

HONDA MOTOR CO LTD  
Form 20-F  
June 30, 2008  
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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, 2008**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
.. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report**

**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)**

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JAPAN

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Taku Kitamura, American Honda Motor Co., Inc., taku\_kitamura@ahm.honda.com,

(212)707-9920, 156 West 56th Street, 20th Floor, New York, NY 10019, U.S.A

(Name, Telephone, E-mail, and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Common Stock*	New York Stock Exchange

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.

Title of each class	Outstanding as of March 31, 2008
Common Stock	1,814,537,899**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transmission report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S.GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

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If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

\* Not for trading purposes, but only in connection with the registration of American Depositary Shares, each representing one share of Common Stock.

\*\* Shares of Common Stock include 117,364,816 shares represented by American Depositary Shares.

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**Table of Contents****PART I**

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, 2008 have been derived from our consolidated financial statements that were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

You should read the U.S. GAAP selected consolidated financial data set out below together with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements contained in this Annual Report.

	Fiscal years ended March 31,					U.S. dollars
	2004	2005	2006	2007	2008	(millions)
	Yen (millions)					2008
<b>Income statement data:</b>						
Net sales and other operating revenue	¥ 8,162,600	¥ 8,650,105	¥ 9,907,996	¥ 11,087,140	¥ 12,002,834	\$ 119,801
Research and development	448,967	467,754	510,385	551,847	587,959	5,868
Operating income	600,144	630,920	868,905	851,879	953,109	9,513
Income before income taxes, minority interest, and equity in income of affiliates	653,680	668,364	829,904	792,868	895,841	8,941
Net income	464,338	486,197	597,033	592,322	600,039	5,989
<b>Balance sheet data:</b>						

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Total assets	¥ 8,380,549	¥ 9,368,236	¥ 10,631,400	¥ 12,036,500	¥ 12,615,543	\$ 125,916
Long-term debt	1,394,612	1,559,500	1,879,000	1,905,743	1,836,652	18,332
Stockholders' equity	2,874,400	3,289,294	4,125,750	4,482,611	4,544,265	45,356
Common stock	86,067	86,067	86,067	86,067	86,067	859

**Depreciation and capital expenditures data:**

Depreciation excluding property on operating leases	¥ 213,445	¥ 225,752	¥ 262,225	¥ 361,747	¥ 417,393	\$ 4,166
Depreciation of property on operating leases				9,741	101,032	1,008
Total depreciation	213,445	225,752	262,225	371,488	518,425	5,174
Capital expenditures	287,741	373,980	457,841	627,066	654,030	6,528
Purchase of operating lease assets				366,795	839,261	8,377
Total capital expenditures	287,741	373,980	457,841	993,861	1,493,291	14,905

**Table of Contents****Weighted average number of shares outstanding**

	(Thousands of shares)				
	2004	2005	2006	2007	2008
Weighted average number of common shares outstanding	1,907,276	1,867,535	1,840,799	1,824,675	1,815,356

**Net income per common share**

	(Yen)					(US\$)
	2004	2005	2006	2007	2008	2008
Basic	¥ 243.45	¥ 260.34	¥ 324.33	¥ 324.62	¥ 330.54	\$ 3.30
Diluted	243.45	260.34	324.33	324.62	330.54	3.30

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**

	(Yen)					(US\$)
	2004	2005	2006	2007	2008	2008
Cash dividends declared during the period per common share	¥ 17.50	¥ 25.50	¥ 38.50	¥ 77.00	¥ 84.00	\$ 0.84

Additionally, a year-end dividend of ¥22 (\$0.22) per common share aggregating ¥39.9 billion (\$398 million) relating to fiscal 2008 was determined by our board of directors in April 2008 and approved by our shareholders in June 2008. This dividend was paid in June 2008.

**Stock Split**

The Company executed a two-for-one stock split for the Company's common stock effective July 1, 2006. All per share information has been adjusted retroactively for all periods presented to reflect this stock split.

**Misclassification Adjustments**

As described in Note (1) (v) and Note (2) to our consolidated financial statements, certain revisions for misclassifications have been made. Also, certain reclassifications have been made to the consolidated financial statement periods presented above to conform to the presentation used for the fiscal year ended March 31, 2008.



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 ¥100.19 = \$1.00, which represents the approximate exchange rate quoted on the Tokyo Foreign Exchange Market on March 31, 2008. 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.

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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 May 30, 2008, the noon buying rate was ¥105.46 = \$1.00. The average exchange rate for the period shown is the average of the month-end rates during the period.

Years ended March 31,	(Yen)			
	Average	Period end	High	Low
2004	112.75	104.18	120.55	104.18
2005	107.28	107.22	114.30	102.26
2006	113.67	117.48	120.93	104.41
2007	116.55	117.56	121.81	110.07
2008	113.61	99.85	124.09	96.88
2009 (through May 30, 2008)	105.00	105.46	105.52	100.87
Dec-2007			114.45	109.68
Jan-2008			109.70	105.42
Feb-2008			108.15	104.19
Mar-2008			103.99	96.88
Apr-2008			104.56	100.87
May-2008			105.52	103.01

*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.

**Relating to Honda's industry****Honda may be adversely affected by market conditions**

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Honda conducts its operations 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, which may be caused by rising fuel prices or other factors, could trigger a decline in demand for automobiles, motorcycles and power products that may adversely affect Honda's results of operations.

### **Prices for automobiles, motorcycles and power products can be volatile**

Prices for automobiles, motorcycles and power products in certain markets may experience sharp changes over short periods of time.

This volatility is caused by many factors, including fierce competition, which is increasing, short-term fluctuations in demand from underlying economic conditions, changes in tariffs, import regulations and other

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taxes, shortages of certain supplies, high material prices and sales incentives by Honda or other manufacturers or dealers. There can be no assurance that such price volatility will not continue or intensify 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.

## **Risks Relating Honda's Business Generally**

### **Currency and Interest Rate Risks**

#### **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 operations and financial condition, 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 Japanese yen, Honda's results of operations would be adversely affected by an appreciation of the Japanese yen against other currencies, in particular the U.S. dollar.

#### **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 rate risk, Honda uses derivative financial instruments in order to reduce the substantial effects of currency fluctuations and interest rate exposure on our cash flow and financial condition.

These instruments include foreign currency forward contracts, currency swap agreements and currency option contracts, as well as interest rate swap agreements. Honda has entered into, and expects to continue to enter into, such hedging arrangements. As with all hedging instruments, there are risks associated with the use of such instruments.

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 is also exposed to the risk that its counterparties to hedging contracts will default on their obligations.

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.

### **Legal and Regulatory Risks**

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

Regulations regarding vehicle emission levels, fuel economy, noise and safety and noxious substances, 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.

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### **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 is subject to legal proceedings**

Honda is subject to a number of suits, investigations and/or proceedings under relevant laws and regulations of various jurisdictions. A negative outcome in one or more of these pending legal proceedings could adversely affect Honda's business, financial condition or results of operations.

### **Risks Relating to 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.

#### **Honda conducts its operations in various regions of the world**

Honda conducts its businesses worldwide, and 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 are subject to various regulations, including the legal and other

requirements of each country. If these regulations or the business conditions or policies of these local entities change, it may have an adverse affect on Honda's business, financial condition or results of operations.

**Honda may be adversely affected by wars, use of force by foreign countries, terrorism, multinational conflicts, natural disasters, epidemics and labor strikes**

Honda conducts its businesses worldwide, and its operations may variously be subject to wars, use of force by foreign countries, terrorism, multinational conflicts, natural disasters, epidemics, labor strikes and other events beyond our control which may delay or disrupt Honda's local operations in the affected regions, including the purchase of raw materials and parts, the manufacture, sales and distribution of products and the provision of services. Delays or disruptions in one region may in turn affect our global operations. 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.

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### **Honda may be adversely affected by inadvertent disclosure of confidential information**

Although Honda maintains internal controls through established procedures to keep confidential information including personal information of its customers and relating parties, such information may be inadvertently disclosed. If this occurs, Honda may be subject to, and may be adversely affected by, claims for damages from the customers or parties affected.

Also, inadvertent disclosure of confidential business or technical information to third parties may result in a loss of Honda's competitiveness.

### **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 product 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 product 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 has 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***



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### *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.

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.

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

**Table of Contents****Principal Capital Investments**

In the fiscal years ended March 31, 2006, 2007 and 2008, Honda's capital expenditures were ¥457.8 billion, ¥993.8 billion, and ¥1,493.2 billion, respectively, on an accrual basis. Also, capital expenditures excluding those with respect to property on operating leases were ¥457.8 billion, ¥627.0 billion, and ¥654.0 billion, respectively, on an accrual basis. For further details of Honda's capital expenditures during fiscal 2008, see Property, Plants and Equipment included as Item 4.D of this Annual Report.

*B. Business Overview***General**

Honda's business segments are motorcycle business, automobile business, financial services business, and power product and other businesses.

Following table shows the breakdown of Honda's revenues from external customers by category of activity and by geographical markets based on the location of the customer during the fiscal years ended March 31, 2006, 2007 and 2008:

	Fiscal years ended March 31, Yen (billions)		
	2006	2007	2008
Motorcycle Business	¥ 1,225.8	¥ 1,370.6	¥ 1,558.6
Automobile Business	8,004.6	8,889.0	9,489.3
Financial Services Business	306.8	409.7	533.5
Power Product and Other Businesses	370.6	417.7	421.1
<b>Total</b>	<b>¥ 9,907.9</b>	<b>¥ 11,087.1</b>	<b>¥ 12,002.8</b>

	Fiscal years ended March 31, Yen (billions)		
	2006	2007	2008
Japan	¥ 1,694.0	¥ 1,681.1	¥ 1,585.7
North America	5,463.3	5,980.8	6,068.4
Europe	1,009.4	1,236.7	1,519.4
Asia	1,085.4	1,283.1	1,577.2
Other Regions	655.7	905.1	1,251.9
<b>Total</b>	<b>¥ 9,907.9</b>	<b>¥ 11,087.1</b>	<b>¥ 12,002.8</b>

**Motorcycle Business**

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In 1949, Honda began mass production of motorcycles with the *Dream D-Type*, followed by other models such as the *Benly* and the *Cub F-Type*. By 1957, Honda became the largest motorcycle manufacturer in Japan. Honda expanded its business overseas by establishing American Honda Motor Co., Inc. in the United States in 1959. Honda's first overseas production started in Belgium in 1963.

Honda produces a wide range of motorcycles, ranging from the 50cc class to the 1800cc class in cylinder displacement. Honda's motorcycles use internal combustion 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 also produces all-terrain vehicles (ATVs) since 1984, and personal watercraft (PWC) since 2002.

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The following table sets out unit sales for Honda's motorcycle business, including motorcycles, all-terrain vehicles (ATVs) and personal watercraft (PWC), and revenue from Motorcycle Business, and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2006, 2007 and 2008:

	2006		Fiscal years ended March 31, 2007		2008	
	Units (thousands)	Revenue (billions)	Units (thousands)	Revenue (billions)	Units (thousands)	Revenue (billions)
Japan	368	¥ 99.0	337	¥ 101.7	311	¥ 93.5
North America	615	349.7	503	308.2	453	265.6
Europe	353	208.0	329	219.7	313	226.6
Asia	7,907	324.0	7,895	383.3	6,633	484.4
Other Regions	1,028	244.9	1,305	357.4	1,610	488.3
Total	10,271	¥ 1,225.8	10,369	¥ 1,370.6	9,320	¥ 1,558.6
Revenue as percentage of total sales revenue		12%		12%		13%

Honda's motorcycles production in Japan is being consolidated to Kumamoto factory in 2008. Honda's motorcycles are also produced by subsidiaries in countries including the United States, Italy, Spain, Thailand, Vietnam, the Philippines, India, and Brazil.

For further information on recent operation and financial review, see "Operating Results" in Item 5. Operating and Financial Review and Prospects

**Automobile Business**

Honda started the automobile business in 1963 with *T360* mini-truck and *S500* small sports car and since then Honda launched a series of mass-produced models including *Civic* in 1972, *Accord* in 1976, which established a base for its automobile business. In 1969, production of the mini-vehicles *N600* and *TN600* began in Taiwan using component parts sets. In 1982, Honda became the first Japanese automaker to begin local automobile production in the United States (*Accord*).

Honda's automobiles use gasoline engines of three, four or six-cylinder, diesel engines and gasoline-electric hybrid systems. Honda also offers alternative fuel-powered vehicles such as natural gas, ethanol, and fuel cell vehicles.

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

Passenger cars:

*Legend, Accord, Civic, City/Fit Aria, Acura RL, Acura TL, Acura TSX*

Multi-wagons, Minivans, Sport Utility Vehicle:

*Elysion, Odyssey, Step Wagon, Stream, Edix/FR-V, Mobilio, Airwave, Fit/Jazz, Pilot, Ridgeline, CR-V, Element, Crossroad, Acura MDX, Acura RDX*

Mini cars:

*Life, Zest, That s, Vamos, Acty*

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The following table sets out Honda's unit sales of automobiles and revenue from Automobile Business and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2006, 2007 and 2008:

	2006		Fiscal years ended March 31, 2007		2008	
	Units (thousands)	Revenue (billions)	Units (thousands)	Revenue (billions)	Units (thousands)	Revenue (billions)
Japan	696	¥ 1,447.3	672	¥ 1,412.7	615	¥ 1,321.0
North America	1,682	4,722.3	1,788	5,179.1	1,850	5,209.4
Europe	291	717.3	324	917.1	391	1,182.6
Asia	521	731.8	620	861.6	755	1,048.4
Other Regions	201	385.7	248	518.4	314	727.8
Total	3,391	¥ 8,004.6	3,652	¥ 8,889.0	3,925	¥ 9,489.3
Revenue as percentage of total sales revenue		81%		80%		79%

Automobiles are produced by Honda at two sites in Japan: Saitama factory and Suzuka factory. Our major production sites overseas are located in Ohio (U.S.A.), Alabama (U.S.A.), Ontario (Canada), Swindon (U.K.), Ayutthaya (Thailand), Uttar Pradesh (India) and Sao Paulo (Brazil). Yachiyo Industry Co., Ltd., one of our consolidated subsidiaries, assembles Mini cars for Japanese domestic market.

For further information on recent operation and financial review, see *Operating Results* in *Item 5. Operating and Financial Review and Prospects*

***Financial Services Business***

Honda offers a variety of financial services to our customers and dealers through finance subsidiaries in countries including Japan, the United States, Canada, the United Kingdom, Germany, Brazil and Thailand, with the aim of providing sales support for our products. The services of these subsidiaries include retail lending, leasing to customers and other financial services, such as wholesale financing to dealers.

The following table sets out Honda's revenue from Financial Services Business and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2006, 2007 and 2008:

	Fiscal years ended March 31,		
	2006 Revenue (billions)	2007 Revenue (billions)	2008 Revenue (billions)
Japan	¥ 21.1	¥ 21.4	¥ 23.4
North America	267.4	364.8	483.9
Europe	10.1	12.6	13.2
Asia	1.9	3.1	4.9
Other Regions	6.1	7.5	8.0

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Total	¥ 306.8	¥ 409.7	¥ 533.5
Revenue as percentage of total sales revenue	3%	4%	4%

For further information on recent operation and financial review, see Operating Results in Item 5. Operating and Financial Review and Prospects

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

Honda's power product business began in 1953 with the introduction of the model *H*, its first general purpose engine. Since then Honda has been manufacturing variety of power products including power tillers, portable generators, general-purpose engines, grass cutters, outboard marine engines, water pumps, snow throwers, power carriers, power sprayers, lawn mowers and lawn tractors (riding lawn mowers). In 2003, Honda introduced a compact home-use cogeneration\* unit. And further, Honda began sales of next-generation thin film solar cells made of crystalline silicon in 2007.

\* Cogeneration: Cogeneration refers to the multiple applications of energy derived from a single source, such as using the heat supplied during the combustion process that drives an engine for other heating or cooling purposes.

The following table sets out Honda's revenue from Power Product and Other Businesses and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2006, 2007 and 2008:

	2006		Fiscal years ended March 31, 2007		2008	
	Units (thousands)	Revenue (billions)	Units (thousands)	Revenue (billions)	Units (thousands)	Revenue (billions)
Japan	487	¥ 126.5	527	¥ 145.2	550	¥ 147.7
North America	2,827	123.7	3,103	128.5	2,415	109.4
Europe	1,477	73.8	1,625	87.1	1,693	96.8
Asia	717	27.6	760	35.0	915	39.4
Other Regions	368	18.8	406	21.8	484	27.6
Total	5,876	¥ 370.6	6,421	¥ 417.7	6,057	¥ 421.1
Revenue as percentage of total sales revenue		4%		4%		4%

For further information on recent operation and financial review, see Operating Results in Item 5. Operating and Financial Review and Prospects

**Marketing and Distribution**

Most of Honda's products are distributed under trademarks of Honda in Japan and/or in overseas markets.

**Sales in Japan**



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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.

Motorcycles are distributed through approximately 7,900 outlets, including approximately 1,000 PROS, and 100 Honda Dream authorized dealerships.

As for distribution network for automobiles, Honda integrated its three sales channels in Japan Primo, Clio and Verno into one Honda channel in March 2006. At present, 831 retail dealers operate 2,272 shops and sell *Legend, Inspire, Accord, Civic, Fit Aria, Elysion, Odyssey, Step Wagon, Stream, Edix, Mobilio, Mobilio Spike, Airwave, Fit, CR-V, Crossroad, S2000, Partner, Life, Zest, That's, Vamos, and Acty*.

Power products are distributed in Japan to approximately 1,430 retail dealers throughout Japan, including affiliates of Honda. A number of small engines are also sold to other manufacturers for use in their products.

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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.

### **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, Honda markets its products through a sales network of approximately 1,250 independent local dealers for motorcycles, approximately 1,300 for automobiles and approximately 7,000 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 in the United States totaled 269 dealerships at the end of fiscal 2008. The Acura network offers *RL*, *TL*, *TSX*, *RSX*, *MDX*, *RDX* models.

With regard to exports from North America, Honda is currently exporting such North American-built models as *Accord*, *Civic*, *TL*, *Odyssey*, *Pilot*, *Ridgeline*, *CR-V* and *MDX* to other markets. In fiscal 2008, Honda exported approximately 48,100 units from North America to 38 countries throughout the world.

In Europe, Honda's products are distributed through approximately 2,000 independent local dealers for motorcycles, approximately 1,950 for automobiles and approximately 3,500\* for power products.

\* Total number represents dealers in 10 countries where Honda has foreign sales subsidiaries

In Asia, Honda's products are distributed through approximately 13,100 independent local dealers for motorcycles, approximately 1,000 for automobiles and approximately 1,800\* for power products.

\* Total number represents dealers in 6 countries where Honda has foreign sales subsidiaries

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The company exports motorcycle components to 14 countries, including Indonesia, Thailand, Vietnam 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.

The company exports automobile components to 14 countries, including the United States, Canada, Thailand, China and Brazil, where automobiles are manufactured by its subsidiaries, joint venture firms and licensees. Some of the components used in the production of these vehicles are supplied locally.

The company also exports power product components to seven countries, including the United States, Italy, Thailand, China, where power products are manufactured by its subsidiaries, 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.

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### ***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 41% 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, 2008.

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 the 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 not generally been material to our financial results.

### ***Environmental and Safety Regulation***

#### **Outline of Environmental and Safety Regulation for Automobiles**

##### **1. Emissions**

###### **Japan**

In 2005, to limit emissions into the environment, the Central Environment Council in the Ministry of Environment created new long-term targets and comprehensive requirements for gasoline and diesel vehicles which has become effective starting from 2008. New long term targets for gasoline vehicles remain unchanged except for direct injection gasoline vehicles which will be required to meet the particulate matter (PM) standard. New long-term emissions targets for diesel vehicles have been lowered by more than 50% from the current level of NOx and PM standards. Furthermore, in March 2008, to strengthen the enforcement of laws, the 2009 Exhaust Emission Standards (Post new long term regulation) was created. Post new long term targets for gasoline vehicles remain unchanged except for direct injection gasoline vehicles which will be required to meet the PM standard, too. Post new long term emissions targets for diesel vehicles have been lowered by more than 60%

from the current level of NOx and PM standards.

### **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 (EPA) in February 2000 adopted 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 to establish the strictest emission regulation in the world. In late 1998, the CARB strengthened its regulatory standards through the introduction of new standards, known as the California Low Emission Vehicle Program II (LEV II).

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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, the CARB approved modifications to the Zero-Emission Vehicles (ZEV) requirement under LEV II, permitting gasoline Super Ultra Low Emission Vehicles (SULEV), 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, the CARB finalized its ZEV requirements. Under these requirements, from the 2005 model year, 6% of vehicles sold in California by a car manufacturer must be Partial Zero Emission Vehicles (PZEV), which includes SULEV with warranties coverage up to the earlier of 15 years or 150,000 driven miles, 2% must be advanced technology PZEV and 2% must be ZEV. Required percentages will be gradually increased under the ZEV standards from the 2008 model year.

The CARB approved the proposed amendment to the ZEV program at board hearing in March 2008. The CARB Staff had proposed to require 2,500 Fuel Cell Vehicles (FCV) in the entire industry from 2009 to 2011, but the Board instructed to modify a part of the proposed amendment, including the number being tripled to 7,500. A final proposal will be submitted based on the instruction.

