | 4.0% | 4.0% | 4.0% |
| <i>Foreign plans:</i> | | | |
| Discount rate | 5.5~8.0% | 5.5~7.5% | 5.5~7.0% |
| Rate of salary increase | 4.0~6.0% | 4.0~6.0% | 4.0~6.7% |
| Expected long-term rate of return | 6.5~9.0% | 6.5~9.0% | 6.8~8.5% |

Honda determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. Honda considers the current expectations for future returns and the actual historical returns of each plan asset category.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)***Measurement date*

The Company and its domestic subsidiaries use a March 31 measurement date for their plans.

Plan Assets

Honda's domestic pension plan weighted-average asset allocations at March 31, 2003 and 2004, by asset category are as follows:

| | 2003 | 2004 |
|------------------------|-------------|-------------|
| | — | — |
| <i>Japanese plans:</i> | | |
| Equity securities | 45% | 38% |
| Debt securities | 43% | 26% |
| Other | 12% | 36% |
| | — | — |
| | 100% | 100% |
| | — | — |

The Company's investment policies for the domestic pension benefit are designed to maximize total returns are available to provide future payments of pension benefits to eligible participants under accepted risks. Honda sets target assets allocations for the individual asset categories based on the estimated returns and risks in the long future. Plan assets are invested in individual equity and debt securities using the target assets allocation.

Obligations

The accumulated benefit obligation for all domestic defined benefit plans at March 31, 2003 and 2004 were ¥1,366,048 million and ¥1,427,769 million, respectively.

Cash flows

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Honda expects to contribute ¥41,912 million to its domestic pension plan in the year ending March 31, 2005.

Certain of the Company's subsidiaries in North America provide certain health care and life insurance benefits to retired employees. Such benefits have no material effect on Honda's financial position and results of operations.

(11) Supplemental Disclosures of Cash Flow Information

| | Yen | | |
|--------------------------------|------------|-----------|----------|
| | (millions) | | |
| | 2002 | 2003 | 2004 |
| Cash paid during the year for: | | | |
| Interest | ¥ 105,614 | ¥ 100,368 | ¥ 91,207 |
| Income taxes | 200,453 | 173,697 | 203,029 |

During the year ended March 31, 2004, the Company reissued its treasury stocks at fair value of ¥603 million to the minority shareholder of a subsidiary, upon which the Company merged with the subsidiary.

(12) Comprehensive Income

Comprehensive income consists of net income, change in adjustments from foreign currency translation, change in net unrealized gains on marketable equity securities, and change in minimum pension liabilities adjustment, and is included in the consolidated statements of stockholders' equity.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Changes in accumulated other comprehensive income (loss) for each of the years in the three-year period ended March 31, 2004 are as follows:

| | Yen | | |
|---|-------------|-------------|-------------|
| | (millions) | | |
| | 2002 | 2003 | 2004 |
| Adjustments from foreign currency translation: | | | |
| Balance at beginning of year | ¥ (419,482) | ¥ (300,081) | ¥ (469,472) |
| Adjustments for the year | 119,401 | (169,391) | (195,941) |
| Balance at end of year | (300,081) | (469,472) | (665,413) |
| Net unrealized gains on marketable equity securities: | | | |
| Balance at beginning of year | 16,637 | 8,730 | 14,820 |
| Realized (gain) loss on marketable equity securities | 2,975 | 7,137 | |
| Increase (decrease) in net unrealized gains on marketable equity securities | (10,882) | (1,047) | 21,246 |
| Balance at end of year | 8,730 | 14,820 | 36,066 |
| Minimum pension liabilities adjustment: | | | |
| Balance at beginning of year | (81,682) | (187,824) | (308,513) |
| Adjustments for the year | (106,142) | (120,689) | 83,287 |
| Balance at end of year | (187,824) | (308,513) | (225,226) |
| Total accumulated other comprehensive income (loss): | | | |
| Balance at beginning of year | (484,527) | (479,175) | (763,165) |
| Adjustments for the year | 5,352 | (283,990) | (91,408) |
| Balance at end of year | ¥ (479,175) | ¥ (763,165) | ¥ (854,573) |