Currently, many states have adopted or proposed the California ZEV regulation. The ZEV mandate has been implemented in some states, and will be implemented in other states.

## **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 was implemented in 2005.

In each EU country, standards, such as those providing for preferential automobile tax treatment, have been established in respect of diesel vehicles that comply with the requirements prescribed in Euro4 for which the PM emission does not exceed 5mg/km. Honda has already introduced a considerable number of Euro4-compliant diesel models in Europe.

In 2005, the European Union created a new emission standard (Euro5 and Euro6) and comprehensive requirements for gasoline vehicles and diesel vehicles. Euro5 will be implemented in 2009. Emission limits for gasoline vehicles and diesel vehicles will be lowered by more than the Euro4 level of HC, NOx and PM. Euro6 will be implemented in 2014. Emission limits for diesel vehicles will be lowered by more than the Euro5 level HC and NOx.

Additionally, Euro5 and Euro6 will add the requirement of a PM number limit for diesel vehicles. A PM mass limit will also apply to gasoline vehicles which use lean burn direct injection engines.

## **Russia**

Euro3 regulation has been in effect from January 2008. Additionally, Euro4 regulation will be implemented in January 2010.

**Other Regions**

China adopted Step3 and Step4 emission regulations for light-duty vehicles in 2005.

These regulations are similar to Euro3 and Euro4. Step3 will be implemented in 2007 and Step4 will be implemented in 2010.

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In the city of Beijing, Euro3 was implemented in December 2005, and Euro4 was implemented in March 2008.

South Korea adopted the enforcement regulation of the Special Act on Capital Region Air Quality Improvement. Accordingly, some manufacturers shall be required to sell low emission vehicles which meet a more stringent emission standard than those meeting the national standard from January 2005.

In addition, other several Asian countries adopted regulations which are similar to the European regulations (such as Euro2 and Euro3).

In Australia, Euro4-equivalent regulations will be implemented in July 2008.

## **2. Fuel Economy / CO<sub>2</sub>**

### **Japan**

In 1998, an amendment was made to the Law Concerning Rationalization of Energy Usage that established a fuel efficiency standard based on weight class in Japan. This standard was 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 CO<sub>2</sub> reduction targets promulgated under the Kyoto Protocol, the Japanese government issued a fuel regulation for an interim ethanol blending limit (less than 3%) 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.

In 2005, discussions about the post-2010 standard took place among the applicable ministries and industries.

In February 2007, the final post-2010 target, or the 2015 standard, was announced. Fuel consumption will be reduced by 29.2% compared to the 2010 target for passenger cars.

Ethanol blended fuel is a biomass fuel. Biomass fuel is regarded as an effective countermeasure for CO<sub>2</sub> reduction. CO<sub>2</sub> emissions after burning ethanol fuel produced with biomass resources (such as plants or wood) are not counted as CO<sub>2</sub> emissions under the Kyoto Protocol.

### **The United States**



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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 set at 27.5 miles per gallon (mpg) starting from the 1990 model year and for light trucks at 20.7 miles per gallon standard was established for the 1996-2004 model years. The standard for light trucks increased from the 2005 model year (21.0 miles per gallon) to the 2007 model year (22.2 miles per gallon). The National Highway Traffic Safety Administration (NHTSA) reformed the CAFE standard for light trucks in 2006. The new size-based CAFE standard for light trucks will be implemented in the 2008 model year. However, on November 15, 2007, the United States Ninth Circuit Court of Appeals has made the decision to revoke the CAFE regulation concerning light-duty trucks that the NHTSA had adopted. Because of the fact that the NHTSA failed to (1) implement the cost conversion of CO<sub>2</sub> emission when establishing the CAFE limit values concerning the 2008-2009 model year light-duty trucks, (2) establish the backstop requirements, (3) revise appropriately the requirements concerning the classification of passenger automobiles and light-duty trucks and (4) prescribe the fuel economy limit values for all vehicles with the Gross Vehicle Weight Rating class of 8,500 to 10,000 pounds, the court held that the CAFE regulation was arbitrary and capricious and that, furthermore, it violated the U.S. Energy Policy and Conservation Act. Besides, the U.S. President has directed relevant U.S. federal agencies to take the first steps toward regulations that would reduce gasoline consumption and Green House Gas (GHG) emissions from vehicles by 20 percent over the next 10 years. Therefore, the NHTSA has to promptly establish new limit values conforming to the pertinent policy and to apply it in the earliest possible model year. The NHTSA issued a new CAFE regulation draft which applies to passenger cars and light trucks from the 2011 model year to the 2015 model year on May 2, 2008. The proposal requires 31.6 miles per gallon for the combined CAFE standard in the 2015 model year.

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In August 2005, the CARB finalized its GHG regulation. Under the GHG regulation, which will become effective for the 2009 model year, automobile manufactures have to improve fuel economy from the current levels by more than 50% by the 2016 model year.

Many other states have adopted the GHG regulations.

In April 2007, the Supreme Court ruled that the EPA has the authority to regulate GHG emissions. In response to the Supreme Court's ruling, the President has directed his agencies to take the first steps toward regulations that would reduce gasoline consumption and GHG emissions from vehicles by 20 percent over the next 10 years.

However, EPA decided not to grant enforcement of the GHG regulation by the State of California on December 19, 2007. Because EPA has determined that the federal unified standard can contribute to a significant reduction of GHG emitted in all states and will be more effective than the states approach.

## **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. In 2003, JAMA achieved the midterm target (165-175 grams). JAMA achieved additional reduction of carbon dioxide in 2005 as compared to 2004.

In 2006, discussions about establishing targets for 2008 will begin among the European Commission, Member States and the automobile industry.

End of 2007, European Commission proposed carbon dioxide emission performance standards for new passenger cars. According to this communication, the European Commission will be setting a more stringent target of 130 grams of carbon dioxide per kilometer for new cars offered for sale in the EU in 2012. In addition, the proposal will provide manufacturers with the necessary incentive to reduce the CO<sub>2</sub> emissions of their vehicles by imposing an excess emissions premium if their average emission levels are above the limit value curve. This premium will be based on the number of grams per kilometer (g/km) that an average vehicle sold by the manufacturer is above the curve, multiplied by the number of vehicles sold by the manufacturer.

The EU is also recommending the use of biomass fuel blends.

## **Other Regions**

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China adopted a fuel consumption regulation for passenger vehicles in 2004. Step1 of this regulation was implemented in 2005 and Step2 was implemented in 2008.

South Korea adopted the regulation of Corporate Average Fuel Economy for passenger vehicles in 2005. Domestic vehicles will be required to adhere to the regulations starting from 2006 and imported vehicles will need to meet the requirement from 2010.

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

#### **Japan**

Japan enacted the Automobile Recycling Law in July 2002, which required manufacturers to take back air bags, fluorocarbon and shredder residue derived from end-of-life vehicles (ELV), which became effective on January 1, 2005. ELV processing costs are collected from owners of cars currently in use and purchasers of new cars.

#### **Europe**

In September 2000, the European Union approved a directive requiring 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 dismantle and recycle the vehicles. Beginning on January 1, 2007, the requirement has also been applied to all vehicles offered for sale in the European Union before July 1, 2002.

Manufacturers must not use specified hazardous materials in vehicles offered for sale in the European Union after July 2003, and 95% of vehicle parts in new vehicle types sold in the European Union after December 15, 2008, must be designed to be re-usable and recoverable.

On December 30, 2006, the European Union adopted the Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), which becomes effective on June 1, 2007. From June 1, 2008, any manufacturer or importer of chemical substances is required to submit a registration to the Agency, based on annual production or import quantity levels. Also, any manufacturer or importer of chemical containers is required to submit a registration for the chemical substances contained in such containers, which is expected to be consumed. Submitting a pre-registration between June 1 and December 1, 2008 will allow the manufacturer or importer to extend the deadline for submitting the registration for existing chemical substances or containers. The list of Substance of Very High Concern (SVHC) will be announced in June 2009. On request by a consumer, the supplier of the product containing SVHC must provide the consumer with the sufficient information at least the name of the substance within 45 days.

#### **Other Regions**

Taiwan and Korea have implemented automobile recycling laws from January 1, 2008 following the regulations established by the European Union and Japan. In addition, China has a plan to implement automobile recycling laws in the near future.

### **4. Safety**

**Japan**

In March 2005, the Ministry of Land, Infrastructure and Transport (MLIT) issued the world's first Seat Belt Reminders standard. Pursuant to the standard, the driver's seat in passenger vehicles must be equipped with a seat belt reminder from September 1, 2005 for new models and from September 1, 2008 for all other models.

In November 2007, the MLIT issued safety standard for vehicles which use high voltage electric power like an electric vehicle or hybrid electric vehicle, to avoid electric shock, when normal operation and after crash condition, from July 1, 2012 for all models.

In March 2008, the MLIT issued the technical standards for Event Data Recorders (EDRs). Installation of EDRs in vehicles and, if an EDR is installed, compliance with MLIT's technical standards are both voluntary.

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Japan Automobile Standards Internationalization Center (JASIC), which is organized by MLIT and JAMA, among others, has started to review a proposal for the unification of Safety/Environment Standards, vehicle categories and certification in order to promote further internationalization of standards and certifications.

JASIC is planning to make the proposal to other contracting parties of the 58 / 98 Agreement by 2009 and aim at reaching an agreement among the contracting parties by 2015.

## **The United States**

In December 2003, the NHTSA 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 impacts from a full-lap 48km/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 the 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 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, the goal is to have at least 50% of all vehicles offered in the U.S. by participating manufacturers to meet the front-to-side performance criteria, and by September 2009, for 100% of the vehicles of participating manufacturers to meet the criteria. For the front-to-front criteria, the goal is for 100% of the vehicles of participating manufacturers to meet the criteria by September 2009, with no interim goals set. We are a participating manufacturer and intend to meet these voluntary standards.

In August 2006, the NHTSA issued a final rule revising performance requirements for advanced airbag systems. The rule upgrades the maximum speed for frontal barrier crash tests using a belted small adult female dummy. Manufacturer must comply with the upgraded requirements for 35% of all vehicles produced by 2009, 65% by 2010, and 100% by 2011.

In April 2007, the NHTSA issued a final rule regarding an electronic stability control system standard for light vehicles to reduce rollover crashes. The new standard will require installation of electronic stability control system. Manufacturers must comply with the standard for 55% of all vehicles produced by 2008, 75% by 2009, 95% by 2010, and 100% by 2011.

In May 2007, the NHTSA issued a final rule to revise some performance requirements for head restraints, to delay the effective date, and to set a phase-in compliance schedule. For front seat requirements, manufacturer must comply with the revised requirements for 80% of all vehicles produced by 2009, and 100% by 2010. For voluntarily installed rear head restraints, manufacturers also must be in compliance for 80% of all vehicles by 2010, and 100% by 2011.

In September 2007, the NHTSA issued a final rule to upgrade side impact occupant protection standards, and later in June 2008, phase-in schedule was amended. The rule imposes a requirement to provide head protection and adopt a small adult female dummy in side crashes for the first time. Manufacturers must meet an additional performance test involving a 32km/h vehicle side impact into a rigid pole at an approach angle of 75 degrees for 20% of all vehicles produced by a manufacturer by 2010, 40% by 2011, 60% by 2012, 80% by 2013 and 100% by 2014. New

dummies are to be used from September 1, 2010 for the existing moving deformable barrier and new pole tests.

In January 2008, the NHTSA issued a final rule to revise some performance requirements for event data recorders and to delay the effective date. Manufacturers offering passenger cars and/or other light vehicles equipped with event data recorders must comply with revised requirements on or after September 2012.

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In January 2008, the NHTSA issued a supplemental proposed rule to upgrade vehicle roof crush standard. The rule newly introduces a Two-sided Roof Test which imposes the strength tests for both sides of the vehicle roof as an alternative for the existing Single-sided Roof Test. Manufacturers must comply with either test requirement from the first September that occurs after three years have elapsed after the issuance of the final rule.

## **Europe**

The European Commission issued a regulation and technical prescription for pedestrian protection. The regulation required M1 (Passenger vehicles up to nine 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 vehicles of which side and rear areas were not visible to the driver via side or rear-view mirrors. The regulation has been effective from January 29, 2006 for new types of vehicles and will be effective on 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, the EU, Korea and China. 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.

In January 2007, NHTSA also issued a report titled The New Car Assessment Program Suggested Approaches for Future Program Enhancements to encourage additional safety improvements, and to provide consumers with relevant information that will aid them in their new vehicle purchasing decisions. The future program includes detailed proposals regarding not only crash worthiness assessment but also crash avoidance assessment.

## **Outline of Environmental and Safety Regulation for Motorcycles**



**1. 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 issued a final report on targets for fiscal year 2006. The target level is similar to those under the Euro3 standards.

**The United States**

Emissions regulations regarding off-road motorcycles and ATVs were 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.

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### **Canada**

The Canadian federal government has introduced emissions regulations generally equivalent to the U.S. EPA regulations for on-road motorcycles from the 2006 model year.

Currently, the Canadian federal government has proposed to introduce the emission regulations for off-road motorcycles generally equivalent to the U.S. EPA regulations.

### **Europe**

The EU maintains emissions regulations (Euro2) for motorcycles, as well as the Motor Cycle (& Moped)-Whole Vehicle Type Approval , a uniform certification system for two and three-wheeled motor vehicles.

The Euro3 regulations are the most stringent standard for motorcycles. Euro3 regulations have been in effect from January 2006.

### **Other Regions**

Other countries, mainly in Asia, have implemented tighter emissions regulations based on European regulations.

In Thailand, a fifth stage of emissions control, which is generally equivalent to or stricter than Euro2, has been implemented. A sixth stage of emissions control, which is generally equivalent to or stricter than Euro3, will be introduced in 2008.

In Indonesia, Euro2-equivalent regulations have been in effect from January 2006.

In China, Euro2-equivalent regulations were introduced in 2004.

In Korea, Euro2-equivalent regulations were implemented in 2006. In addition, Euro3- equivalent regulations will be implemented from 2008.

In Brazil, Euro2-equivalent regulations have been in effect from the beginning of last year. Euro3-equivalent regulations will be implemented in the beginning of 2009.

In India, regulations based on the Indian authorities' own test method are in effect and enhanced regulations were enacted in 2005.

## **2. Safety**

### **Japan**

Japan introduced the ECE R78 Braking system based on the Global Technical Regulation that was promulgated by the United Nations World Forum for Harmonization of Vehicle Regulations. It will apply to new vehicle types on and after June 18, 2009, and to all models on and after June 18, 2011.

### **The United States**

Three wheeled all terrain vehicles, or ATVs (formerly referred to as ATCs) were a problem due to the youth-involved accidents in the 80s, and ATV regulations being established at that time. However, it turned out that a voluntary standard, which was agreed to between the industry and regulators, was established. Although the number of accidents did not increase in the 90s, the ATV market in the US experienced a rapid development from 2000 and the problem of youth-involved accidents increasing continued to be a focal point.

The Consumer Product Safety Commission (CPSC) and ATV industry updated the voluntary standard in 2007. The CPSC is now considering that the standard will be introduced in the regulation.

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### **Europe**

The number of ATVs designed to travel on four low pressure tires on non-paved surfaces has recently increased in the EU market. Most ATVs have received approval by the Whole Vehicle Type Approval (WVTA) and are permitted to run on highways. As a result, there has been an increase in the number of accidents which resulted in the establishment of the All Terrain Vehicle European industry Association (ATVEA). The ATVEA is now focusing on ATV standards rulemaking. It is expected that a standard will be completed in approximately five years at the earliest.

The driving licenses directive was updated, and established a new category for mopeds and changed the contents of each category. A new directive will be effective from January 19, 2013.

### **Other Regions**

Brazilian government issued a new regulation regarding anti-theft device and will require installing an immobilizer and a vehicle tracking system on vehicles and motorcycles sold or registered from August 1, 2009.

Many Asian countries, e.g. India, Thailand, and Vietnam are introducing several regulations, e.g. lighting, braking, and anti-theft, based on ECE regulations.

Canadian government revised the controls and display regulation in order to harmonize with the U.S. vehicle safety standards. It applied to all motorcycle manufactured from February 22, 2008.

## **Outline of Environmental and Safety Regulation for Power Products**

### **1. Emissions**

#### **The United States**

The EPA enacted new engine emissions regulations applicable to model year 1997 for small non-road engines. These regulations are also applicable to engines in use from the 2001 model year. With respect to marine engines, emissions regulations for outboard engines and personal watercraft were implemented for the 1998 model year products and were gradually strengthened every year until the 2006 model year. Currently, the EPA has proposed enhanced emission regulations for non-road engines and marine engines.

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

### **Canada**

The Canadian federal government has introduced emissions regulations generally equivalent to the U.S. EPA regulations for small non-road engines from the 2005 model year, with some exceptions.

Currently, the Canadian federal government has proposed to introduce emission regulations for marine engines generally equivalent to the U.S. EPA regulations.

### **Europe**

Emissions regulations regarding diesel non-road mobile machinery have been in place in the European Union. The EU has introduced regulations covering gasoline engines from 2004 based on the contents of the current EPA regulations in the United States and introduced 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.

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### **2. Safety**

#### **Japan**

The Consumer Product Safety Law, as amended, which mandates manufacturers and/or importers liable for product accidents to give a report to the Minister of the Ministry of Economy, Trade and Industry (METI), became effective on May 14, 2007.

Main points of this Law are as follows:

1. Manufacturers and importers are mandated to notify a serious product accident.
2. Distributors, retailers and repair shops are encouraged to inform manufacturers and importers.
3. Products covered by this Law include all products utilized in daily life except for products regulated by other laws (such as motor vehicles, medicines, etc.).
4. Mandatory reports are limited to serious accidents (involving fatal and serious injury accident, CO poisoning, and fire).
5. Product name, etc. are published to the public as necessary to prevent danger and hazard from occurring or expanding.

#### **The United States**

The CPSC issued a final rule to require that portable generators bear a carbon monoxide poisoning warning label. This regulation requires that the label include pictograms and statements warning consumers that a generator's exhaust contains poisonous carbon monoxide and that a generator should never be used inside the home or partially enclosed areas such as garages. This regulation became effective on May 14, 2007 and applies to any portable generator manufactured or imported on or after that date.

#### **Europe**

The Machinery Directive was changed on May 16, 2006, and new directive will be effective from December 29, 2009. Main changes are to clarify the scope (e.g. partly completed machinery such as engine unit) and to add the concrete description of market survey and obligation to establish the penalty description for member states.

#### ***Preparing for the Future***

In the global economy, there are concerns of economic slowdowns in the U.S., Europe and Japan. In addition, the pace of economic expansion in Asia outside Japan is expected to decline. Moreover, the global business environment in which Honda's management operates still remain uncertain because of global political and economic uncertainties, fluctuations in oil and raw material prices, and movements in currency, finance and capital markets. As a result, Honda expects the operating environment to remain difficult.

It is under these circumstances that Honda seeks to strengthen its corporate structure quickly and flexibly to meet the requirements of its customers and society and the changes in its business environment. Also, in order to improve the competitiveness of its products, Honda will endeavor to enhance its R&D, production and sales capabilities. Furthermore, Honda will continue striving to earn even more trust and understanding from society through companywide activities. Honda recognizes that further enhancing the following specific areas is essential to its success:

### **Research and Development**

Along with efforts to develop even more effective safety and environmental technologies, Honda will enhance creativity in its advanced technology and products, and will create and swiftly introduce new value-added products that meet specific needs in various markets around the world. Honda will also continue its efforts to conduct research on future technologies.

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### **Production Efficiency**

Honda will establish and enhance efficient and flexible production systems and expand production capacity at its global production bases, with the aim of increasing its capability of supplying high quality products.

### **Sales Efficiency**

Honda will remain proactive in its efforts to expand product lines through the innovative use of IT and to upgrade sales and service structure, in order to further satisfy its customers.

### **Product Quality**

Responding to increasing customer demand, Honda will upgrade its quality control through enhancing the functions of and coordination among the development, purchasing, production, sales and service departments.

### **Safety Technologies**

Honda is working to develop safety technologies that enhance accident prediction and prevention, technologies to help reduce the risk of injuries to passengers and pedestrians from car accidents, and technologies that enhance compatibility between large and small vehicles, as well as expand its line-up of products incorporating such technologies. Honda will reinforce and continue to advance its contribution to traffic safety in motorized societies in Japan and abroad. Honda also intends to remain active in a variety of traffic safety programs, including advanced driving and motorcycling training schemes provided by local dealerships.

### **The Environment**

Honda will step up its efforts to create better, cleaner and more fuel-efficient engine technologies and to further improve recyclables throughout its product lines. Honda will also work to advance fuel cell technology and steadily promote its new solar cell business. In addition, Honda will further its efforts to minimize its environmental impact. To this end, we set global targets to reduce the environmental burden as measured by the Life Cycle Assessment\*, in all areas of business, spanning production, logistics and sales.

\* Life Cycle Assessment: A comprehensive system for quantifying the impact Honda's products have on the environment at the different stages in their life cycles, from material procurement and energy consumption to waste disposal.



**Continuing to Increase Society's Trust in and Understanding toward Honda**

In addition to continuing to provide products incorporating Honda's advanced safety and environmental technologies, Honda will continue striving to earn even more trust and understanding from society by, among other things, undertaking activities for corporate governance, compliance, and risk management and contributing to society.

Through these Company-wide activities, Honda will strive to materialize Honda's visions of Value Creation (Creating New Value for our Customers), Glocalization (Expanding Regional Operations), and Commitment to the Future (Developing Safety and Environmental Solutions), with the aim of sharing joy with Honda's customers, thus becoming a company that society wants to exist.

**Table of Contents***C. Organizational Structure*

As of March 31, 2008, the Company had 131 Japanese subsidiaries and 266 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.

<b>Company</b>	<b>Country of Incorporation</b>	<b>Function</b>	<b>Percentage Ownership and Voting Interest</b>
Honda R&D Co., Ltd.	Japan	Research & Development	100.0
Honda Engineering Co., Ltd.	Japan	Manufacturing and Sales of machine tools, equipment and production techniques	100.0
Yachiyo Industry Co., Ltd.	Japan	Manufacturing	50.5
Honda Lock Mfg. Co., Ltd.	Japan	Manufacturing	100.0
Yutaka Giken Co., Ltd.	Japan	Manufacturing	70.1
Asama Giken Co., Ltd.	Japan	Manufacturing	81.7
Honda Foundry Co., Ltd.	Japan	Manufacturing	82.1
Honda Motorcycle Japan Co., Ltd.	Japan	Sales	100.0
Honda Finance Co., Ltd.	Japan	Finance	100.0
Mobilityland Corporation	Japan	Others (Leisure)	100.0
Honda Trading Corporation	Japan	Others (Trading)	100.0
Honda Logistics Inc.	Japan	Others (Physical Distribution)	100.0
American Honda Motor Co., Inc.	U.S.A.	Sales	100.0
Honda North America, Inc.	U.S.A.	Coordination of Subsidiaries Operation	100.0
Honda of America Mfg., Inc.	U.S.A.	Manufacturing	100.0
American Honda Finance Corporation	U.S.A.	Finance	100.0
Honda Manufacturing of Alabama, LLC	U.S.A.	Manufacturing	100.0
Honda of South Carolina Mfg., Inc.	U.S.A.	Manufacturing	100.0
Yachiyo of America Inc.	U.S.A.	Holding Company	100.0
Honda Transmission Mfg. of America, Inc.	U.S.A.	Manufacturing	100.0
Honda Precision Parts of Georgia, LLC	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
Cardington Yutaka Technologies Inc.	U.S.A.	Manufacturing	100.0
Celina Aluminum Precision Technology Inc.	U.S.A.	Manufacturing	100.0
Honda Trading America Corporation	U.S.A.	Other (Trading)	100.0
Honda Engineering North America, Inc.	U.S.A.	Manufacturing and Sales of machine tools, equipment and production techniques	100.0
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 NV	Belgium	Sales	100.0
Honda Motor Europe Limited	U.K.	Coordination of Subsidiaries Operation and Sales	100.0
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

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<b>Company</b>	<b>Country of Incorporation</b>	<b>Function</b>	<b>Percentage Ownership and Voting Interest</b>
Honda Bank GmbH	Germany	Finance	100.0
Honda Motor Europe (North) GmbH	Germany	Sales	100.0
Honda R&D Europe (Deutschland) GmbH	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	100.0
Honda Motor (China) Investment Corporation, Limited	China	Holding Company and Sales	100.0
Jialing-Honda Motors Co., Ltd.	China	Manufacturing and Sales	70.0
Honda Automobile (China) Co., Ltd.	China	Manufacturing	65.0
Honda Auto Parts Manufacturing Co., Ltd.	China	Manufacturing	100.0
Honda Motorcycle and Scooter India Private Limited	India	Manufacturing and Sales	100.0
Honda Siel Cars India Limited	India	Manufacturing and Sales	97.4
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) Limited	Pakistan	Manufacturing and Sales	51.0
Honda Philippines, Inc.	Philippines	Manufacturing and Sales	99.6
Honda Cars Philippines, Inc.	Philippines	Manufacturing and Sales	74.2
Honda Taiwan Co., Ltd.	Taiwan	Sales	100.0
Asian Honda Motor Co., Ltd.	Thailand	Coordination of Subsidiaries Operation and Sales	100.0
Honda Leasing (Thailand) Company Limited	Thailand	Finance	100.0
Honda Automobile (Thailand) Co., Ltd.	Thailand	Manufacturing and Sales	89.0
Thai Honda Manufacturing Co., Ltd.	Thailand	Manufacturing	60.0
Honda Vietnam Co., Ltd.	Vietnam	Manufacturing and Sales	70.0
Honda Motor de Argentina S.A.	Argentina	Manufacturing and Sales	100.0
Honda South America Ltda.	Brazil	Holding Company of Subsidiaries Operation	100.0
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 Limited	New Zealand	Sales	100.0

**Table of Contents***D. Property, Plants and Equipment*

Honda's manufacturing operations are principally conducted in 33 separate factories, four of which are located in Japan. The following table sets out information, as of March 31, 2008, with respect to Honda's principal manufacturing facilities, all of which are owned by Honda:

<b>Location</b>	<b>Number of Employees</b>	<b>Principal Products Manufactured</b>
Sayama, Saitama, Japan	5,334	Automobiles
Hamamatsu, Shizuoka, Japan	3,295	Motorcycles, power products and transmissions
Suzuka, Mie, Japan	6,981	Automobiles
Ohzu-machi, Kikuchi-gun Kumamoto, Japan	3,032	Motorcycles, all-terrain vehicles, power products and engines
Marysville, Ohio, U.S.A.	7,214	Motorcycles and automobiles
Anna, Ohio, U.S.A.	2,598	Engines
East Liberty, Ohio, U.S.A.	2,324	Automobiles
Lincoln, Alabama, U.S.A.	4,513	Automobiles
Sweptonville, North Carolina, U.S.A.	573	Power products
Timmonsville, South Carolina, U.S.A.	1,484	All-terrain vehicles
Alliston, Ontario, Canada	4,506	Automobiles
El Salto, Mexico	1,913	Motorcycles and automobiles
Swindon, Wiltshire, U.K.	4,924	Automobiles and engines
Ormes, France	159	Power products
Atessa, Italy	798	Motorcycles, power products and engines
Barcelona, Spain	299	Motorcycles
Guangzhou, China	1,131	Automobiles
Chongqing, China	962	Power products
Greater Noida, India	1,797	Automobiles
Gurgaon, India	2,627	Motorcycles
Karawang, Indonesia	1,295	Automobiles
Alor Gajah, Malaysia	1,152	Automobiles
Lahore, Pakistan	609	Automobiles
Manila, Philippines	739	Motorcycles and power products
Laguna, Philippines	687	Automobiles
Pingtung, Taiwan	730	Automobiles
Ayutthaya, Thailand	2,935	Automobiles
Bangkok, Thailand	2,708	Motorcycles and power products
Vinhphuc, Vietnam	1,880	Motorcycles and automobiles
Buenos Aires, Argentina	211	Motorcycles
Sumare, Brazil	2,956	Automobiles
Manaus, Brazil	7,654	Motorcycles and power products
Gebze, Turkey	862	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.

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As of March 31, 2008, the Company's property, with a net book value of approximately ¥26.5 billion, was subject to specific mortgages securing indebtedness.

**Table of Contents****Capital Expenditures**

Capital expenditures in fiscal 2008 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 ¥1,493.2 billion, up ¥499.4 billion from the previous year. Also, total capital expenditures excluding property on operating leases for the year amounted to ¥654.0 billion, up ¥26.9 billion from the previous year. Spending by business segment is shown below.

	2007	Fiscal years ended March 31,	
		2008	Increase (Decrease)
		Yen (millions)	
Motorcycle Business	¥ 68,880	¥ 86,687	¥ 17,807
Automobile Business	540,859	544,922	4,063
Financial Services Business	367,728	839,888	472,160
Financial Services Business (Excluding Property on Operating Leases)	933	627	(306)
Power Product and Other businesses	16,394	21,794	5,400
Total	¥ 993,861	¥ 1,493,291	¥ 499,430
Total (Excluding Property on Operating Leases)	¥ 627,066	¥ 654,030	¥ 26,964

In the motorcycle business, we made capital expenditures of ¥86,687 million in the fiscal year ended March 31, 2008. Funds were allocated to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of Sales and R&D facilities.

In the automobile business, we made capital expenditures of ¥544,922 million in the fiscal year ended March 31, 2008. Funds were allocated to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of Sales and R&D facilities. As one of our plans to increase the local production of automobile powertrain components in North America, Honda Transmission Mfg. of America, Inc. completed construction of its facilities for the production of high precision gears in July 2007.

In the financial services business segment, capital expenditures excluding property on operating leases amounted to ¥627 million in the fiscal year ended March 31, 2008, while capital expenditures for property on operating leases were ¥839,261 million. Capital expenditures in power products and other businesses in the fiscal year ended March 31, 2008, totaling ¥21,794 million, were deployed to upgrade, streamline, and modernize manufacturing facilities for power products, and to improve R&D facilities for power products.

Our finance subsidiaries in North America have historically accounted for all leases as direct financing leases. However, starting in the year ended March 31, 2007, some of the leases which do not qualify for direct financing leases accounting treatment because of the termination of insurance contract covering the estimated residual value of vehicles leased to customers are accounted for as operating leases. Therefore, because of the transfer from direct financing leases to operating leases, capital expenditures of the Company have increased from the year ended March 31, 2007.

*Plans after fiscal 2008*

We set out our original capital expenditure plans for the period from the fiscal year ended March 31, 2008 during the preceding fiscal year. We have subsequently modified these plans as follows:

The investment amount of the new R&D center in Sakura City, Tochigi, Japan has changed from approximately ¥17,000 million to ¥48,000 million because of the expansion of the building. The planned timing of the commencement of the center's operations has not changed.

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The investment amount of the new auto plant in Yorii-machi Oosato-gun, and the new engine plant in Ogawa-machi Hiki-gun, Saitama, Japan has changed from approximately ¥70,000 million to ¥158,000 million because of the change of operations to strengthen the business competitiveness, strengthening of measures to environment, acquisition of land, inclusion of land development expenses, and a substantially increased building materials prices. The planned timing of the start of operation has not changed.

We have set out our capital expenditure plans for the period from the fiscal year ending March 31, 2009 as follows:

In order to respond efficiently to increases in global motorcycle demand as well as to advancements in products and improvements in production engineering, Honda plans to consolidate all motorcycle production in Japan at its Kumamoto Factory with an investment of approximately ¥33,000 million. This new motorcycle plant plans to start operation in 2008. The annual production capacity of Kumamoto Factory will be approximately 600,000 units.

Honda Siel Cars India Limited, which is one of the Company's consolidated subsidiaries, plans to build a new auto plant in Rajasthan, India with an investment of approximately \$230 million. The annual production capacity of this new plant will be approximately 60,000 units. This new auto plant plans to start operation in the end of 2009.

Honda Automobile (Thailand) Co., Ltd., which is one of the Company's consolidated subsidiaries, plans to build a new auto plant in Ayutthaya, Thailand with an investment of approximately 6,200 million bahts. The annual production capacity of this new plant will be expandable up to approximately 120,000 units. This new auto plant plans to start operation in the latter half of 2008.

Honda Motor de Argentina S.A., which is one of the Company's consolidated subsidiaries, plans to build a new auto plant in Buenos Aires, Argentina with an investment of approximately \$100 million. The annual production capacity of this new plant will be approximately 30,000 units. This new auto plant plans to start operation in the latter half of 2009.

Yachiyo Industry Co., Ltd., which is one of the Company's consolidated subsidiaries, plans to build a new auto plant capable of synchronous auto production from the engine to the entire automobile in Yokkaichi City, Mie, Japan with an investment of approximately ¥50,000 million, to further strengthen the mini-vehicle business. The annual production capacity of this new plant and the current operating plant will be approximately 240,000 units, which is the same as the current production capacity. This new auto plant plans to start operation in the latter half of 2010.

The estimated amounts of capital expenditures in fiscal year ending March 31, 2009 are shown below.

	<b>Fiscal year ending March 31, 2009 Yen (millions)</b>
Motorcycle Business	¥ 136,600
Automobile Business	549,800
Financial Services Business	1,300
Power Product and Other Businesses	22,300
<b>Total</b>	<b>¥ 710,000</b>



The estimated amount of capital expenditures for Financial Services Business in the above table does not include property on operating leases.

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### ***Item 4A. Unresolved Staff Comments***

We do not have any unresolved written comments provided by the staff of the Securities and Exchange Commission regarding our periodic reports under the Securities and Exchange Act of 1934.

### ***Item 5. Operating and Financial Review and Prospects***

#### ***A. Operating Results***

##### ***Overview***

##### **Business Environment**

The business environment during the fiscal year ended March 31, 2008 was characterized by escalation in crude oil prices around the world and increases in other raw material prices. The U.S. economy showed increasing signs of a slowdown triggered by the subprime mortgage crisis. In Europe, consumer spending was relatively weak, and the pace of the economic growth moderated. On the other hand, the economies of Asia, particularly China and India, continued to report generally rapid economic expansion. In Japan, signs of an economic slowdown emerged, as private capital investment and consumer spending were virtually level with the previous year.

##### **Overview of Fiscal 2008 Operating Performance**

Taking on market challenges and opportunities head on, Honda posted the highest level of net sales and other operating revenue in its history as a result of higher unit sales in automobile business and other factors. Profit indicators, including operating income, income before income taxes, minority interest and equity in income of affiliates and net income, also set new records. Factors driving this movement to new highs in profitability included higher revenues and the positive impact of cost reductions, both of which more than offset the escalation in raw material costs.

##### **Motorcycle Business**

Global unit sales of motorcycles declined, despite increases in Other Regions mainly in Brazil, as our unit sales in North America and certain other markets decreased.

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By region, in Other Regions, which includes South America, we reported major increases in sales of 125cc-class models as a result of expansion in the Brazilian market. In Asia, sales of scooters and other motorcycles in India were favorable, and sales in the fast-growing economy of Vietnam were strong, especially for automatic transmission models.

In North America, however, as a result of the deceleration in the U.S. economy because of fallout from the subprime mortgage crisis, unit sales of medium- to large-size motorcycle models, sport-type ATVs, and other products declined from the levels of the previous year. In Japan, we took steps to increase the appeal of Honda products and stimulate market demand by installing fuel-injection (FI) systems\* on scooters and other models, making full model changes in our large scooters, and adopting other measures, but unit sales dropped below the previous year.

\* Fuel Injection (FI): Electronically controlled fuel injection systems

### **Automobile Business**

During the fiscal year under review, as a result of strong unit sales of Honda's global automobile models the *Civic*, *Accord*, *CR-V* and *Fit* unit sales increased in all overseas regions, and total unit sales were at a record level for the ninth consecutive year.

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In North America, as the U.S. economy showed growing signs of deceleration, Honda sustained its efforts and momentum, especially for the new-model *Accord* and *CR-V*, and reported a steady rise in unit sales in the United States. In Europe, sales of units with clean, high-efficiency diesel engines expanded, while Honda posted rapid sales growth in Russia, supported by strong economic conditions, and in Eastern Europe, where markets are continuing to expand. Meanwhile, in Asia, sales of the *Civic*, *CR-V* and other models were favorable in China. In Japan, although sales of the new-model *Fit* were strong, overall demand conditions were weak and unit sales decreased.

## **Power Product and Other Businesses**

Total unit sales of this segment during the fiscal year under review declined as a result of substantially lower sales in North America, despite increases in other areas outside the United States.

By region, in North America, overall unit sales of Honda power products were weak because of the decline of the housing market. On the other hand, unit sales increased in Europe, mainly of general-purpose engines for OEM\*<sup>1</sup> use, along with expansion in the Russian and Eastern European markets as well as solid sales of lawn mowers and other products in Western Europe. In Asia, sales of general-purpose engines and pumps were favorable.

\*<sup>1</sup> OEM (Original equipment manufacturing):

OEM refers to a manufacturing of products and components supplied for sale under a third-party brand.

## **Results of the 9th Mid-Term Management Plan**

Fiscal 2008 was the concluding year in Honda's 9th Mid-term management plan, which was launched in fiscal 2006. During the three years covered by the plan, Honda focused on establishing a foothold in order to achieve a significant leap in the future, focusing on

Strengthening the core characteristics that make Honda unique,

Strengthening the foundation for global growth, and

Strengthening Honda's efforts to reduce its environmental footprint.

Over the three years of the plan, Honda established a foothold as a manufacturing enterprise. Also, Honda succeeded in dramatically expanding its business scale as the economies of North America recorded a generally favorable performance, and the economies of Asia and South America continued to grow, by expanding its total net sales and other operating revenue 38.8% more than the final fiscal year of the previous mid-term plan.

**Strengthening the Core Characteristics that Make Honda Unique through Acceleration of Efforts in Japan**

We believe that an important initiative that will facilitate the application of Honda's technology and know-how in its operations around the world will be to strengthen in Japan the core characteristics that make Honda unique. During the period of the 9th Mid-term plan, Honda promoted standardization of production process and increased efficiency with an eye to overseas production plants, aiming to establish a production and development system that enables Honda to provide high quality products and flexibly meet the need of customers.

**Strengthening the Foundation for Global Growth**

In its overseas operations, Honda has worked to structure and expand flexible production systems that can respond to continuing changes in demand. Honda has expanded its production capacity for automobiles in response to strong demand in India, China, Brazil and elsewhere, thus making it possible to supply a total of 3,955,000 automobiles to world markets during the fiscal year under review. This figure was 20.8% higher than production in the fiscal year ended March 31, 2005, the final year of the previous mid-term plan.

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### **Strengthening Honda's Efforts to Reduce Its Environmental Footprint**

With the long-range goal of giving joy to the next generation, Honda has established voluntary targets<sup>\*2</sup> for making its products and production activities more environmentally-responsible and is stepping up its initiatives to reach these targets by an earlier date.

Sales of Honda automobiles with our originally developed diesel engines, which offer improved environmental performance and the same degree of driving comfort as cars with gasoline engines, are expanding in Europe. Furthermore, Honda has adopted the Variable Cylinder Management (VCM)<sup>\*3</sup> System, which offers improvement in fuel efficiency in conventional gasoline engines, to new *Accord* models in North America and began the marketing of these automobiles in September 2007. In the field of hybrid cars, Honda's cumulative sales through the end of fiscal 2008 have exceeded 250,000 units. Sales continue to be strong, as requirements worldwide for better fuel efficiency are increasing. Also, Honda's all-new fuel cell vehicle, the *FCX Clarity*, was unveiled in November 2007.

In the motorcycle business, Honda has completed the installation of fuel injection systems, which are superior in environmental performance, on almost all of its business bike and scooter models sold in Japan.

Honda is also active in the field of solar cells, and its consolidated subsidiary, Honda Soltec Co., Ltd., began the marketing of thin-film solar cells in June 2007.

\*2 Honda's worldwide goals for reducing CO<sub>2</sub> emissions by 2010:

(Compared to fiscal 2001)

- Reduce CO<sub>2</sub> emissions per unit of motorcycles, automobiles and power products by 10%
- Reduce CO<sub>2</sub> emissions per unit in production of motorcycles and power products by 20%
- Reduce CO<sub>2</sub> emissions per unit in production of automobiles by 10%

\*3 VCM: An advanced variable cylinder management system that can switch from six-cylinder mode to four-cylinder or three-cylinder mode, depending on driving conditions.

### ***Fiscal Year 2008 Compared with Fiscal Year 2007***

#### **Net Sales and Other Operating Revenue**

Honda's consolidated net sales and other operating revenues (hereafter, net sales) for the fiscal year ended March 31, 2008 grew ¥915.6 billion, or 8.3%, compared with fiscal 2007, to ¥12,002.8 billion. Factors behind this increase were higher unit sales in the motorcycle business in Other Regions, higher unit sales in the automobile business in all overseas regions, and higher unit sales of power products in Asia, as well as the positive impact of foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged against other currencies from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥743.0 billion, or 6.7%, compared to the increase as reported of ¥915.6 billion, which includes a positive foreign currency effect.

Domestic net sales decreased by ¥95.4 billion, or 5.7%, to ¥1,585.7 billion, but overseas net sales were up ¥1,011.1 billion, or 10.7%, to ¥10,417.0 billion.

### **Operating Income**

Operating income increased ¥101.2 billion, or 11.9% to ¥953.1 billion when compared with the preceding year. After considering the net effect of the positive impact of foreign currency effects of ¥37.6 billion, Honda estimates operating income increased ¥63.5 billion, or 7.5%.

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Factors contributing to the remaining increase of ¥63.5 billion in operating income, after consideration of foreign currency effects can be summarized as follows (i) changes in net sales and the model mix, (ii) cost reductions and the effect of raw material cost fluctuations, (iii) changes in selling, general and administrative (SG&A) expenses and (iv) R&D expenses. Details regarding these factors are as follows.

Changes in net sales and the model mix was a positive impact of ¥170.0 billion due mainly to an increase of income because of higher sales and an effect of price increase. On the other hand, higher incentives payment in North America and change in model mix caused by shift of customers demands towards more fuel efficient (compact) models for automobiles segment because of the higher fuel prices negatively affected operating income.