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments are as follows:

| | Yen (millions) | | |
|--|----------------------|--|----------------------|
| | Before-tax amount | Tax (expense) or benefit (note 8) | Net-of-tax amount |
| 2002: | | | |
| Adjustments from foreign currency translation | ¥ 118,341 | ¥ 1,060 | ¥ 119,401 |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | (18,994) | 8,112 | (10,882) |
| Reclassification adjustments for losses realized in net income | 5,134 | (2,159) | 2,975 |
| Net unrealized gains (losses) | (13,860) | 5,953 | (7,907) |
| Minimum pension liabilities adjustment | (179,901) | 73,759 | (106,142) |
| Other comprehensive income (loss) | ¥ (75,420) | ¥ 80,772 | ¥ 5,352 |
| 2003: | | | |
| Adjustments from foreign currency translation | ¥ (179,332) | ¥ 9,941 | ¥ (169,391) |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | (2,002) | 955 | (1,047) |
| Reclassification adjustments for losses realized in net income | 12,135 | (4,998) | 7,137 |
| Net unrealized gains (losses) | 10,133 | (4,043) | 6,090 |
| Minimum pension liabilities adjustment | (200,434) | 79,745 | (120,689) |
| Other comprehensive income (loss) | ¥ (369,633) | ¥ 85,643 | ¥ (283,990) |
| 2004: | | | |
| Adjustments from foreign currency translation | ¥ (219,372) | ¥ 23,431 | ¥ (195,941) |
| Unrealized gains (losses) on marketable equity securities: | | | |
| Unrealized holding gains (losses) arising during the year | 35,069 | (13,823) | 21,246 |
| Reclassification adjustments for losses realized in net income | | | |
| Net unrealized gains (losses) | 35,069 | (13,823) | 21,246 |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Minimum pension liabilities adjustment | <u>136,515</u> | <u>(53,228)</u> | <u>83,287</u> |
| Other comprehensive income (loss) | <u>¥ (47,788)</u> | <u>¥ (43,620)</u> | <u>¥ (91,408)</u> |

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(13) Fair Value of Financial Instruments**

The estimated fair values of significant financial instruments at March 31, 2003 and 2004 are as follows:

| | Yen | | | |
|---|--------------------|-------------------------|--------------------|-------------------------|
| | (millions) | | | |
| | 2003 | | 2004 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Finance subsidiaries - receivables (a) | ¥ 1,835,085 | ¥ 1,868,749 | ¥ 2,112,139 | ¥ 2,141,746 |
| Investments and advances - marketable equity securities | 66,841 | 66,841 | 98,300 | 98,300 |
| Debt | (2,322,478) | (2,329,535) | (2,616,008) | (2,624,657) |
| Foreign exchange instruments (b) | | | | |
| Asset position | ¥ 9,598 | ¥ 9,598 | ¥ 43,847 | ¥ 43,847 |
| Liability position | (13,523) | (13,523) | (2,062) | (2,062) |
| Net | ¥ (3,925) | ¥ (3,925) | ¥ 41,785 | ¥ 41,785 |
| Interest rate instruments (c) | | | | |
| Asset position | ¥ 572 | ¥ 572 | ¥ 166 | ¥ 166 |
| Liability position | (43,498) | (43,498) | (23,149) | (23,149) |
| Net | ¥ (42,926) | ¥ (42,926) | ¥ (22,983) | ¥ (22,983) |

(a) The carrying amounts of Finance subsidiaries-receivables at March 31, 2003 and 2004 in the table exclude ¥1,492,476 million and ¥1,529,819 million of direct financing leases, net, classified as finance subsidiaries-receivables in the consolidated balance sheets, respectively.