Because of the positive impact of continuing cost reduction effects which offset the negative impacts of surging raw materials prices, such as steel and precious grade metals used as catalyst, as well as an increase in depreciation, cost of sales had a positive impact of ¥11.5 billion.

Selling, general and administrative expenses had a negative impact of ¥81.8 billion due to higher transportation and storage costs accompanying the increase in unit sales, an increase of provisions for credit losses mainly in financial services business in North America, and higher advertising and sales promotion costs.

R&D expenses also had a negative impact of ¥36.1 billion, as we spent more on safety and environmental technologies and worked to enhance the attractiveness of our products.

With respect to the discussion above of the change in operating income, management has identified the factors set forth below and used what it believes to be a reasonable method to analyze the respective changes in such factors. Each of these factors is explained below. Management has analyzed changes in these factors at the levels of the Company and its material consolidated subsidiaries.

(1) Foreign currency effects consist of translation adjustments, which come from the translation of the currency of foreign subsidiaries financial statements into Japanese yen, and foreign currency adjustments, which result from foreign-currency-denominated sales. At the levels of the Company and those consolidated subsidiaries which have been analyzed, such foreign currency adjustments primarily relate to the following currencies: U.S. dollar, Canadian dollar, Euro, British pound, Brazilian real and Japanese yen.

(2) With respect to cost reduction and effects of raw material cost fluctuations, management has analyzed cost reduction and effects of raw material cost fluctuations at the levels of the Company and its material foreign manufacturing subsidiaries in North America, Europe and Other Regions.

(3) With respect to changes in net sales and model mix, management has analyzed changes in sales volume and in the mix of product models sold in major markets which have resulted in increases/decreases in profit, as well as certain other reasons for increases/decreases in net sales and cost of sales.



(4) With respect to selling, general and administrative expenses, management has analyzed reasons for an increase/decrease in selling, general and administrative expenses from the previous fiscal year excluding currency translation effects.

**Income before Income Taxes, Minority Interest and Equity in Income of Affiliates**

Income before income taxes, minority interest and equity in income of affiliates increased ¥102.9 billion, or 13.0%, to ¥895.8 billion. Main factors of this increase except factors relating operating income are as follows;

Losses on the valuation of interest rate swaps and other derivatives of our finance subsidiaries had a negative impact of ¥13.4 billion. The other factors had a net positive impact of ¥15.1 billion. Among such other factors, the effects of transaction gains and losses had a positive impact, but this was offset by the negative impact of various factors, including the net loss associated with the revaluation of assets and liabilities denominated in foreign currencies, and the absence of gains on sale of investment securities which were recorded in the fiscal year ended March 31, 2007.

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### **Income Tax Expense**

Income tax expense increased ¥103.5 billion, or 36.5%, to ¥387.4 billion. The effective tax rate was 43.2%, an increase by 7.4 percentage points from the previous fiscal year. This increase in the effective tax rate was mainly due to the recognition of liabilities for unrecognized tax benefits as a result of an ongoing examination of the Company's tax filings by the Tokyo Regional Taxation Bureau with regard to transfer pricing matters.

Additional detailed information is described in Note (10) to the accompanying consolidated financial statements.

### **Minority Interest in Income of Consolidated Subsidiaries**

The amount deducted for minority interest in income of consolidated subsidiaries grew ¥7.1 billion, or 35.7% from the previous year, to ¥27.3 billion.

### **Equity in Income of Affiliates**

Equity in income of affiliates grew ¥15.5 billion, or 15.0%, to ¥118.9 billion, due mainly to an increase of income at equity method affiliates in Asia accompanying an increase in their sales along with market expansion.

### **Net Income**

Net income rose ¥7.7 billion, or 1.3% from the previous year, to ¥600.0 billion.

### **Business segments**

#### **Motorcycle Business**

Unit sales of Honda motorcycles, all-terrain vehicles (ATVs) and personal watercraft (PWC) in fiscal 2008 totaled 9,320,000 units, a decrease of 10.1%, from the previous fiscal year. Unit sales in Japan were 311,000 units, a decrease of 7.7%. Overseas unit sales in the motorcycle totaled 9,009,000 units, a decrease of 10.2%, due mainly to a decrease in unit sales of parts for local production at affiliates accounted for under equity method in Asia, which offset the increase in unit sales in Other Regions, especially in South America. Revenue from external customers increased ¥188.0 billion, or 13.7%, to ¥1,558.6 billion, from the previous fiscal year, due mainly to increased unit sales in Asia and Other Regions, and the positive impact of foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had

remained unchanged from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥94.8 billion, or 6.9%, compared to the increase as reported of ¥188.0 billion, which includes a positive foreign currency effect.

Operating income increased ¥50.6 billion, or 50.4 %, to ¥151.2 billion, from the previous fiscal year, due mainly to a positive foreign currency effects caused by an appreciation of Brazilian real and a positive impact of changes in the model mix, which offset the increased R&D expenses and higher SG&A expenses.

### *Japan*

In Japan, total demand\* for motorcycles in fiscal 2008 was approximately 710,000 units, a decline from the previous fiscal year. Although sales of small, two-wheeled motor vehicles (over 251cc) were strong due to structural factors, including the decline in the population of younger people and those obtaining first-class motorcycle driver's licenses, the shortage of motorcycle parking space in urban areas and other factors sales of first-class motor-driven cycles (up to 50cc) and mini-sized two-wheeled motor mini-vehicles (126cc to 250cc) declined.

Amid these market conditions, Honda's unit sales of motorcycles declined 7.7% from the previous fiscal year to 311,000 units, despite an increase in sales of second-class motor-driven cycles (51cc to 125cc) for business use from replacement demands of corporate customers, as sales of scooters and other first-class motor-driven cycles as well as mini-sized two-wheeled motor mini-vehicles declined.

To accelerate initiatives to reduce the load on the natural environment, Honda newly adopted its fuel-injection system on its *Today* motor-driven cycles, its *Super Cub 50* business bike and other models. In addition, to stimulate new demand, Honda introduced the *DN-01*, a large super sport cruiser equipped with its new automatic transmission.

\* Source: JAMA (Japan Automobile Manufacturers Association)

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### ***North America***

In calendar 2007, total demand in the United States for motorcycles and ATVs declined. Although sales of on-road bikes remained stable, sales of off-road bikes and sport ATVs, which are recreational products, declined as a result of such factors as the turmoil in financial markets stemming from the subprime mortgage crisis.

Amid these conditions, Honda's unit sales in this market for fiscal 2008 declined 9.9%, to 453,000 units. Among motorcycle sales, although the number of super sport bikes such as *CBR600RR* increased, sales of cruiser models and off-road bikes declined. As a result, Honda's motorcycle sales in this market fell 14.2%, to 242,000 units. Sales of ATVs decreased 4.5%, to 211,000 units, despite favorable sales of models in the *FourTrax Rancher* utility ATV series, as the number of sport ATVs declined.

### ***Europe***

In calendar 2007, total demand in Europe<sup>\*1</sup> increased over the previous year, to approximately 1,320,000 units as every country except Italy saw an increase from the growth in sales of large scooters, which are the largest market sub-segment in Europe.

In this operating environment, Honda's motorcycle sales in this region for fiscal 2008 decreased 4.9% from the previous year, to 313,000 units. This occurred in spite of approximately the same level of sales of large scooters as in the previous fiscal year, because of weakness in unit sales of 125cc scooters as well as naked<sup>\*2</sup> and dual-purpose<sup>\*3</sup> models.

\*1 Total for ten countries: United Kingdom, Germany, the Netherlands, Belgium, France, Spain, Italy, Switzerland, Portugal and Hungary

\*2 Naked: models not equipped with a cowl (a front guard to protect against the wind)

\*3 Dual-purpose: motorcycles used mainly for off-road riding but also designed to run on paved roads (public roads)

### ***Asia***

In Asia, demand for motorcycles as an essential mode of transportation has continued to grow. During calendar 2007, total demand in principal Asian countries outside Japan\* increased from the previous year, to approximately 35,500,000 units, as a result of stable economic growth and other factors.

Amid this environment, unit sales of completed products of Honda and its consolidated subsidiaries and unit sales of parts to Honda affiliate companies accounted for under the equity method for use in local production by such companies declined 16.0%, to 6,633,000 units.

Honda is working to expand local businesses in the region through actively promoting the local procurement of parts used in overseas production. In Asia, this strategy has resulted in an increase in sales of Honda-brand motorcycles that are manufactured and sold by affiliated companies accounted for under the equity method in India and China, but do not include any parts supplied by Honda or its consolidated subsidiaries, and, therefore, are not included in Honda's consolidated unit sales.

By country, although sales of the *Wave* series in Thailand were favorable, sales of existing models weakened. As a result, Honda's unit sales in Thailand declined 8.2% from the previous fiscal year, to 1,286,000 units.

In Vietnam, unit sales in fiscal 2008 climbed 42.9% over the previous fiscal year, to 1,125,000 units. Factors accounting for this were mainly the introduction in April 2007 of the first fuel-injection model, the *Future Neo FI*, and the *Air Blade*, with an automatic transmission.

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In Indonesia, P.T. Astra Honda Motor, an affiliate accounted for under the equity method, added a new model of the *Revo* to its lineup of 100cc *Cub*-type models in April 2007 and introduced a version of the *Fit X* with disk brakes in August 2007. P.T. Astra Honda Motor also added another new model, the *Supra X125*, a *Cub*-type model, to its line in September 2007. However, these initiatives were not sufficient to make up for the slump in the first half of the year, and unit sales to affiliate(s) accounted for under the equity method declined 16.7%, to 2,056,000 units.

Our Indian consolidated subsidiary, Honda Motorcycle and Scooter India Private Limited, reported robust sales of the *Shine*, a 125cc motorcycle that had undergone a model change; the *Unicorn*, a 150cc motorcycle; the *Activa* scooter, with an automatic transmission, and the *Dio* motorcycle. In addition, Hero Honda Motors Ltd., an affiliate accounted for under the equity method, reported robust sales of the low-priced *CD Deluxe* 100cc motorcycle; the *Splendor-NXG*, which it introduced in May 2007; and the *Glamour*, a 125cc motorcycle with cast wheel specifications. For the fiscal year under review, total unit sales of completed motorcycles of Honda and its consolidated subsidiaries and unit sales of parts to Honda affiliate companies accounted for under the equity method for use in local production by such companies declined 47.5%, to 1,120,000 units.

\* Total for eight countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, India, Pakistan and China

## ***Other Regions***

In Other Regions including South America, the Middle & Near East, Africa and Oceania unit sales increased 23.4%, to 1,610,000 units.

In Brazil, where economic performance continued to be strong, total demand in calendar 2007 increased, to 1,690,000 units. Amid this operating environment, Honda posted growth in sales of its core models, the *CG150 Titan*, the *CG125 Fan* and the *Biz 125* models, and unit sales in Brazil expanded.

## **Automobile Business**

Honda's unit sales of automobiles amounted to 3,925,000 units, up 7.5% from the previous fiscal year. In Japan, unit sales decreased 8.5%, to 615,000 units. Overseas unit sales increased 11.1%, to 3,310,000 units, due mainly to increased unit sales in North America, Europe, Asia and Other Regions.

Revenue from external customers increased ¥600.3 billion, or 6.8%, to ¥9,489.3 billion, from the previous fiscal year, due to increased unit sales and the positive impact of the foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥514.4 billion, or 5.8%, compared to the increase as reported of ¥600.3 billion, which includes a positive foreign currency effect.

Operating income increased ¥62.1 billion, or 10.4%, to ¥661.6 billion, from the previous fiscal year, due mainly to the positive impacts of higher revenue attributable to the increased unit sales, continuing cost reduction effects, increased prices, and the positive foreign currency effects,

while offsetting the negative impacts of increased sales incentives in North America, substantially increased raw material costs, increased SG&A expenses, changes in the model mix, higher R&D expenses, and increased depreciation expenses.

*Japan*

Total automobile demand in Japan\* (as measured by the number of registrations of regular vehicles (661cc or higher) and mini-vehicles (660cc or lower)) through December 2007 was below the level of the previous year for 21 consecutive months, thus creating severe market conditions. In fiscal 2008, total demand declined from the previous fiscal year, to 5,320,000 units. Of this total, regular vehicle registrations remained below the level of the

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previous year throughout the fiscal year and amounted to approximately 3,430,000 units, despite the positive impact on sales of the Tokyo Motor Show in the latter half of fiscal 2008 and the introduction of new models by various automakers. Registrations of mini-vehicles amounted to about 1,890,000 units, also below the level of the previous fiscal year, despite continued interest among drivers in owning these vehicles, in part because of a decline of the positive impact of the introduction of new types of mini-vehicles.

Within this operating environment, although sales of Honda vehicles in the regular vehicle category during fiscal 2008, including the *Stream* and *CR-V* continued to be strong, and sales of the new *Fit* and *Inspire* models were robust, in the mini-vehicle category sales were lackluster due to the decline in sales of *Zest* and *Life*. As a result of this and other factors, overall automobile sales declined 8.5%, to 615,000 units.

\* Source: JAMA (Japan Automobile Manufacturers Association)

### ***North America***

In calendar 2007, total demand in the United States declined from the previous year, to 16,150,000 units. A decline in new car demand became clear toward the end of the year as consumer interest in purchasing new automobiles declined substantially due to such factors as the increase in oil prices, the turmoil in financial markets stemming from the subprime mortgage crisis. In addition, the market continued to shift from large sport utility vehicles (SUVs) and light trucks including pickup trucks, and toward small-size vehicles and crossover utility vehicles (CUVs) because of their fuel efficiency and smaller size.

Amid these operating conditions, unit sales of Honda automobiles in North America during the fiscal year under review rose 3.5%, to 1,850,000 units, despite a decline in sales of the *Pilot*, as sales of the small-size *Fit* and the *CR-V* in the CUV category continued to be strong, and a favorable sales performance was recorded for the core *Accord* and *Civic* models.

### ***Europe***

Total demand in Germany, Europe's largest market, were below the levels of the previous year for 12 consecutive months. However, markets in Eastern and Central European countries continued to expand. As a result, total demand in Europe\* in calendar 2007 amounted to approximately 15,960,000 units, about the same as in calendar 2006.

Total demand in Russia in calendar 2007 showed strong growth, to about 2,580,000 units as a result of strong economic conditions accompanying the rise in prices of crude oil and other resources that Russia possesses as well as the rapid expansion of automobile loan financing in that country.

Amid this operating environment, during the fiscal year under review, Honda's automobile sales increased 20.7%, to 391,000 units. Factors accounting for this performance were the expansion in sales of diesel-powered cars as well as favorable sales for the new model *CR-V*, which was introduced in January 2007, and the three-door *Type S* as well as *Type R* models in the *Civic* series. Especially in Russia, sales of the *Accord*



and *Civic* four-door sedans recorded strong sales.

\* Source: Passenger automobile division of Association des Constructeurs Européens d Automobiles (the European automobile association)  
(Figures include 25 EU countries and 3 European Free Trade Association (EFTA) countries)

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### ***Asia***

In Asia outside Japan, total demand in principal countries\* in calendar 2007 increased, to 14,330,000 units, as a result of stable economic expansion.

In Asia in fiscal 2008, total sales of finished automobiles of Honda and its consolidated subsidiaries and unit sales of parts to Honda affiliate companies accounted for under the equity method for use in local production by such companies expanded 21.8%, to 755,000 units.

By country, sales of the *Civic* and the new *CR-V* models that were introduced in early 2007 showed favorable expansion in Indonesia, India and other countries. In China, sales were strong for the *City* and *Odyssey* by Guangzhou Honda Automobile Co., Ltd., an affiliate accounted for under the equity method, and for the *Civic* and the *CR-V*, which was introduced in April 2007 by Dongfeng Honda Automobile Co., Ltd., also an equity-method affiliate.

\* The total includes Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Singapore, Taiwan, Korea, India, Pakistan and China.

### ***Other Regions***

In calendar 2007, other major markets in the Other Regions geographical segment expanded against a background of increasing crude oil and other raw material prices. Compared with the previous year, the Brazilian automobile market\*<sup>1</sup> grew, to approximately 2,460,000 units, while the Australian market\*<sup>2</sup> expanded to approximately 1,050,000 units. Markets in the Middle & Near East and South American markets other than Brazil also experienced overall expansion.

Amid these operating conditions, Honda's unit sales in the Other Regions expanded 26.6%, to 314,000 units. In Brazil, sales of *Civic* and *Fit* flexible fuel vehicle (FFV) models which are able to operate on 100% ethanol or a mixture of gasoline and ethanol were quite robust, while in other countries, sales of the *CR-V* and *Civic* were strong.

\*<sup>1</sup> Source : Associação Nacional dos Fabricantes de Veículos Automotores (the Brazilian automobile association)

\*<sup>2</sup> Source: Federal Chamber of Automotive Industries (the Australian automobile association)

### **Power Product and Other Businesses**

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Honda's unit sales of power products totaled 6,057,000 units, down 5.7% from the previous fiscal year. In Japan, unit sales totaled 550,000 units, an increase of 4.4%. Overseas unit sales came to 5,507,000 units, a decrease of 6.6%, due mainly to decreased unit sales in North America. Revenue from external customers increased ¥3.4 billion, or 0.8%, to ¥421.1 billion, from the previous fiscal year, due mainly to the positive impact of foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales for the period would have decreased by approximately ¥3.3 billion, or 0.8%, compared to the increase as reported of ¥3.4 billion, which includes a positive foreign currency effect.

Operating income was ¥22.3 billion, a decrease of ¥13.8 billion, or 38.2% from the previous fiscal year, due mainly to the negative impact of the increased SG&A expenses and an increase of R&D expenses in other businesses, which offset the positive impact of the foreign currency effects caused by the appreciation of the European currencies.

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### ***Japan***

In Japan, unit sales grew 4.4%, to 550,000 units. These gains were due primarily to higher sales of pumps, sales of *GX* series engines for electric power generators and other products on an original equipment manufacturer (OEM<sup>\*1</sup>) basis and sales of compact, home-use cogeneration systems for household use.<sup>\*2</sup>

\*1 OEM (Original equipment manufacturing):

OEM refers to a manufacturing of products and components supplied for sale under a third-party brand.

\*2 Compact, home-use cogeneration systems: Honda has applied its original electromagnetic inverter technologies to create small and light-weight electronic power generation systems built with an efficient layout.

### ***North America***

Sales in North America declined 22.2%, to 2,415,000 units. Factors accounting for these declines were weakness in sales of engines for OEM use in high-pressure washers and lawn mowers and weakness in sales of lawn mowers, generators and other products, due mainly to the slowdown in the housing market caused by the subprime loan issue mainly in the United States.

### ***Europe***

In Europe, sales expanded 4.2%, to 1,693,000 units. Sales of *GCV* series engines for OEM use in lawn mowers and sales of *GX* series engines for OEM use in generators, construction machinery and other applications expanded.

### ***Asia***

Unit sales in Asia, excluding Japan, increased 20.4% from the previous fiscal year, to 915,000 units, as a result of higher sales of general-purpose engines in China, general-purpose engines and pumps in Indonesia and India as well as other factors.

### ***Other Regions***

In Other Regions, unit sales for the fiscal year under review rose 19.2%, to 484,000 units, mainly as a result of increased sales of general-purpose engines in Brazil and higher sales of electric power generators in Australia and South Africa.

### **Financial Services Business**

To support the sale of its products, Honda provides wholesale financing to dealers and retail lending and leasing to customers through our finance subsidiaries in Japan, the United States, Canada, the United Kingdom, Germany, Brazil and Thailand.

As a result of increased sales of automobiles mainly in North America, credit assets and property on operating leases of financial subsidiaries rose 3.4% from the previous fiscal year, to ¥4,967.5 billion.

In fiscal year 2008, revenue from external customers in a financial services business increased ¥123.8 billion, or 30.2%, to ¥533.5 billion from the previous fiscal year due mainly to an increase in operating lease revenue. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥137.0 billion, or 33.4%, compared to the increase as reported of ¥123.8 billion, which includes a negative foreign currency effect.

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Operating income also expanded ¥2.2 billion, or 2.0%, to ¥117.7 billion from the previous fiscal year, due mainly to the increased profit attributable to higher revenue benefiting from a higher loan balance in North America, which offset the negative impact of the increased SG&A expenses caused by an increase of provisions for credit losses.

Our finance subsidiaries in North America have historically accounted for all leases as direct financing leases. However, starting in the year ended March 31, 2007, some of the leases which do not qualify for direct financing leases accounting treatment are accounted for as operating leases. Generally, direct financing lease revenues and interest income consist of the recognition of finance lease revenue at inception of the lease arrangement and subsequent recognition of the interest income component of total lease payments using the effective interest method. In comparison, operating lease revenues include the recognition of the gross lease payment amounts on a straight line basis over the term of the lease arrangement, and operating lease vehicles are depreciated to their estimated residual value on a straight line basis over the term of the lease. It is not anticipated that the differences in accounting for operating leases and direct financing leases will have a material net impact on the Company's results of operations overall, however, operating lease revenues and associated depreciation of leased assets do result in differing presentation and timing compared to those of direct financing leases.

Information about allowance for credit losses is provided at Item 5. Operating and Financial Review and Prospects A. Operating Results, Application of Critical Accounting Policies. Information about finance subsidiaries-receivables and securitizations is described in Note (3) to the accompanying consolidated financial statements.

## **Geographical Information**

### ***Japan***

In Japan, revenue from domestic and export sales was ¥4,889.0 billion, up ¥114.9 billion, or 2.4% compared to the previous fiscal year, due primarily to the increased revenue from exports in automobile business which offset the negative impact of the decreased revenue in domestic automobile business. Operating income was ¥192.5 billion, down ¥35.5 billion, or 15.6%, compared to the previous fiscal year, due primarily to the increased R&D expenses, increased depreciation expenses, and substantially increased raw material costs, which offset the positive impact of the continuing cost reduction effects, increased profit attributable to higher revenue, and the decreased SG&A expenses.

### ***North America***

In North America, which mainly consists of the United States, revenue increased ¥92.6 billion, or 1.5%, to ¥6,265.2 billion, due mainly to increased revenue in the automobile business, which offset the negative impact of foreign currency translation effects.

Operating income decreased ¥24.1 billion, or 5.3%, to ¥432.6 billion, from the previous fiscal year, due primarily to the negative impacts of increased sales incentives in the automobile business, substantially increased raw material costs, the change in the model mix in the automobile business, increased SG&A expenses caused by an increase of provisions for credit losses in the financial services business, increased depreciation expenses, and the negative impact of foreign currency effect because of the depreciation of U.S. dollars, which offset the positive impacts of increased profit attributable to higher revenue, continuing cost reduction effects, and increased prices.

*Europe*

In Europe, revenue increased ¥246.4 billion, or 18.3%, to ¥1,594.2 billion, compared to the previous fiscal year, due primarily to increased revenue in the automobile business and the positive impact of foreign currency translation effects.

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Operating income increased ¥19.5 billion, or 61.1%, to ¥51.5 billion, from the previous fiscal year, due mainly to the positive impacts of increased profit attributable to higher revenue, continuing cost reduction effects and the foreign currency effects, which offset the negative impacts of the increased SG&A expenses.

### *Asia*

In Asia, revenue increased ¥366.8 billion, or 28.9%, to ¥1,638.2 billion from the previous fiscal year, due primarily to increased revenue in the motorcycle and automobile businesses and the positive impact of foreign currency translation effects.

Operating income increased ¥53.5 billion, or 69.4%, to ¥130.7 billion, from the previous fiscal year, due mainly to the positive impacts of increased profit attributable to higher revenue and the foreign currency effects, which offset the negative impact of increased SG&A expenses.

### *Other Regions*

In Other Regions, revenue increased ¥295.1 billion, or 37.0%, to ¥1,092.8 billion, compared to the previous fiscal year, due mainly to increased revenue in all of the business segments and the positive impact of foreign currency translation effects.

Operating income rose ¥44.2 billion, or 61.2%, to ¥116.4 billion, from the previous fiscal year, due mainly to the positive impact of the increased profit attributable to higher revenue, the foreign currency effects, and continuing cost reduction effects which offset the negative impact of increased SG&A expenses.

## **Initiatives under the 10th Mid-Term Management Plan**

In April 2008, we began our 10th three-year mid-term management plan. As we launched the new plan, environmental issues were continuing to rise in importance and many uncertainties loomed, including volatility in foreign currency exchange rates and the difficulty in forecasting the macro trends in the world economy. Under our 10th Mid-term plan, the basic concept is to establish the necessary systems to give Honda the strengths to continue to grow globally in the medium-to-long term and apply its strengths in Japan to its operations around the world.

To do this, we will take initiatives including, strengthening motorcycle business, innovation of automobile manufacturing in Japan, and increasing the market penetration of environmentally-responsible products.

### **Strengthening Motorcycle Business**



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Looking to the future, Honda will continue to create products that will offer new value and exceed customer expectations. To do this, Honda will make further advances in R&D, expand the application of fuel injection technology and actively apply safety technologies, including a motorcycle airbag system and antilock braking systems. In addition to introducing environmental and safety technologies, Honda will work to improve fuel efficiency through the installation of a VCM system for motorcycles that increases fuel economy and an advanced electronically controlled combined antilock braking system (C-ABS) that improves stability when braking, while also working to enhance the attractiveness of medium to large-size models and give Honda owners a greater sense of joy in riding.

At new motorcycle plant at Honda's Kumamoto Factory, which began operations in April 2008, will play a key role in strengthening motorcycle production. Honda created efficient production lines to make it possible to efficiently produce approximately 60 models, from small commuters to large motorcycles, and accommodate the unique characteristics of each model. The initiatives we have taken at this new motorcycle plant will be applied in our plants in regions outside of Japan, where the markets for motorcycles are continuing to expand, and the Kumamoto Factory will be a driving force for creating new products going forward.

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### **Innovation of Automobile Manufacturing in Japan**

Several next-generation production plants will begin operation in Japan over the coming three years. They will include a new engine plant in Ogawa, a new automobile plant in Yorii, a new mini-vehicle production plant to be built by our consolidated subsidiary, Yachiyo Industry Co., Ltd. Also, the renovation is planned for Hamamatsu Factory to make it to specialize in production of transmissions.

The new auto engine plant in Ogawa will be responsible for the production of next-generation environmentally responsible engines that require highly advanced manufacturing technologies. This plant will use flexible manufacturing technology to produce engines requiring different production processes, including gasoline engines, diesel engines, in-line four-cylinder engines and V-type engines. We are planning to make the Yorii Plant a next-generation manufacturing facility by introducing systems that optimally control the amount of energy used during production and works to create more people-friendly assembly lines.

Also, in regions outside Japan, in the latter half of fiscal 2008 we will begin production at a new automobile plant in Indiana, in the United States; a new auto engine plant in Canada; and a second automobile plant in Thailand.

### **Environmentally Responsible Vehicles**

Honda believes that the most important environmental issue is the reduction of CO<sub>2</sub> emissions, which is a means of protecting the natural environment on a global scale. Recognizing this, Honda has proactively announced global CO<sub>2</sub> reduction targets for 2010 for both its products and manufacturing activities.

### **Hybrid Vehicles**

In addition to the *Civic Hybrid*, which is currently on the market, Honda is planning to introduce a new dedicated hybrid vehicle that will be compact and easy to drive, with five doors and room for five passengers. For its hybrid system, the new automobile will incorporate a compact, lightweight Integrated Motor Assist (IMA) system. The new Honda hybrid will go on sale in Japan, North America and Europe early in 2009. Looking ahead, we plan to debut a new sporty hybrid based on the *CR-Z* concept model that we showed at the 40th Tokyo Motor Show. Furthermore, development is planned to put the hybrid system on *Fit* model.

### **FCX Clarity**

The *FCX Clarity* is a fuel cell vehicle, which features zero CO<sub>2</sub> emissions. Lease sales of this epoch-making vehicle will begin in the United States in July 2008 and in Japan in fall 2008.

### ***Fiscal 2007 Compared with Fiscal 2006***

*Overview*

**Net Sales and Other Operating Revenue**

Honda's consolidated net sales and other operating revenue (hereafter, "net sales") for the fiscal year ended March 31, 2007 grew ¥1,179.1 billion, or 11.9%, compared with fiscal year 2006, to ¥11,087.1 billion. Factors behind this increase were higher unit sales in the motorcycle business in Other Regions, higher overseas unit sales in the automobile business and higher unit sales in all regions in power product and other businesses, as well as the positive impact of foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged against other currencies from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥732.4 billion, or 7.4%, compared to the increase as reported of ¥1,179.1 billion, which includes a positive foreign currency effect.

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Domestic net sales decreased by ¥12.8 billion, or 0.8% to ¥1,681.1 billion, but overseas net sales were up ¥1,191.9 billion, or 14.5% from fiscal year 2006, to ¥9,405.9 billion.

### **Operating Income**

Operating income declined ¥17.0 billion, or 2.0% to ¥851.8 billion when compared with the preceding year. After considering the net effect of the positive impact of foreign currency effects of ¥125.5 billion in 2007 and the absence of a ¥138.0 billion gain on the return of the substitutional portion of the Employees Pension Funds which was presented in fiscal year 2006, Honda estimates operating income decreased ¥4.5 billion, or 0.5%.

Factors contributing to the remaining ¥4.5 billion decrease in operating income, after consideration of foreign currency effects in 2007 and the gain on the return of the substitutional portion of the Employees Pension Funds which was recorded in the fiscal year ended March 31, 2006, can be categorized into (i) changes in net sales and the model mix, (ii) cost reductions and the effect of raw material cost fluctuations, (iii) changes in selling, general and administrative (SG&A) expenses and (iv) R&D costs. Details regarding these factors are as follows.

Changes in net sales and the model mix had a positive impact of ¥155.1 billion due mainly to an increase of income because of higher sales in all businesses and in all regions coupled with an effect of price increase in North America. On the other hand, shift of customers' demands towards more fuel efficient (compact) models mainly in Japan, North America, and Europe market for automobiles segment and higher incentives payment in North America negatively affected operating income.

Despite the effects of continuing cost reduction, cost of sales had a negative impact of ¥13.0 billion due to surging raw materials prices, such as steel, aluminum and precious grade metals used as catalyst, as well as an increase in depreciation and labor costs.

Selling, general and administrative expenses had a negative impact of ¥105.2 billion due to increases in line with higher unit sales, higher freight costs as the result of substantially increased crude oil prices and higher expenses related to product quality. The negative impact was offset by a decrease of sales promotion expense.

R&D expenses also had a negative impact of ¥41.4 billion, as we spent more on safety and environmental technologies and worked to enhance the attractiveness of our products.

With respect to the discussion above of the change in operating income, management has identified the factors set forth below and used what it believes to be a reasonable method to analyze the respective changes in such factors. Each of these factors is explained below. Management has analyzed changes in these factors at the levels of the Company and its material consolidated subsidiaries.

(1) Foreign currency effects consist of translation adjustments, which come from the translation of the currency of foreign subsidiaries' financial statements into Japanese yen, and foreign currency adjustments, which result from foreign-currency-denominated sales. At the levels of the Company and those consolidated subsidiaries which have been analyzed, such foreign currency adjustments primarily relate to the following

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currencies: U.S. dollar, Canadian dollar, Euro, British pound, Brazilian real and Japanese yen.

(2) With respect to cost reduction and effects of raw material cost fluctuations, management has analyzed cost reduction and effects of raw material cost fluctuations at the levels of the Company and its material foreign manufacturing subsidiaries in North America, Europe and Other Regions.

(3) With respect to changes in net sales and model mix, management has analyzed changes in sales volume and in the mix of product models sold in major markets which have resulted in increases/decreases in profit, as well as certain other reasons for increases/decreases in net sales and cost of sales.

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(4) With respect to selling, general and administrative expenses, management has analyzed reasons for an increase/decrease in selling, general and administrative expenses from the previous fiscal year excluding currency translation effects.

### **Income before Income Taxes, Minority Interest and Equity in Income of Affiliates**

Income before income taxes, minority interest and equity in income of affiliates decreased ¥37.0 billion, or 4.5%, to ¥792.8 billion. Main factors of this decrease except factors relating operating income are as follows;

Losses on the valuation of interest rate swaps and other derivatives of our finance subsidiaries had a negative impact of ¥46.3 billion. Offsetting this was the positive impact of various factors, totaling ¥26.3 billion, including the currency effect due to the difference between average rates and transaction rates and gains on sale of investment securities.

### **Income Tax Expense**

Income tax expense decreased ¥33.3 billion, or 10.5%, to ¥283.8 billion. The effective tax rate was 35.8%, a decrease by 2.4 percentage points from the previous fiscal year. This decrease was due mainly to an increase of income at foreign subsidiaries which are located in the countries with lower statutory income tax rate.

Additional detailed information is described in Note (10) to the accompanying consolidated financial statements.

### **Minority Interest in Income of Consolidated Subsidiaries**

The amount deducted for minority interest in income of consolidated subsidiaries grew ¥4.8 billion, or 31.6% from the previous year, to ¥20.1 billion, due mainly to the impact of a newly consolidated subsidiary.

### **Equity in Income of Affiliates**

Equity in income of affiliates grew ¥3.8 billion, or 3.8%, to ¥103.4 billion due mainly to an increase of income at equity method affiliates in Asia accompanying an increase in their sales along with market expansion.

### **Net Income**

Net income was down ¥4.7 billion, or 0.8% from the previous year, to ¥592.3 billion.

## **Business segments**

### **Motorcycle Business**

Unit sales of Honda motorcycles, all-terrain vehicles (ATVs) and personal watercraft (PWC) in fiscal 2007 amounted to 10,369,000 units, an increase of 1.0%, from the previous fiscal year. Unit sales in Japan were 337,000 units, a decrease of 8.4%. Overseas unit sales in the motorcycle totaled 10,032,000 units, an increase of 1.3%, due mainly to an increase in unit sales in Other Regions, especially in South America. Revenue from external customers increased ¥144.8 billion, or 11.8%, to ¥1,370.6 billion, from the previous fiscal year, due mainly to increased unit sales and the positive impact of foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥45.9 billion, or 3.7%, compared to the increase as reported of ¥144.8 billion, which includes a positive foreign currency effect.

Operating income decreased ¥13.3 billion, or 11.7 %, to ¥100.6 billion, from the previous fiscal year, due mainly to increased SG&A expenses, higher R&D expenses and the gain on return which was recorded in the fiscal year ended March 31, 2006, offsetting the positive impact of increased profit attributable to higher revenue and positive foreign currency effects.

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### ***Japan***

In Japan, total demand for motorcycles in fiscal year 2007, was approximately 730,000 units, down from the previous year. Demand increased for second-class motor-driven cycles (51cc - 125cc) and small-size two-wheeled motor vehicles (over 251cc), but fell for first-class motor-driven cycles (up to 50cc) and mini-size two-wheeled motor vehicles (126cc - 250cc).

To meet increasingly diverse customer needs, we strengthened the Honda Dream Shop and other parts of our sales network, and strove to develop even more appealing motorcycles. Nevertheless, unit sales of motorcycles fell 8.4% in fiscal year 2007, to 337,000 units.

We adopted advanced technologies from specialized racing motorcycles in small-size two-wheeled motor vehicles, and sales of the fun-to-ride and maneuverable *CBR1000RR* super sports model were favorable, but sales of the *CB1300 Super Bold Or* decreased. In mini-size two-wheeled motor vehicles, sales of the *Hornet*, a naked sports model with refined and exciting styling, were strong. On the other hand, *Forza* sales declined. Sales of first- and second-class motor-driven cycles, such as the *Today* and the *Duo*, decreased.

### ***North America***

Looking at calendar year 2006, demand in the United States for motorcycles, ATVs and personal watercraft came roughly equal to the previous year's demand. Demand for road bikes grew, but demand for ATVs - particularly utility ATVs - declined.

Of this number, Honda motorcycle sales fell 18.2%, to 503,000 units, in fiscal year 2007. Sales of the *CBR1000RR*, a super sports model, and our new off-road model, the *CRF150R*, were strong, but higher interest rates and economic uncertainty impacted demand for leisure products. Particularly affected by this impact were sales of off road-models, mainly Enduro\*<sup>1</sup> models such as *CRF50F* and *CRF70F*, which dropped 15.1%, to 282,000 units.

As one of our safety initiatives, we launched the world's first mass-market motorcycle with an airbag system, the *GoldWing* touring bike, in the United States and Canada.

Although sales of the *FourTrax Rancher* series of utility ATVs, which underwent a full model change in December 2006, were strong, total unit sales of ATVs and personal watercraft came to 221,000 units in fiscal year 2007, down 21.9%.

### ***Europe***

In calendar year 2006, total European motorcycle demand\*<sup>2</sup> increased from the previous year, to approximately 1,290,000 units, particularly in Spain due to changes in licensing systems as well as economic expansion, followed by increases in Italy, France and the United Kingdom.



In fiscal year 2007, unit sales decreased 6.8%, to 329,000 units. Sales were strong for the *SH300i*, which launched in December 2006. Sales of *PS125i*, *PS150i* and *Silver Wing 400* scooters were also stable, as were sales of the *Deauville* touring bike model. However, sales of large super sports models and models mainly in the 125cc class declined.

*Asia*

In Asia, demand for motorcycles as an essential mode of transportation has continued to grow. In fiscal year 2007, unit sales in Asia of completed products of Honda and its consolidated subsidiaries, and unit sales of parts to Honda's affiliates accounted for under the equity method for purposes of local production by such affiliates in the aggregate, declined 0.2%, to 7,895,000 units.

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The Honda Group is working hard to expand local businesses in the region through its active promotion of local procurement of parts used in overseas production. In Asia, this strategy has resulted in an increase in sales of Honda-brand motorcycles that are manufactured and sold by affiliates accounted for under the equity method in India and China, but do not include any parts supplied by Honda or its consolidated subsidiaries, therefore not included in the consolidated unit sales.

Total demand in India in calendar 2006 expanded to approximately 8,390,000 units, buoyed by growing market of motorcycles which is the largest category. Hero Honda Motors Limited, an affiliate accounted for under the equity method, enjoyed strong sales of its mainstay *Splendor*, *Splendor Plus* and *Super Splendor* models. In December 2006, the Company launched the new *CD Dawn* and *CD Deluxe* models, which feature class-leading fuel efficiency. Honda Motorcycle and Scooter India Private Limited, a consolidated subsidiary, reported strong sales of the *Shine* equipped with a newly developed engine and the *Activa* scooter. In India in fiscal year 2007, total unit sales of completed motorcycles of Honda and its consolidated subsidiaries, and unit sales of parts to Honda's affiliates accounted for under the equity method for purposes of local production by such affiliates in the aggregate, grew 10.3%, to 2,134,000 units.

In calendar year 2006, the Indonesian market experienced increasing inflation and interest rates, caused by a sharp rise in gasoline prices, which substantially dampened consumer purchasing power in the first half of the year. Fortunately, a mid-year monetary policy relaxation helped ease the inflation rate. Companies in Indonesia responded by strengthening measures to expand sales, but total demand fell to approximately 4,630,000 units nevertheless. P.T. Astra Honda Motors, an affiliate accounted for under the equity method, experienced strong sales of *Vario*, a automatic transmission (AT) equipped scooter launched in September 2006. Sales of *Karizma* by P.T. Astra Honda Motors, however, declined. As a result, in fiscal year 2007 total unit sales of completed motorcycles of Honda and its consolidated subsidiaries, and unit sales of parts to Honda's affiliates accounted for under the equity method for purposes of local production by such affiliates in the aggregate, fell 7.7%, to 2,467,000 units from the previous fiscal year.

In Thailand, total demand in calendar year 2006 came to approximately 2,060,000 units, down from the previous year. A maturing motorcycle market, the sharp rise in gasoline prices, political upheaval and irregular weather all had some impact on these results. Unit sales in fiscal year 2007 fell 7.5%, to 1,401,000 units from the previous year, although two AT-equipped scooters—the *Click*, which launched in fiscal year 2006, and the *Air Blade*, which went on sale in June 2006—were favorable.

Total demand for motorcycles in Vietnam in calendar year 2006 benefited greatly from the country's thorough abolition of a regulation limiting riders to one per motorcycle. This move caused the market to expand and pushed up demand to approximately 2,370,000 units. Similarly, in fiscal year 2007, unit sales significantly increased 25.3%, to 787,000 units.

China's 2005 implementation of Euro2 emission standards caused motorcycle demand to plunge, but in calendar year 2006, this demand returned to 2004 level, expanding to approximately 14,830,000 units. Sundiro Honda Motorcycle Co., Ltd., an affiliate accounted for under the equity method, experienced strong sales of the *M-Power*, which launched in June 2006. Sales of the *Fight Hawk*, featuring a large half cowl, were also strong. Similarly, another affiliate accounted for under the equity method, Wuyang-Honda Motors (Guangzhou) Co., Ltd., introduced the *SCR110*—the first model in China to be equipped with programmed fuel injection (PGM-FI)—in September 2006. In February 2007, the company also launched the *SCR125* sports bike. Both models enjoyed favorable sales. As parts for manufacturing these new models are not supplied by Honda or its consolidated subsidiaries, their numbers are not included in Honda's consolidated unit sales. For this reason, together with the decrease in unit sales of other models, total unit sales of completed motorcycles of Honda and its consolidated subsidiaries, and unit sales of parts to Honda's affiliates accounted for under the equity method for purposes of local production by such affiliates in the aggregate, fell 39.3%, to 204,000 units.

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To meet increasing demand in the region, two new plants began operations one in the Philippines in May 2006, and the other in July in Pakistan.

### ***Other Regions***

Other Regions including South America, the Middle & Near East, Africa and Oceania unit sales grew 26.9%, to 1,305,000 units from the previous fiscal year. In Brazil, where economic performance was stable, Honda posted solid sales of such models as the *Biz 125* and the *CG125 Fan*.

In June 2006, we began local production in Argentina to meet rising demand.