(b) The fair values of foreign currency forward contracts, foreign currency option contracts and foreign currency swap agreements are included in other assets and other current assets/liabilities in the consolidated balance sheets as follows (see note 6):

| | Yen | |
|--|------------|------|
| | (millions) | |
| | 2003 | 2004 |

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| | | |
|---------------------------|-----------|----------|
| Other current assets | ¥ 4,025 | ¥ 9,761 |
| Other assets | 5,573 | 34,086 |
| Other current liabilities | (13,523) | (2,062) |
| | ¥ (3,925) | ¥ 41,785 |

- (c) 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 (see note 6):

| | Yen | |
|---------------------------|------------|------------|
| | (millions) | |
| | 2003 | 2004 |
| Other current assets | ¥ | ¥ 166 |
| Other assets | 572 | |
| Other current liabilities | (43,344) | (23,048) |
| Other liabilities | (154) | (101) |
| | ¥ (42,926) | ¥ (22,983) |

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

The estimated fair value amounts 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 judgment and, therefore, cannot be determined with precision. The effect of using different assumptions and/or estimation methodologies may be significant to the estimated fair value amounts.

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

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.

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.

(14) Risk Management Activities and Derivative Financial Instruments

The Company and certain of its subsidiaries are parties to derivative financial instruments in the normal course of business to reduce their 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.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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 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 March 31, 2003 were ¥542,665 million, ¥329,760 million and ¥302,741 million, respectively and totaled ¥1,175,166 million. At March 31, 2004, foreign currency forward contracts, foreign currency option contracts and currency swap agreements outstanding were ¥562,698 million, ¥121,143 million and ¥402,256 million, respectively and totaled ¥1,086,097 million.

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 March 31, 2003 and 2004, the notional principal amounts of interest rate swap agreements were ¥2,287,736 million and ¥2,556,179 million, respectively.

(15) Commitments and Contingent Liabilities

At March 31, 2004, Honda had commitments for purchases of property, plant and equipment of approximately ¥29,707 million.

Honda has entered into various guarantee and indemnification agreements. At March 31, 2003 and 2004, Honda has guaranteed approximately ¥88,193 million and ¥77,426 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 were approximately ¥88,193 million and ¥77,426 million, respectively, at March 31, 2003 and 2004. As of March 31, 2004, 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.

The changes in provisions for those product warranties for each of the years in the two-year period ended March 31, 2004 are as follow:

| | Yen | |
|--|------------------|------------------|
| | (millions) | |
| | 2003 | 2004 |
| Balance at beginning of year | ¥ 196,011 | ¥ 239,798 |
| Warranty claims paid during the period | (89,757) | (112,810) |
| Liabilities accrued for warranties issued during the period | 137,390 | 161,406 |
| Changes in liabilities for pre-existing warranties during the period | 4,579 | 2,407 |
| Foreign currency translation | (8,425) | (12,648) |
| | <u>¥ 239,798</u> | <u>¥ 278,153</u> |

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| | Yen (millions) | | | Yen |
|----------------------------|---|---------------------|---------------|---|
| | Net sales and other operating revenue | Operating Income | Net income | Basic net income per common share |
| Year ended March 31, 2003: | | | | |
| First quarter | ¥ 1,936,836 | ¥ 184,213 | ¥ 107,598 | ¥ 110.42 |
| Second quarter | 1,916,775 | 160,772 | 87,181 | 89.54 |
| Third quarter | 1,989,239 | 169,428 | 115,167 | 118.63 |
| Fourth quarter | 2,128,649 | 210,114 | 116,716 | 120.86 |
| | 7,971,499 | 724,527 | 426,662 | 439.43 |
| Year ended March 31, 2004: | | | | |
| First quarter | ¥ 2,008,228 | ¥ 159,465 | ¥ 101,819 | ¥ 106.02 |
| Second quarter | 2,017,203 | 158,431 | 137,359 | 143.33 |
| Third quarter | 1,992,245 | 169,328 | 151,050 | 158.66 |
| Fourth quarter | 2,144,924 | 112,920 | 74,110 | 78.47 |
| | 8,162,600 | 600,144 | 464,338 | 486.91 |

* All quarterly financial data is unaudited and has not been reviewed by its independent registered public accounting firm.