\*1 Enduro:

A motor sport involving long races on relatively flat off-road courses and lasting between two and 12 hours

\*2 Motorcycle registrations in Europe (10 countries)

### **Automobile Business**

Honda's unit sales of automobiles amounted to 3,652,000 units, up 7.7% from the previous fiscal year. In Japan, unit sales decreased 3.4%, to 672,000 units. Overseas unit sales increased 10.6%, to 2,980,000 units, due mainly to increased unit sales in North America, Europe, Asia and Other Regions. Revenue from external customers increased ¥884.3 billion, or 11.0%, to ¥8,889.0 billion, from the previous fiscal year, due to increased unit sales and the positive impact of the foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥562.7 billion, or 7.0%, compared to the increase as reported of ¥884.3 billion, which includes a positive foreign currency effect.

Operating income decreased ¥28.8 billion, or 4.6%, to ¥599.5 billion, from the previous fiscal year, due mainly to the negative impact of changes in the model mix, increased sales incentives in North America, substantially increased raw material costs, increased depreciation expenses and labor costs, higher SG&A expenses related to product quality, higher R&D expenses and the gain on return recorded in the fiscal year ended March 31, 2006, which offset the positive impacts of higher revenue attributable to the increased unit sales, increased prices in north America, continuing cost reduction effects and the positive foreign currency effects caused by the depreciation of the Japanese yen.

### ***Japan***

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Total automobile demand in Japan in calendar year 2006 remained largely unchanged, at around 5,740,000 units. With the number of mini cars increased and the number of registered vehicles declined.

In fiscal year 2007, unit sales declined 3.4%, to 672,000 units. Although Honda's sales of the *Zest* and new *Stream*, *CR-V* and *Crossroad* models increased, sales of the *Step Wagon*, *Life* and *Airwave* decreased. In July 2006, Honda introduced the new *Stream*, a stylish model that offers powerful driving performance. In October, the new *CR-V* also went on sale. This model features advancements in design, user-friendliness and driving performance, as well as an increased number of advanced safety features. In February 2007, Honda launched the *Crossroad*. This new model combines the handling ease of a compact car with the rugged exterior and versatility of an SUV.

Since integrating our sales channels in March 2006, sales have increased for mini cars and other vehicles used to be sold exclusively by each channel.

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In the mini car segment, Honda strengthened its capital relationship with Yachiyo Industry Co., Ltd., strengthening its alliance with the Company. The objective of this move was to strengthen Honda's ability to develop highly competitive products and strengthen its business in this segment.

### ***North America***

In calendar year 2006, total demand in the United States was down to approximately 16,550,000 units. Impacted by the sharp rise in gasoline prices, demand for fuel-efficient vehicles expanded, while sales of large SUVs and pickup trucks was stagnant.

Total North American unit sales in fiscal year 2007 came to 1,788,000 units, up 6.3% from the previous year. Unit sales in the passenger car segment benefited from the April 2006 introduction of the *Fit*, but sales of Acura-brand cars declined, causing overall unit sales in this segment to be approximately the same level as the previous fiscal year. In the light truck segment, on the other hand, the new *Acura RDX* an entry-premium SUV launched in August. The *CR-V*, a compact SUV which underwent a full model change, went on sale in September, and the new *Acura MDX*, a premium SUV, launched in October. A favorable market response to these new models strengthened overall sales performance in this region.

To increase the local production of powertrain components, in May 2006 we started operating a new automatic transmission plant in Georgia. The *Pilot*, which was being manufactured on the second line of our plant in Canada, was transferred to Honda's plant in Alabama in February 2007 and the second line of our plant in Canada began manufacturing the *Civic* in April 2007, raising annual capacity by 60,000 units, so as to respond to heightened demand for fuel-efficient vehicles.

Honda vehicles were selected as Top Picks in three of the 10 automobile categories rated by *U.S. Consumer Reports* magazine for 2007 models, earning particularly high marks for their fuel efficiency and safety performance. Earning top place were the *Civic* in the small sedan category, the *Accord* in the family sedan category and the *Fit* in the budget car category.

### ***Europe***

Total demand in Europe\* in calendar year 2006 amounted to approximately 14,620,000 units, roughly the same level as in 2005.

\* Source: European Automobile Manufacturers Association (ACEA), passenger car category (15 countries in the European Union, three countries in the European Free Trade Association)

Unit sales for fiscal year 2007 climbed 11.3%, to 324,000 units from the previous year. Recording strong sales results were the five-door *Civic* and the *Accord*, as well as the *CR-V*, a compact SUV that was launched in January 2007 which underwent a full model change, and the three-door *Civic*.

In production, consolidated subsidiary Honda of the U.K. Manufacturing Ltd. responded to rising demand for the *Civic* and the *CR-V*, ramping up to full production in calendar year 2007 by starting two-shift production in February at its second plant. The company is strengthening its production system through the gradual transfer of diesel engine production from Japan.

*Asia*

In Asia in fiscal year 2007, total unit sales of completed automobiles of Honda and its consolidated subsidiaries, and unit sales of parts to Honda's affiliates accounted for under the equity method for purposes of local production by such affiliates in the aggregate, grew 19.0%, to 620,000 units from the previous fiscal year.

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Total demand amounted to approximately 5,200,000 units in China in calendar year 2006, rising substantially from the previous year. Particularly strong were sales of the *City* by Guangzhou Honda Automobile Co., Ltd., an affiliate accounted for under the equity method, and *Civic* sales by Dongfeng Honda Automobile Co., Ltd., also an equity-method affiliate. In September 2006, the Acura brand was introduced in China, in the brand's first launch outside North America, through sales of the *Acura RL* and the *Acura TL*. In fiscal year 2007, total unit sales of completed automobiles of Honda and its consolidated subsidiaries, and unit sales of parts to Honda's affiliates accounted for under the equity method for purposes of local production by such affiliates in the aggregate, significantly increased 37.6%, to 361,000 units from the previous fiscal year. In production, in September 2006 operations began at the second plant of Guangzhou Honda Automobile Co., Ltd., which has an annual production capacity of 120,000 units. In March 2007, production also began at a new plant in China that manufactures automobile transmissions and other powertrain components. These advances are in line with Honda's move to strengthen its structure to meet burgeoning Chinese demand.

In India, where the market continues to expand, an Indian-made *Civic* model went on sale in July 2006, contributing to higher unit sales.

In Vietnam, consolidated subsidiary Honda Vietnam Co., Ltd., began local production of the *Civic* in July 2006.

## ***Other Regions***

Due to expansion in South America, the Pacific, and the Middle & Near East, unit sales in Other Regions rose 23.4% in fiscal year 2007, to 248,000 units.

In Brazil, Honda began local production of the *Civic* in April 2006, and sales of this model were strong. In November 2006, we introduced the *Civic FFV*, a flexible-fuel vehicle that runs on 100% ethanol or any gasoline-ethanol mixture, followed by the launch of the *Fit FFV* in December. Australian sales of the *Civic*, *Jazz* and the new *CR-V* were strong.

## **Power Product and Other Businesses**

Honda's unit sales of power products totaled 6,421,000 units, up 9.3% from the previous fiscal year. In Japan, unit sales totaled 527,000 units, an increase of 8.2%. Overseas unit sales came to 5,894,000 units, an increase of 9.4%, due mainly to increased unit sales in North America and Europe. Revenue from external customers increased ¥47.1 billion, or 12.7%, to ¥417.7 billion, from the previous fiscal year, due mainly to increased unit sales of power products and the positive impact of foreign currency translation effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥33.4 billion, or 9.0%, compared to the increase as reported of ¥47.1 billion, which includes a positive foreign currency effect.

Operating income was ¥36.1 billion, an increase of ¥0.2 billion, or 0.6% from the previous fiscal year, due mainly to the positive impact of increased profit attributable to higher revenue and the foreign currency effects caused by the depreciation of the Japanese yen, which offset the negative impact of the increased SG&A expenses and the gain on return which was recorded in the fiscal year ended March 31, 2006.

*Japan*

In Japan, unit sales rose 8.2%, to 527,000 units from the previous fiscal year. Sales of snowblowers, compact home-use cogeneration systems\*<sup>1</sup>, the GX-series engines supplied to pump and generator manufacturers on an OEM\*<sup>2</sup> basis applications increased.



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### ***North America***

In North America, sales were strong for *GCV* series engines mainly for OEM use in lawn mowers, as well as *GX*- and *GC*-series engines for such OEM applications as generators and high-pressure washers. Sales of completed equipment expanded, due to Honda's introduction of the new *HRR* lawn mower, but sales of generators declined as a result of overall market shrinkage. As a result of these factors, unit sales from power product grew 9.8% in fiscal year 2007, to 3,103,000 units.

During the year, J.D. Power and Associates of the United States accorded Honda the highest ranking for the third consecutive year in the electronic fuel-injected (EFI) four-stroke outboard segment.

### ***Europe***

In Europe, OEM sales of *GCV*-series engines for lawn mowers were favorable, as were sales of *GX*-series engines for OEM use in generators and construction equipment. As a result, unit sales grew 10.0%, to 1,625,000 units.

### ***Asia***

Unit sales in Asia expanded 6.0%, to 760,000 units, due to increased sales of pumps and other equipment in China and India.

### ***Other Regions***

In Other Regions, increased unit sales of *GX*-series engines for OEM production, mainly in South Africa, pushed up sales 10.3%, to 406,000 units from the previous fiscal year.

In fiscal year 2007, Honda introduced two four-stroke outboard engines, the *BF90* and *BF75* that underwent a full model change, responding to needs throughout the world by simultaneously addressing demands for high levels of both environmental performance, power performance and fuel efficiency. Honda also began sales in Japan of the *EU55is* generator, which employs electromagnetic inverter technology to supply a high level of power, but emit a low level of noise, and of the *EU6500is* generator in North America. In Japan, we introduced a compact home-use cogeneration system with improved generation efficiency which underwent a full model change. We also launched this model in the United States. In addition, Honda launched the *Punch X* compact tiller in Japan, and the *F501* and *FE500* compact tillers in Europe which underwent a full model change. In China, we launched the new *EM10000* high-output 10kVA generator, which is compact and equipped with a newly developed alternator.

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\*1: Compact, home-use cogeneration systems: Honda has applied its original electromagnetic inverter technologies to create small and light-weight electronic power generation systems built with an efficient layout.

\*2: OEM (Original equipment manufacturing):

OEM refers to a manufacturing of products and components supplied for sale under a third-party brand.

### **Financial Services Business**

Honda offers a variety of financial services to its customers and dealers, with the aim of supporting sales of Honda motorcycles and automobiles. These services are provided through finance subsidiaries in the United States, Japan, Canada, the United Kingdom, Germany, Brazil and Thailand. In fiscal year 2007, revenue from external customers in a financial services business, increased ¥102.8 billion, or 33.5%, to ¥409.7 billion from the

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previous fiscal year. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales for the period would have increased by approximately ¥90.2 billion, or 29.4%, compared to the increase as reported of ¥102.8 billion, which includes a positive foreign currency effect.

Operating income also expanded ¥24.9 billion, or 27.6%, to ¥115.5 billion from the previous fiscal year, due mainly to the increased profit attributable to higher revenue benefiting from a higher loan balance in North America and positive foreign currency translation effects, which offset the negative impact of the increased interest rates.

Our finance subsidiaries in North America have historically accounted for all leases as direct financing leases. However, starting in the year ended March 31, 2007, some of the leases which do not qualify for direct financing leases accounting treatment are accounted for as operating leases. Generally, direct financing lease revenues and interest income consist of the recognition of finance lease revenue at inception of the lease arrangement and subsequent recognition of the interest income component of total lease payments using the effective interest method. In comparison, operating lease revenues include the recognition of the gross lease payment amounts on a straight line basis over the term of the lease arrangement, and operating lease vehicles are depreciated to their estimated residual value on a straight line basis over the term of the lease. It is not anticipated that the differences in accounting for operating leases and direct financing leases will have a material net impact on the Company's results of operations overall, however, operating lease revenues and associated depreciation of leased assets do result in differing presentation and timing compared to those of direct financing leases.

Information about allowance for credit losses is provided at Item 5. Operating and Financial Review and Prospects A. operating Results, Application of Critical Accounting Policies. Information about finance subsidiaries-receivables and securitizations is described in Note (3) to the accompanying consolidated financial statements.

## **Geographical Information**

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

### ***Japan***

In Japan, revenue from domestic and export sales was ¥4,774.1 billion, up ¥336.2 billion, or 7.6% compared to the previous fiscal year, due primarily to the increased revenue from exports in automobile business which offset the negative impact of the decreased unit sales in domestic automobile business. Operating income was ¥228.1 billion, down ¥142.8 billion, or 38.5%, compared to the previous fiscal year, due primarily to the negative impact of the changes in the model mix, substantially increased raw material costs, increased depreciation expenses and labor costs, higher SG&A expenses related to product quality, increased R&D expenses and the absence of a gain on the return of the substitutional portion of the Employee Pension Funds of the Japanese government which was present in fiscal year 2006, which offset the positive impact of the increased profit attributable to higher revenue, continuing cost reduction effects and the foreign currency effects caused by the depreciation of the Japanese yen.

### ***North America***

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In North America, which mainly consists of the United States, revenue increased ¥556.3 billion, or 9.9%, to ¥6,172.6 billion, due mainly to increased unit sales in the automobile business and the positive impact of foreign currency translation effects. Operating income increased ¥102.8 billion, or 29.1%, to ¥456.8 billion, from the previous fiscal year, due primarily to the positive impacts of increased profit attributable to higher revenue, increased prices in the automobile business, continuing cost reduction effects, decreased SG&A expenses and the

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foreign currency effects caused by the depreciation of the Japanese yen, which offset the negative impacts of the change in the model mix, increased sales incentives in the automobile business, substantially increased raw material costs and increased depreciation expenses and labor costs.

### ***Europe***

In Europe, revenue increased ¥158.2 billion, or 13.3%, to ¥1,347.7 billion, compared to the previous fiscal year, due primarily to increased unit sales in the automobile and power product businesses and the positive impact of foreign currency translation effects. Operating income increased ¥5.6 billion, or 21.6%, to ¥31.9 billion, from the previous fiscal year, due mainly to the positive impacts of increased profit attributable to higher revenue, continuing cost reduction effects and the foreign currency effects caused by the depreciation of the Japanese yen, which offset the negative impacts of the change in the model mix and increased SG&A expenses.

### ***Asia***

In Asia, revenue increased ¥274.0 billion, or 27.5%, to ¥1,271.4 billion from the previous fiscal year, due primarily to increased unit sales in the automobile business and the positive impact of foreign currency translation effects. Operating income increased ¥12.1 billion, or 18.7%, to ¥77.1 billion, from the previous fiscal year, due mainly to the positive impacts of increased profit attributable to higher revenue, which offset the negative impact of increased SG&A expenses.

### ***Other Regions***

In Other Regions, revenue increased ¥225.9 billion, or 39.5%, to ¥797.6 billion, compared to the previous fiscal year, due mainly to increased unit sales in all of the business segments and the positive impact of currency translation effects. Operating income rose ¥15.0 billion, or 26.4%, to ¥72.2 billion, from the previous fiscal year, due mainly to the positive impact of the increased profit attributable to higher revenue, and the foreign currency effects caused by the depreciation of the Japanese yen, offsetting the negative impact of increased SG&A expenses.

## **Application of Critical Accounting Policies**

Critical accounting policies are those which require us to apply the most difficult, subjective or complex judgments, often requiring us to make estimates about the effect of matters that are inherently uncertain and which 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 accompanying consolidated financial statements.

We have identified the following critical accounting policies with respect to our financial presentation.

**Product Warranty**

We warrant our products for specific periods of time.

Product warranties vary depending upon the nature of the product, the geographic location of their sales and other factors.

We recognize costs for general warranties on products we sell and product recalls. We provide for estimated warranty costs at the time products are sold to customers or the time new warranty programs are initiated. Estimated warranty costs are provided based on historical warranty claim experience with consideration given to

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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. Since suppliers typically warrant these parts, the expected receivables from warranties of these suppliers are deducted from our estimates of accrued warranty obligations.

We believe our accrued warranty liability is a critical accounting estimate because changes in the calculation can materially affect net income, and require us to estimate the frequency and amounts of future claims, which are inherently uncertain.

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

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

The changes in provisions for those product warranties and net sales and other operating revenue for each business segment for each of the years in the three-year period ended March 31, 2008 are as follow:

	Yen (millions)		
	2006	2007	2008
Provisions for product warranties			
Balance at beginning of year	¥ 268,429	¥ 283,947	¥ 317,103
Warranty claims paid during the period	¥ (126,834)	¥ (113,454)	¥ (137,591)
Liabilities accrued for warranties issued during the period	125,732	143,280	136,355
Changes in liabilities for pre-existing warranties during the period	332	605	(1,476)
Foreign currency translation	16,288	2,725	(20,631)
<b>Balance at end of year</b>	<b>¥ 283,947</b>	<b>¥ 317,103</b>	<b>¥ 293,760</b>
Net sales and other operating revenue	¥ 9,907,996	¥ 11,087,140	¥ 12,002,834

**Credit Losses**

Our finance subsidiaries provide wholesale financing to dealers and retail lending and leasing to customers mainly in order to support sales of our products, principally in North America. We classify retail and direct financing lease receivables derived from those services as finance subsidiaries-receivables. Operating leases are classified as property on operating leases. Certain finance receivables related to sales of inventory are included in trade receivables and other assets in the consolidated balance sheets.

The majority of the credit risk is with consumer financing and to a lesser extent with dealer financing. To determine the overall allowance for credit loss amount, receivables are segmented into pools with common characteristics such as product and collateral types, credit grades, and original loan terms. 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. Estimated losses due to customer defaults on operating leases are not recognized in the allowance for credit

losses. These losses are recognized as a component of impairment losses on operating leases.

We believe our allowance for credit losses is a critical accounting estimate because it requires us to make assumptions about inherently uncertain items such as 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



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credit losses is maintained at an amount that we deem sufficient to cover the estimated credit losses incurred on our owned portfolio of finance receivables. However, actual losses may differ from the original estimates 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 on the provision and allowance for credit losses. If we had experienced a 10% increase in net credit losses during fiscal 2008 in our North America portfolio, the provision for fiscal 2008 and the allowance balance at the end of fiscal 2008 would have increased by approximately ¥7.2 billion and ¥2.8 billion, respectively. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2008.

*Additional Narrative of the Change in Credit Loss as Below*

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

	Yen (billions)		
	2006	2007	2008
Charge-offs (net of recoveries)	22.8	26.2	39.9
Provision for credit losses	27.4	25.5	44.8
Allowance for credit losses	30.1	28.7	28.4
Ending receivable balance	4,166.5	4,351.8	3,890.4
Average receivable balance, net	3,938.2	4,330.8	4,317.0
Charge-offs as a % of average receivable balance	0.58%	0.61%	0.93%
Allowance as a % of ending receivable balance	0.72%	0.66%	0.73%

*Fiscal Year 2008 Compared with Fiscal Year 2007*

The provision for credit losses increased by ¥19.3 billion, or 75% primarily as a result of the weakening U.S. economy brought upon by the subprime mortgage crisis. The weakening economy has negatively affected certain customers' ability to pay their contractual obligations. Net charge-offs in our North American portfolio increased by ¥13.7 billion, or 52%. The increase in charge-offs was experienced primarily in the lower range of credit quality customers. The Company has focused collection efforts to minimize the losses on delinquent and defaulted contracts.

The allowance for credit losses decreased by ¥0.3 billion, or 1%, despite the reflection of the higher estimated losses incurred as of March 31, 2008 in the North American portfolio. The decrease was primarily due to the effect of exchange rate changes on the allowance for credit losses.

*Fiscal Year 2007 Compared with Fiscal Year 2006*

Net charge-offs in our North American portfolio increased by ¥3.4 billion, or 15%. Higher originations of finance receivables due to business expansion in fiscal year 2006 compared to fiscal year 2005 resulted in higher charge-offs in fiscal year 2007.

The provision for credit losses decreased by ¥1.9 billion, or 7% and the allowance for credit losses decreased by ¥1.4 billion, or 5%. The decreases were due to lower estimates of losses incurred as of March 31, 2007 even though finance receivables increased.

**Losses on Lease Residual Values**

End-customers of leased vehicles typically have an option to buy the leased vehicle for the contractual residual value of the vehicle or to return the vehicle to our finance subsidiaries through the dealer at the end of the lease term. Likewise, dealers have the option to buy the vehicle returned by the customer or to return the vehicle to our

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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 term and the contractual value determined at the inception of the lease. Our finance subsidiaries in North America have historically accounted for all leases as direct financing leases. However, starting in the year ended March 31, 2007, some of the leases which do not qualify for direct financing leases accounting treatment are accounted for as operating leases.

We initially determine the contract residual values by using our estimate of future used vehicle values, taking into consideration data obtained from third parties. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values at the end of the lease term. We periodically review the estimate of residual values. Downward adjustments are made for declines in estimated residual values that are deemed to be other-than-temporary. For direct financing leases, our finance subsidiaries in North America purchase insurance to cover a portion of the estimated residual value. The adjustments on the uninsured portion of the vehicle's residual value are recognized as a loss in the period in which the estimate changed.

For vehicle leases accounted for as operating leases, the adjustments to estimated residual values result in changes to the remaining depreciation expense to be recognized prospectively on a straight-line basis over the remaining term of the lease.

The primary components in estimating losses on lease residual values are the 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 the 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, if any. 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 our estimated 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, which are inherently uncertain. We believe that the assumptions used are appropriate. However actual losses incurred may differ from original estimates.

If future auction values for all Honda and Acura vehicles in our North American direct financing lease portfolio as of March 31, 2008, were to decrease by approximately ¥10,000 per unit from our present estimates, the total impact would be an increase in losses on lease residual values by approximately ¥0.7 billion. Similarly, if future return rates for our existing portfolio of all Honda and Acura vehicles were to increase by one percentage point from our present estimates, the total impact would be an increase in losses on lease residual values by approximately ¥0.1 billion. With the same prerequisites shown above, the impacts to the operating lease portfolio would be approximately ¥0.5 billion and ¥0.07 billion, which would be recognized over the remaining lease terms. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2008.

## **Pension and Other Postretirement Benefits**

We have various pension plans covering substantially all of our employees in Japan and certain employees in foreign countries. Benefit obligations and pension costs are based on assumptions of many factors, including the discount rate, the rate of salary increase and the expected long-term rate of return on plan assets. The discount rate is determined mainly based on the rates of high quality corporate bonds or governmental bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. The salary increase assumptions reflect our actual experience as well as near-term outlook. The expected long-term rate of return is determined based on the expected long-term return of the various asset categories. Honda considers the current expectations for future returns and the actual historical returns of each plan asset category. Our assumed discount rate and rate of salary increase as of March 31, 2008 were 2.0% and 2.3%,

respectively,

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and our assumed expected long-term rate of return for the year ended March 31, 2008 was 4.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2008 were 5.5-6.8% and 2.9-6.4%, respectively, and our assumed expected long-term rate of return for fiscal 2008 was 6.5-8.3% for foreign plans.

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

Actual results may differ from our assumptions, and the difference is accumulated and amortized over future periods. Therefore, the difference will be generally reflected as our recognized expenses and recorded obligations in future period. We believe that the assumptions currently used are appropriate, however, differences in actual expenses 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 of a 0.5% change in the assumed discount rate and the expected long-term rate of return on our funded status, equity, and pension expense.

**Japanese Plans**

Assumptions	Yen (billions)			
	Percentage	Funded	Equity	Pension expense
	Point Change (%)	status		
Discount rate	+0.5/-0.5	-89.5/+100.8	+45.2/-57.6	-4.7/+5.9
Expected long-term rate of return	+0.5/-0.5			-3.6/+3.6

**Foreign Plans**

Assumptions	Yen (billions)			
	Percentage	Funded	Equity	Pension expense
	Point Change (%)	status		
Discount rate	+0.5/-0.5	-36.2/+41.0	+27.7/-31.7	-5.6/+7.5
Expected long-term rate of return	+0.5/-0.5			-2.2/+2.2

(\*1) Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions at March 31, 2008.

(\*2) Funded status for fiscal 2008 is affected by March 31, 2008 assumptions.

Pension expense for fiscal 2008 is affected by March 31, 2007 assumptions.

**Income Taxes**

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Honda adopted the provision of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN No. 48) on April 1, 2007. Honda is subject to income tax examinations in many tax jurisdictions. We recognize the tax benefit from an uncertain tax position based on the technical merits of the position when the position is more likely than not to be sustained upon examination. Benefits from tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is greater than 50% likelihood of being realized upon ultimate resolution. We performed a comprehensive review of any uncertain tax positions in accordance with FIN No. 48.

We believe our accounting for tax uncertainties is a critical accounting estimate because it requires us to evaluate and assess the probability of the outcome that could be realized upon ultimate resolution. Our estimates may change in the future due to new developments.

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We believe that our estimates and assumptions of unrecognized tax benefits are reasonable, however, if our estimates of unrecognized tax benefits and potential tax benefits are not representative of actual outcomes, our consolidated financial statements could be materially affected in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution.

### **New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements . This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This statement is effective as of an entity's first fiscal year that begins after November 15, 2007.

In February 2008, FASB issued FASB staff position (FSP) No. FAS 157-2 Effective date of FASB statement No. 157 . This FSP delays the effective date for SFAS No. 157, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

It is not anticipated that adoption will have a material impact on the Company's consolidated financial position or results of operations.

The Company and its subsidiaries adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) on March 31, 2007.

This statement also changes the date at which benefit obligations are to be measured to the date of the year-end statement of financial position. Certain foreign subsidiaries of the Company use a December 31 measurement date for their plans. The measurement provisions of this statement are effective for fiscal years ending after December 15, 2008.

It is not anticipated that adoption will have a material impact on the Company's consolidated financial position or results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of SFAS No. 115 . This statement permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. The statement also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Honda is currently in the process of assessing the financial impact of adoption.

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In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations . This statement replaces SFAS No. 141. This statement requires an acquirer to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date measured at that date. The statement shall be applied prospectively to business combinations for which the acquisition date is on and after an entity's first fiscal year that begins after December 15, 2008, with early adoption not permitted. It is not anticipated that adoption will have a material impact on the Company's consolidated financial position or results of operations.



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In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements . This statement requires that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, and requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions. This statement is effective as of an entity's first fiscal year that begins after December 15, 2008, with early adoption not permitted. It is not anticipated that the initial adoption will have a material impact on the Company's consolidated financial position or results of operations.

### *B. Liquidity and Capital Resources*

#### **Overview of Capital Requirements, Sources and Uses**

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

Honda's main business is the manufacturing 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 services 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 maintain inventory of finished products and cover receivables from dealers. Honda also requires funds for capital expenditures, mainly to introduce new models, upgrade, rationalize and renew production facilities, as well as to expand and reinforce Sales and R&D facilities.

Honda meets its operating capital requirements primarily through cash generated by operations. Honda funds its financial programs for customers and dealers primarily from corporate bonds, medium-term notes, commercial paper, and securitization of finance receivables. The year-end balance of liabilities associated with fund-raising by finance subsidiaries was ¥4,778.9 billion as of March 31, 2008.

#### **Cash Flows**

Consolidated cash and cash equivalents for the year ended March 31, 2008 increased by ¥105.3 billion from March 31, 2007, to ¥1,050.9 billion. The reasons for the increases or decreases for each cash flow activity are as follows.

Net cash provided by operating activities amounted to ¥1,126.9 billion of cash inflows for the fiscal year ended March 31, 2008. Cash flow from operating activities consists of the following main components: the major component of the Company's cash inflows is cash received from customers, while the major components of the Company's cash outflows are payments for parts and raw materials, SG&A expenses, and income taxes.

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Compared with the prior fiscal year, cash inflows from cash received from customers increased, due to the continued growth in net sales because of higher unit sales in motorcycle business in Other Regions and higher overseas unit sales in automobile business. On the other hand, cash outflows for payments for parts and raw materials increased, as a result of an increase in sales units. The other reasons for increases in cash outflows are an increase of payments for operating expenses. However, these increases were within the range of the growth in net sales, and because of stable operating margins, net cash provided by operating activities increased by ¥222.3 billion compared with the previous fiscal year.

Net cash used in investing activities amounted to ¥1,686.3 billion, due mainly to capital expenditures, the acquisitions of finance subsidiaries-receivables, which exceeded collections of and proceeds from sales of finance subsidiaries-receivables and the purchase of operating lease assets. Cash outflows from investing activities increased by ¥555.6 billion compared with the previous fiscal year.

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Net cash provided by financing activities amounted to ¥688.0 billion, which was attributable to proceeds from long-term debt and increase in short-term debt (which exceeded repayment of long-term debt), cash dividends paid and payment for purchase of the Company's own stock. Cash inflows from financing activities increased by ¥264.5 billion compared with the previous fiscal year.

### Liquidity

The ¥1,050.9 billion in cash and cash equivalents at end of year corresponds to approximately 1.1 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, finance subsidiaries that carry total short-term borrowings of ¥2,128.4 billion have committed lines of credit equivalent to ¥923.3 billion that serve as alternative liquidity for the commercial paper issued regularly to replace debt. Honda believes it currently has sufficient credit limits, extended by prominent international banks. Honda believes it has sufficient liquidity to meet its cash obligations for the near future, at least for the year ending March 31, 2009.

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. Based on major current ratings, which are shown below, 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 as of the date of the filing of Honda's Form 20-F.

	Credit ratings for	
	Short-term unsecured debt securities	Long-term unsecured debt securities
Moody's Investors Service	P-1	Aa3
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 may use different standards for calculating Honda's credit rating, and also makes its own assessment. 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 Honda's unsecured debt securities.

### *C. Research and Development*

Honda and its consolidated subsidiaries use the most advanced technologies to conduct R&D activities aimed at creating distinctive products that are internationally competitive. The Group's main R&D divisions operate independently as subsidiaries, allowing technicians to pursue their tasks with significant freedom. Product-related R&D is spearheaded by the Honda R&D Co., Ltd.; Honda R&D Americas, Inc. in the United States; and Honda R&D Europe (Deutschland) GmbH in Germany. R&D on production technologies centers around Honda Engineering Co.,

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Ltd. in Japan and Honda Engineering North America, Inc. All of these entities work in close association with our other entities and businesses in their respective regions.

Total consolidated R&D expenditures for the year ended March 31, 2008 amounted to ¥587.9 billion.

### **Motorcycle Business**

In the motorcycle business, Honda is committed to developing products with new value-added features that meet the individual needs of customers around the world, and to implementing the timely local development of

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products tailored to specific regions at its overseas locations. At the same time, we are focusing on developing industry-leading technologies that address safety and environmental issues.

Major developments in Japan in fiscal 2008 included a full model change for the *CBR600RR* super sport bike. Changes in the new model include a more compact engine and a lighter-weight hollow aerial aluminum die-cast frame that results in a substantial reduction in weight compared with previous versions. The new model also features better environmental performance and drivability owing to (a) the introduction of a new electronic fuel injection system (Programmed Dual Sequential Fuel Injection System) that has two injectors per cylinder to provide a precise fuel flow and the optimal air-oil ratio and (b) the installation of a twin catalyzer. In addition, we introduced a new scooter model, *Lead*, which boasts a newly developed, lighter and more compact engine that combines high environmental performance with sufficient power for smooth riding in urban settings. Moreover, we fitted out our *DN-01* 680cc large sports cruiser with Honda's original, compact and efficient infinitely variable hydraulic mechanical transmission (Human-Friendly Transmission) complete with a lockup mechanism, which features a diversity of functions within a single unit, including power transmission on a single axle from the start-up mode all the way to infinitely variable gear changing. In North America, we newly introduced the high-powered *TRX700XX* sport all-terrain vehicle (ATV), which is outfitted with a newly designed liquid-cooled SOHC engine and an electronic fuel injection system (PGM-FI).

R&D expenses in the Motorcycle Business segment in fiscal 2008 totaled ¥91.7 billion.

## **Automobile Business**

In the Automobile Business segment, we work to develop innovative technologies and products through creativity-oriented development in response to customer needs. We are also actively developing technologies that address environmental issues and provide advanced safety performance.

Major achievements in Japan during the fiscal year under review included a full model change for the *FIT*. The new *FIT* combines a newly developed maximum 100 horsepower, 1.3-liter intelligent Variable Valve Timing and Lift, Electronic Control (i-VTEC) engine and a newly developed Continuously Variable Transmission (CVT) with a torque converter to provide excellent driving performance and good fuel economy. Also, we implemented a full model change for the *INSPIRE* in Japan and for the *Accord* in North America, Asia and Other Regions. The new versions boast high-level safety features and are equipped with Honda's newly developed 3.5-liter i-VTEC V6 engine with the new Variable Cylinder Management (VCM) System that achieves high power and good fuel economy by switching from the most powerful six-cylinder mode to four-cylinder or three-cylinder mode for efficiency, depending on driving conditions.

Another technology development milestone in the field of fuel cell cars was the announcement of the *FCX Clarity*, which is based on Honda's original V Flow (vertical gas flow) fuel cell platform. By employing Honda's V Flow fuel cell stack, which incorporates a wave flow separator where hydrogen combines with atmospheric oxygen to generate energy that is then converted to electric power used to propel the vehicle, the new cell structure achieves a higher output of power and considerably lower weight and smaller size. In addition to this breakthrough in fuel cell vehicles, Honda has announced the commencement of tests on the fourth-generation Home Energy Station (Home Energy Station IV), which it is developing jointly with Plug Power Inc., of the United States. This unit can function both as a hydrogen supply source for fuel cell cars and as a cogeneration system for electric power. These units are undergoing pilot testing in Torrance, California.

R&D expenses in the Automobile Business segment in fiscal 2008 totaled ¥475.4 billion.

**Power Product and Other Businesses**

In the Power Product Business, we are seeking to develop products that match customers' lifestyles and needs while strengthening our lineup of offerings that address environmental issues.

Important developments in this segment in Japan and other areas during the fiscal year included a full model change in the *BF40* and *BF50* four-stroke marine outboard motors. The new models boast improved acceleration

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through a combination of the PGM-FI electronic fuel injection system with the world's first ignition timing governed by Honda's original Boosted Low Speed Torque (BLAST) air-fuel ratio technology. They also have improved fuel economy as a result of the incorporation of a Lean Burn Control system for cruising. In addition to these developments, in Japan, Honda has begun to market its compound thin-membrane solar cell modules *HSPV-125A*, *HEM115PA*, and *HEM125PA*, which are formed around Honda's originally developed thin membranes. These modules employ membranes made from a Copper, Indium, Gallium, and Selenium (CIGS) compound, which makes it possible to conserve the amount of energy required in the manufacturing stage.

Among other activities, GE Honda Aero Engines LLC, a joint venture of Honda and General Electric Co., has begun the testing of the *HF-120* full demonstrator turbofan jet engine, which is designed for volume production.

R&D expenses in this segment in fiscal 2008 totaled to ¥20.7 billion.

## **Fundamental Research**

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

One of Honda's research initiatives is the development of a technological base for ethanol production from soft biomass, including plant stalks and leaf matters, such as rice straw. Honda has established a pilot plant within its research facilities and is moving forward with R&D to establish volume production technology. In the field of robotics and *ASIMO* technology, Honda researchers are working on new *ASIMO* intelligence and skill functions, including such motion functions as moving back one step to allow human beings to pass and passing to one side of human beings coming from the opposite direction as well as work task functions, such as carrying small latrines and pushing wagons. Other *ASIMO* functions and systems under development include proceeding automatically to a charging station when battery power runs low and learning to perform cooperative functions on a continuing basis, such as sharing work tasks among a number of *ASIMO* robots when conditions are appropriate and having other robots perform tasks in place of a robot that is temporarily charging its battery.

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

## ***Patents and Licenses***

At March 31, 2008, Honda owned more than 12,700 patents and 20 utility model registrations in Japan and more than 20,300 patents abroad. Honda also had applications pending for more than 17,400 patents in Japan and for more than 19,200 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.

*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



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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. Information about finance subsidiaries-receivables and securitizations is described in Note (3) to the accompanying consolidated financial statements.

(Guarantee)

At March 31, 2008, we guaranteed ¥36.4 billion of employee bank loans 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 ¥36.4 billion. As of March 31, 2008, 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.

*F. Tabular Disclosure of Contractual Obligations*

The following table shows our contractual obligations at March 31, 2008:

*Contractual Obligations*

	At March 31, 2008				
	Yen(millions)				
	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	2,707,702	871,050	1,240,604	564,916	31,132
Operating leases	139,332	26,144	37,006	23,833	52,349
Purchase commitments <sup>(*1)</sup>	122,073	122,073			
Interest payments <sup>(*2)</sup>	300,266	179,149	97,708	22,732	677

<sup>(\*1)</sup> Honda had commitments for purchases of property, plant and equipment at March 31, 2008.

<sup>(\*2)</sup> To estimate the schedule of interest payments, the company utilized the balances and average interest rates of borrowings and debts and derivative instruments as of March 31, 2008.

Honda expects to contribute ¥28,843 million to its domestic pension plans and ¥18,170 million to its foreign pension plans in the year ending 31, 2009. The Pension Protection Act of 2006 (PPA) is effective for plan years beginning after December 31, 2007. Certain of the Company's subsidiaries in the United States are unable to determine the amounts of contribution for fiscal year 2009 because the procedures required by the PPA have not been completed. The contribution amounts to foreign pension plan described above do not include the contributions of these subsidiaries.

If our estimates of unrecognized tax benefits and potential tax benefits are not representative of actual outcomes, our consolidated financial statements could be materially affected in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. Since it is difficult to estimate actual payment in the future related to our uncertain tax positions, unrecognized tax benefit totaled ¥99,527 million is not represented in the table above. Honda is currently being examined by the Tokyo Regional Taxation Bureau ( Bureau ) on matters related to a transfer pricing issue. In the examination, the Bureau claims that the allocation of the total profit Honda and its Chinese joint venture companies earned from their automobile business in China was not an arms length allocation but rather that too much of this total profit was realized by the Chinese joint venture companies over the five-year period ended March 31, 2006. Honda has recognized the liability for unrecognized tax benefits, including those related to this examination.

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At March 31, 2008, 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.

### *G. Safe Harbor*

All information disclosed under Item 5. E and F contains forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Such statements are based on management's assumptions and beliefs taking into account information currently available to it. Therefore, please be advised that Honda's actual results could differ materially from those described in these forward-looking statements as a result of numerous factors, including general economic conditions in Honda's principal markets and foreign exchange rates between the Japanese yen and the U.S. dollar, the Euro and other major currencies, as well as other factors detailed from time to time.

## ***Item 6. Directors, Senior Management and Employees***

### *A. Directors and Senior Management*

Honda's Articles of Incorporation provide for a Board of Directors of not more than 30 Directors and for a Board of Corporate Auditors of not more than seven Corporate Auditors. Directors and Corporate Auditors are elected by resolution of the general meetings of shareholders. The Corporate Auditors are nominated by the Board of Directors as candidates for election with an approval by the Board of Corporate Auditors. 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 appoints one President and Director and may appoint one Chairman of the Board of Directors and several Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors from among its members. The President represents the Company. In addition, the Board of Directors may appoint, pursuant to its resolutions, Directors who shall each represent the Company. Under the Japanese Company Law, a representative director individually 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 Company Law, the Corporate Auditors of the Company have the duty to audit the Director's execution of their duties. Corporate Auditors are not required to be, and the Corporate Auditors of the Company are not, certified public accountants, and may not at the same time be Directors or employees of the Company or any of its subsidiaries. They are entitled to participate in meetings of the Board of Directors but are not entitled to vote. Corporate Auditors of the Company form the Board of Corporate Auditors, which must consist of at least three Corporate Auditors. Not less than half of the members of the Board of Corporate Auditors must be outside Corporate Auditors, each of whom has never served as a director, accounting councilor, operating officer, manager or employee of the Company or any of its subsidiaries. Corporate Auditors are required to elect from among themselves at least one Standing Corporate Auditor. Corporate Auditors also have a statutory duty to provide their report to the Board of Corporate Auditors, which must submit its audit report to the Representative Director each year. A Corporate Auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The Board of Corporate Auditors is empowered to establish audit principles, methods of investigation by Corporate Auditors of the status of the corporate affairs, and assets of the Company and other matters concerning the performance of the Corporate Auditors' duties. In addition,

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the Company is required to appoint independent certified public accountants as accounting auditor. Such independent certified public accountants have their primary statutory duties to audit the consolidated and non-consolidated financial statements of the Company prepared in accordance with the Japanese Company Law to be submitted by the Representative Director to general meetings of shareholders to prepare an accounting audit report thereon and to notify the contents of such report to the specified Corporate Auditor and the specified Director in charge.