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Schedule II

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Valuation and Qualifying Accounts

Years ended March 31, 2002, 2003 and 2004

(In millions of yen)

| | Balance at beginning of period | Additions Charged to costs and expenses | Deductions Bad debts written off | Net increase (decrease) in unearned income | Trans- lation dif- ference | Balance at end of period |
|---|--------------------------------------|---|---|---|-------------------------------------|-----------------------------------|
| March 31, 2002: | | | | | | |
| Trade receivable | | | | | | |
| Allowance for doubtful accounts | ¥ 7,899 | ¥ 2,794 | ¥ 2,505 | ¥ | ¥ 474 | ¥ 8,662 |
| Finance subsidiaries-receivables | | | | | | |
| Allowance for credit losses | ¥ 8,296 | ¥ 14,123 | ¥ 10,232 | ¥ | ¥ 778 | ¥ 12,965 |
| Allowance for losses on lease residual values | 8,563 | 8,016 | 4,893 | | 874 | 12,560 |
| Unearned interest income and fees | 124,351 | | | 49,038 | 3,504 | 176,893 |
| | ¥ 141,210 | ¥ 22,139 | ¥ 15,125 | ¥ 49,038 | ¥ 5,156 | ¥ 202,418 |
| March 31, 2003: | | | | | | |
| Trade receivable | | | | | | |
| Allowance for doubtful accounts | ¥ 8,662 | ¥ 1,515 | ¥ 1,117 | ¥ | ¥ (717) | ¥ 8,343 |
| Finance subsidiaries-receivables | | | | | | |
| Allowance for credit losses | ¥ 12,965 | ¥ 23,093 | ¥ 16,419 | ¥ | ¥ (1,011) | ¥ 18,628 |
| Allowance for losses on lease residual values | 12,560 | 16,284 | 5,347 | | (1,142) | 22,355 |
| Unearned interest income and fees | 176,893 | | | 46,779 | (3,918) | 219,754 |
| | ¥ 202,418 | ¥ 39,377 | ¥ 21,766 | ¥ 46,779 | ¥ (6,071) | ¥ 260,737 |
| March 31, 2004: | | | | | | |

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| | | | | | | |
|---|-----------|----------|----------|------------|-----------|-----------|
| Trade receivable | | | | | | |
| Allowance for doubtful accounts | ¥ 8,343 | ¥ 2,803 | ¥ 1,877 | ¥ | ¥ (92) | ¥ 9,177 |
| Finance subsidiaries-receivables | | | | | | |
| Allowance for credit losses | ¥ 18,628 | ¥ 29,968 | ¥ 19,924 | ¥ | ¥ (2,345) | ¥ 26,327 |
| Allowance for losses on lease residual values | 22,355 | 16,972 | 10,989 | | (2,214) | 26,124 |
| Unearned interest income and fees | 219,754 | | | (27,315) | 2,165 | 194,604 |
| | ¥ 260,737 | ¥ 46,940 | ¥ 30,913 | ¥ (27,315) | ¥ (2,394) | ¥ 247,055 |

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Table of Contents**INDEX OF EXHIBITS**

| <u>Exhibit Number</u> | <u>Description</u> |
|----------------------------------|--|
| 1.1 | Articles of Incorporation of the registrant (English translation) |
| 1.2 | Share Handling Regulations of the registrant (English translation) (1) |
| 1.3 | Regulations of Board of Directors of the registrant (English translation) (1) |
| 1.4 | Regulation of the Board of Corporate Auditors of the registrant (English translation) (1) |
| 2.1 | Specimen common stock certificates of the registrant (English translation) (2) |
| 2.2 | Deposit Agreement dated as of December 19, 1962, as amended and restated as of October 1, 1982 (including changes from Amendment to Deposit Agreement dated as of April 1, 1989) among the registrant, Morgan Guaranty Trust Company of New York (now JP Morgan Chase Bank), as Depositary, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (3) |
| 2.3 | Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (3) |
| 2.4 | Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (4) |
| 8.1 | List of Significant Subsidiaries (See Organizational Structure in Item 4.C. of this Form 20-F) |
| 11.1 | Code of Ethics |
| 12.1 | Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a) |
| 12.2 | Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a) |
| 13.1 | Certification of the chief executive officer required by 18 U.S.C. Section 1350 |
| 13.2 | Certification of the chief financial officer required by 18 U.S.C. Section 1350 |

- (1) Incorporated by reference to the registrant's annual report on Form 20-F filed on July 15, 2003.
(2) Incorporated by reference to the registrant's annual report on Form 20-F filed on September 27, 2001.
(3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995.
(4) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001.