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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	Term	Number of Shares Owned
<b>Directors</b>			
Satoshi Aoki (August 19, 1946)	Director of the Company from June 1995  Chairman and Director of the Company, appointed in June 2007  Executive Vice President and Director of the Company, appointed in June 2005  Compliance Officer, appointed in April 2004  Senior Managing Director of the Company, appointed in June 2000  Managing Director of the Company, appointed in June 1998  Chief Operating Officer for Business Management Operations, appointed in June 1998  Director of the Company, appointed in June 1995	*3	16,300

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

Joined Honda in April 1969

<b>Takeo Fukui</b>	Director of the Company from June 1988	*3	23,900
(November 28, 1944)			
	President and Director of the Company, appointed in June 2003		
	Senior Managing Director of the Company, appointed in June 1999		
	Motor Sports, appointed in June 1999		
	President and Director of Honda R&D Co., Ltd., appointed in June 1998		
	President and Director of Honda of America Mfg., Inc., appointed in June 1996		
	Managing Director of the Company, appointed in June 1996		
	Executive Vice President and Director of Honda of America Mfg., Inc., appointed in June 1994		
	Senior Managing Director of Honda R&D Co., Ltd., appointed in June 1990		



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Name	(Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
		<p>Director of the Company, appointed in June 1988</p> <p>Managing Director of Honda R&amp;D Co., Ltd., appointed in May 1987</p> <p>President and Director of Honda Racing Corporation, appointed in May 1987</p> <p>Joined Honda in April 1969</p>		
<b>Koichi Kondo</b>	(February 13, 1947)	<p>Director of the Company from June 1997</p> <p>Executive Vice President and Director of the Company, appointed in June 2007</p> <p>Chairman and Director of American Honda Motor Co., Inc., appointed in April 2007</p> <p>Chief Operating Officer for Regional Sales Operations (Japan), appointed in April 2007 (presently held)</p> <p>Senior Managing Director of the Company, appointed in June 2005</p> <p>President and Director of Honda North America, Inc., appointed in April 2005</p>	*3	9,336



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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

Executive Vice President and Director of American Honda Motor Co., Inc.,

appointed in April 2003

Managing Director of the Company,

appointed in June 2002

Chief Operating Officer for Regional Operations (Latin America),

appointed in April 2000

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

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Joined Honda in April 1970

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Name	(Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Atsuyoshi Hyogo</b>	(January 2, 1949)	<p>Director of the Company from June 1995</p> <p>Senior Managing Director of the Company, appointed in June 2005</p> <p>President of Honda Motor (China) Investment Corporation, Limited, appointed in February 2004 (presently held)</p> <p>Chief Operating Officer for Regional Operations (China), appointed in April 2003 (presently held)</p> <p>Managing Director of the Company, appointed in June 1998</p> <p>Executive Vice President and Director of American Honda Motor Co., Inc., appointed in June 1996</p> <p>Director of the Company, appointed in June 1995</p> <p>President and Director of Honda Canada Inc., appointed in October 1993</p> <p>Joined Honda in April 1972</p>	*3	17,400
<b>Mikio Yoshimi</b>	(September 6, 1947)	Director of the Company from June 1998	*3	7,300

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Senior Managing Director of the Company,

appointed in June 2006

Government & Industrial Affairs,

appointed in April 2006 (presently held)

Chief Officer of Driving Safety Promotion Center,

appointed in April 2006

Compliance Officer,

appointed in April 2005 (presently held)

Managing Director of the Company,

appointed in June 2004

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, LLC,

appointed in April 2000

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Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
	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		
<b>Takanobu Ito</b> (August 29, 1953)	Director of the Company from June 2007	*3	6,000
	Senior Managing Director of the Company,  appointed in June 2007		
	Chief Operating Officer for Automobile Operations,  appointed in April 2007 (presently held)		
	Managing Officer of the Company,  appointed in June 2005		
	General Manager of Suzuka Factory of Production Operations,  appointed in April 2005		
	General Supervisor, Motor Sports,  appointed in April 2004		
	President and Director of Honda R&D Co., Ltd.,  appointed in June 2003		

Motor Sports,

appointed in June 2003

Managing Director of the Company,

appointed in June 2003

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

**Masaaki Kato**

Director of the Company from June 2007

\*3

16,900

(September 16, 1949)

Purchasing Operations Support,

appointed in April 2008 (presently held)

Senior Managing Director of the Company,

appointed in June 2007

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

appointed in April 2007 (presently held)

General Supervisor, Quality,

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appointed in April 2007 (presently held)

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
(Date of birth)	Managing Officer of the Company,  appointed in June 2005		
	President and Director of Honda of the U.K.  Manufacturing Ltd.,  appointed in April 2005		
	Executive Vice President and Director of Honda Motor Europe Ltd.,  appointed in April 2005		
	President and Director of Honda Manufacturing of Alabama, LLC,  appointed in April 2002		
	Director of the Company,  appointed in June 1998		
	General Manager of Human Resources Division and  HR Development Office for Business Support Operations,  appointed in January 1998		
	Joined Honda in April 1974		
<b>Shigeru Takagi</b>	Director of the Company from June 1998	*3	8,900
(February 4, 1952)	Senior Managing Director of the Company,  appointed in June 2008		



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Managing Director of the Company,

appointed in June 2004

President and Director of Honda Motor Europe Limited,

appointed in April 2004 (presently held)

Chief Operating Officer for Regional Operations (Europe, the Middle & Near East and Africa),

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

**Akio Hamada**

Director of the Company from June 2008

\*3

6,000

(December 2, 1948)

Senior Managing Director of the Company,

appointed in June 2008

General Supervisor, Information Systems,

appointed in April 2008 (presently held)

Risk Management Officer,

appointed in April 2008 (presently held)

Chief Operating Officer for Production Operations,

appointed in April 2008 (presently held)



**Table of Contents**

Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
(Date of birth)	Managing Officer of the Company,  appointed in June 2005		
	President and Director of Honda of America Mfg., Inc.,  appointed in April 2005		
	President and Director of Honda Engineering Co., Ltd.,  appointed in June 2001		
	Director of the Company,  appointed in June 1999		
	Stationed at Honda Canada Inc. in June 1998		
	Joined Honda in April 1971		
<b>Tetsuo Iwamura</b>	Director of the Company from June 2000	*3	6,500
(May 30, 1951)	Senior Managing Director of the Company,  appointed in June 2008		
	President and Director of American Honda Motor Co., Inc.,  appointed in April 2007 (presently held)		
	President and Director of Honda North America, Inc.,  appointed in April 2007 (presently held)		

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Chief Operating Officer for Regional Operations (North America),

appointed in April 2007 (presently held)

Managing Director of the Company,

appointed in June 2006

President and Director of Honda Automoveis do Brasil Ltda.,

appointed in April 2003

President and Director of Moto Honda da Amazonia Ltda.,

appointed in April 2003

President and Director of Honda South America Ltda.,

appointed in April 2003

Chief Operating Officer for Regional Operations (Latin America),

appointed in April 2003

Director of the Company,

appointed in June 2000

Chief Operating Officer for Parts Operations,

appointed in April 2000

Joined Honda in April 1978

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<p><b>Akira Takano</b>  (Date of birth)  (August 18, 1949)</p>	<p>Director of the Company from June 1996</p> <p>Chief Operating Officer for Customer Service Operations, appointed in April 2004 (presently held)</p> <p>Managing Director of the Company, appointed in June 2003</p> <p>President and Director of Honda of the U.K. Manufacturing Ltd., appointed in June 1998</p> <p>Executive Vice President and Director of Honda Motor Europe Ltd., appointed in June 1998</p> <p>Director of the Company, appointed in June 1996</p> <p>Director of Honda R&amp;D Co., Ltd., appointed in June 1995</p> <p>Joined Honda in April 1972</p>	*3	9,400
<p><b>Tatsuhiko Oyama</b>  (July 9, 1950)</p>	<p>Director of the Company from June 2001</p> <p>Chief Operating Officer for Motorcycle Operations, appointed in April 2008 (presently held)</p>	*3	9,400

Managing Director of the Company,

appointed in June 2006

President and Director of Asian Honda Motor Co., Ltd.,

appointed in April 2006

Chief Operating Officer for Regional Operations

(Asia & Oceania) ,

appointed in April 2006

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

General Manager of Motorcycle Sales Division for

Regional Sales Operations (Japan),

appointed in April 2001

Joined Honda in April 1969

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<p><b>Fumihiko Ike</b>  (Date of birth)  (May 26, 1952)</p>	<p>Director of the Company from June 2003</p> <p>President and Director of Asian Honda Motor Co., Ltd., appointed in April 2008 (presently held)</p> <p>Chief Operating Officer for Regional Operations (Asia &amp; Oceania) , appointed in April 2008 (presently held)</p> <p>Managing Director of the Company, appointed in June 2007</p> <p>Chief Operating Officer for Business Management Operations, appointed in April 2006</p> <p>Director of the Company, appointed in June 2003</p> <p>Chief Operating Officer for Power Product Operations, appointed in April 2003</p> <p>Joined Honda in February 1982</p>	*3	8,000
<p><b>Masaya Yamashita</b>  (April 5, 1953)</p>	<p>Director of the Company from June 2008</p> <p>Managing Director of the Company, appointed in June 2008</p>	*3	6,000

Chief Operating Officer for Purchasing Operations,  
 appointed in April 2008 (presently held)

General Manager of Kumamoto Factory of Production Operations,  
 appointed in April 2006

Operating Officer of the Company,  
 appointed in June 2005

Director of the Company,  
 appointed in June 2003

General Manager of Automobile Purchasing Division 1 in Purchasing  
 Operations,  
 appointed in April 2002

Joined Honda in April 1977

**Satoru Kishi**

Director of the Company from June 2001

\*3

None

(March 29, 1930)

Advisor of the Board of The Bank of Tokyo-Mitsubishi, Ltd. (presently The  
 Bank of Tokyo-Mitsubishi UFJ, Ltd.),

appointed in June 2002 (presently held)

Director of the Company,

appointed in June 2001

Chairman of the Board of The Bank of Tokyo-Mitsubishi, Ltd. (presently The  
 Bank of Tokyo-Mitsubishi UFJ, Ltd.),

appointed in June 2000





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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Kensaku Hogen</b>	Director of the Company from June 2005	*3	None
(August 2, 1941)	Director of the Company, appointed in June 2005		
	Ambassador to Canada, appointed in April 2001		
<b>Hiroyuki Yoshino</b>	Director of the Company from May 1983	*3	40,800
(November 2, 1939)	Director and Advisor of the Company, appointed in June 2003		
	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		

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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

Joined Honda R&D Co., Ltd. in April 1963

**Sho Minekawa**

(October 27, 1954)

Director of the Company from June 2007

\*3

7,500

Director of the Company,

appointed in June 2007

President and Director of Honda Automoveis do Brasil Ltda.,

appointed in April 2007 (presently held)

President and Director of Moto Honda da Amazonia Ltda.,

appointed in April 2007 (presently held)

President and Director of Honda South America Ltda.,

appointed in April 2007 (presently held)

Chief Operating Officer for Regional Operations (Latin America),



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Name	(Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
		Operating Officer of the Company, appointed in June 2005		
		Director of the Company, appointed in June 2004		
		President of Guangzhou Honda Automobile Co., Ltd., appointed in April 2004		
		Joined Honda in April 1978		
<b>Hiroshi Soda</b>		Director of the Company from June 2008	*3	6,900
	(September 14, 1956)	Director of the Company, appointed in June 2008		
		Chief Officer of Driving Safety Promotion Center, appointed in April 2008 (presently held)		
		Chief Operating Officer for Business Support Operations, appointed in April 2008 (presently held)		
		Executive Vice President and Director of American Honda Motor Co., Inc., appointed in December 2006		
		Operating Officer of the Company, appointed in June 2005		

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Executive Vice President and Director of Honda North America, Inc.,

appointed in January 2000

Joined Honda in April 1979

**Takuji Yamada**

Director of the Company from June 2008

\*3

6,000

(September 28, 1956)

Director of the Company,

appointed in June 2008

Chief Operating Officer for Power Product Operations,

appointed in April 2008 (presently held)

President and Director of Honda Motor Europe (North) GmbH.,

appointed in April 2006

Operating Officer of the Company,

appointed in June 2005

Executive Vice President and Director of American Honda Motor Co., Inc.,

appointed in December 2004

Joined Honda in April 1980

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<p><b>Yoichi Hojo</b>  (Date of birth)  (February 17, 1956)</p>	<p>Director of the Company from June 2008</p> <p>Director of the Company,  appointed in June 2008</p> <p>Chief Operating Officer for Business Management Operations,  appointed in April 2008(presently held)</p> <p>Operating Officer of the Company,  appointed in June 2006</p> <p>General Manager of Automobile Purchasing Division 2 in Purchasing Operations,  appointed in April 2006</p> <p>Joined Honda in April 1978</p>	*3	6,400

**Corporate Auditors**

<p><b>Toru Onda</b>  (March 18, 1949)</p>	<p>Corporate Auditor of the Company (full-time),  appointed in June 2008</p> <p>Managing Director of the Company,  appointed in June 2002</p> <p>Chief Operating Officer for Purchasing Operations,  appointed in April 2000</p> <p>Director of the Company,</p>	*6	8,000
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appointed in June 1999

General Manager of Automobile Purchasing Division 1 in Purchasing Operations,

appointed in June 1998

Joined Honda in January 1977

<p><b>Shinichi Sakamoto</b> (August 3, 1950)</p>	<p>Corporate Auditor of the Company (full-time), appointed in June 2005</p> <p>Regional Operating Officer of the Company, appointed in April 2004</p> <p>Joined in April 1969</p>	<p>*4</p>	<p>6,000</p>
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<p><b>Koukei Higuchi</b> (March 14, 1936)</p>	<p>Corporate Auditor of the Company, appointed in June 2003</p> <p>Advisor of the Board of The Tokio Marine &amp; Fire Insurance Co., Ltd. (presently Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.), appointed in June 2003 (presently held)</p> <p>Chairman of The Tokio Marine &amp; Fire Insurance Co., Ltd. (presently Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.), appointed in June 2001</p> <p>Joined The Tokio Marine and Fire Insurance Co., Ltd. (presently Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.) in April 1960</p>	<p>*5</p>	<p>None</p>
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Name			
(Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Fumihiko Saito</b> (June 9, 1945)	Corporate Auditor of the Company,  appointed in June 2004  Representative of the Saito Law Office in February  2006 (presently held)  Partner of Haarmann Hemmelrath Saito Law Office  in June 2003  Registered as a lawyer, Joined The Law Firm of  Hamada & Yanagida (presently Mori  Hamada & Matsumoto) in April 1973	*6	None
<b>Yuji Matsuda</b> (August 27, 1951)	Corporate Auditor of the Company,  appointed in June 2007  President and Director of Mitsubishi UFJ Trust  Investment Technology Institute Co., Ltd.,  appointed in June 2006 (presently held)  Joined The Mitsubishi Trust and Banking  Corporation (presently The Mitsubishi UFJ Trust and Banking Corp.) in April 1975	*5	1,000

- \*1. Mr. Satoru Kishi and Mr. Kensaku Hogen satisfy the required conditions for the outside director provided for in Article 2, Paragraph 1, Item 15 of the Company Law.
- \*2. Corporate Auditors Mr. Koukei Higuchi, Mr. Fumihiko Saito and Mr. Yuji Matsuda are outside corporate auditors as provided for in Article 2, Paragraph 1, Item 16 of the Company Law.
- \*3. The term of office of a Director is one year after his/her election to office at the close of the ordinary general meeting of shareholders on June 24, 2008.
- \*4. The term of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 23, 2005.

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- \*5. The term of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 22, 2007.
- \*6. The term of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 24, 2008.
- \*7. The Company has introduced an operating officer system to facilitate transfer of authority to regions and local workplaces and effectively separate the supervisory and executive roles, while also making the Board of Directors more versatile. **Managing Officers** and **Operating Officers** under operating officer system are not statutory positions under the Japanese Company Law and do not conform to the definition of Directors and Senior Management as defined in Form 20-F. The Company's Managing Officers and Operating Officers, as voluntarily disclosed in Japan, are listed below.

### **Managing Officers**

<b>Takashi Yamamoto</b>	General Manager of Saitama Factory of Production Operations
<b>Suguru Kanazawa</b>	Executive Vice President and Director of Honda Motor Europe Ltd.
	President and Director of Honda of the U.K. Manufacturing Ltd.
<b>Hiroshi Oshima</b>	Corporate Communications, Motor Sports
<b>Hidenobu Iwata</b>	General Manager of Suzuka Factory of Production Operations

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**Operating Officers**

**Manabu Nishimae**

President and Director of Honda Canada Inc.

**Hiroshi Kobayashi**

Deputy Chief Operating Officer for Regional Sales Operations (Japan)

General Manager of Automobile Sales Operations for Regional Sales Operations (Japan)

General Manager of Aftermarket Operations in Regional Sales Operations (Japan)

General Manager of Asimo Business Office in Regional Sales Operations (Japan)

**Gen Tsujii**

Production for Production Operations

General Manager of Automobile Production

Planning Office in Production Operations

President and Director of Honda Engineering Co., Ltd.

**Koichi Fukuo**

Quality, Certification & Regulation Compliance

**Hideki Okada**

General Manager of Regional Operation Planning Office in Regional Operations (North America)

Executive Vice President and Director of American Honda Motor Co., Inc.

**Masahiro Takedagawa**

President and Director of Honda Siel Cars India Ltd.

President and Director of Honda Motor India Private Ltd.

**Tsuneo Tanai**

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

**Yoshiyuki Matsumoto**

Automobile Products for Automobile Operations

**Eiji Okawara**

Production in China in Production Operations

President of Guangzhou Honda Automobile Co., Ltd.

**Ko Katayama**

Manufacturing of Honda Canada Inc.

**Masahiro Yoshida**

General Manager of Hamamatsu Factory of Production Operations

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<b>Seiji Kuraishi</b>	President of Dongfeng Honda Automobile Co., Ltd.
<b>Takashi Nagai</b>	Executive Vice President and Director of Asian Honda Motor Co., Ltd.
<b>Katsushi Watanabe</b>	General Manager of Kumamoto Factory of Production Operations
<b>Toshiaki Mikoshiba</b>	East Europe, the Middle & Near East and Africa for Regional Operations (Europe, the Middle & Near East and Africa)
	Executive Vice President and Director of Honda Motor Europe Ltd.
<b>Yohshi Yamane</b>	General Manager of Corporate Project of the Company
<b>Takashi Sekiguchi</b>	Executive Vice President and Director of American Honda Motor Co., Inc.
<b>Takahiro Hachigo</b>	General Manager of Automobile Purchasing Division 2 in Purchasing Operations

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

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### *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 prior 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.

The total amount of remuneration paid to the Company's directors and corporate auditors during the fiscal year ended March 31, 2008 was ¥923 million, including ¥817 million paid to 23 directors (who include three directors who retired during that fiscal year) and ¥106 million paid to seven corporate auditors (who include one corporate auditor 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 directors of subsidiaries of the Company.

The total amount of bonuses that were paid during the year ended March 31, 2008 was ¥578 million, including ¥501 million to our 20 directors as of the end of the year ended March 31, 2007 and ¥77 million to our six corporate auditors as of the end of the year ended March 31, 2007.

The amount of retirement allowances paid to five retired directors (including two managing officers who were directors in the past) and one retired corporate auditor totaled ¥1,100 million, both of which payments were in accordance with a resolution of the Ordinary General Meeting of Shareholders held in June 2007.

### *C. Board Practices*

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

### *Corporate Governance*

Companies listed on the New York Stock Exchange (the NYSE) must comply with certain standards regarding corporate governance under Section 303A of the NYSE Listed Company Manual.

However, listed companies that are foreign private issuers, such as Honda, are permitted to follow home country practice in lieu of certain provisions of Section 303A.

The following table shows the significant differences between the corporate governance practices followed by U.S. listed companies under Section 303A of the NYSE listed Company Manual and those followed by Honda.

**Corporate Governance Practices Followed by**

**NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have a majority of directors meeting the independence requirements under Section 303A of the NYSE Listed Company Manual.

**Corporate Governance Practices Followed by Honda**

For Japanese companies, which employ a corporate governance system based on a board of corporate auditors (the board of corporate auditors system), including Honda, Japan's Company Law has no independence requirement with respect to directors. The task of overseeing management and, together with the accounting audit firm, accounting is assigned to the corporate auditors, who are separate from the company's management and meet certain independence requirements under Japan's Company Law.

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**Corporate Governance Practices Followed by**

**NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have an audit committee composed entirely of independent directors, and the audit committee must have at least three members.

A NYSE-listed U.S. company must have a nominating/corporate governance committee entirely of independent directors.

**Corporate Governance Practices Followed by Honda**

In the case of Japanese companies which employ the board of corporate auditors system, including Honda, at least half of the corporate auditors must be outside corporate auditors who must meet additional independence requirements under Japan's Company Law. An outside corporate auditor is defined as a corporate auditor who has not served as a director, accounting councilor, executive officer, manager or any other employee of the company or any of its subsidiaries.

Currently, Honda has three outside corporate auditors which constitute 60% of Honda's corporate auditors.

Like a majority of Japanese companies, Honda employs the board of corporate auditors system as described above. Under this system, the board of corporate auditors is a legally separate and independent body from the board of directors. The main function of the board of corporate auditors is similar to that of independent directors, including those who are members of the audit committee, of a U.S. company: to monitor the performance of the directors, and review and express opinion on the method of auditing by the company's accounting audit firm and on such accounting audit firm's audit reports, for the protection of the company's shareholders.

Japanese companies which employ the board of corporate auditors system, including Honda, are required to have at least three corporate auditors. Currently, Honda has five corporate auditors. Each corporate auditor has a four-year term. In contrast, the term of each director of Honda is one year.

With respect to the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees, Honda relies on an exemption under that rule which is available to foreign private issuers with boards of corporate auditors meeting certain criteria.

Honda's directors are elected at a meeting of shareholders. Its Board of Directors does not have the power to fill vacancies thereon.

Honda's corporate auditors are also elected at a meeting of shareholders. A proposal by Honda's Board of Directors to elect a corporate auditor must

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**Corporate Governance Practices Followed by**

**NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors.

A NYSE-listed U.S. company must generally obtain shareholder approval with respect to any equity compensation plan.

**Corporate Governance Practices Followed by Honda**

be approved by a resolution of its Board of Corporate Auditors. The Board of Corporate Auditors is empowered to request that Honda's directors submit a proposal for election of a corporate auditor to a meeting of shareholders. The corporate auditors have the right to state their opinion concerning election of a corporate auditor at the meeting of shareholders.

Maximum total amounts of compensation for Honda directors and corporate auditors are proposed to, and voted on, by a meeting of shareholders. Once the proposals for such maximum total amounts of compensation are approved at the meeting of shareholders, each of the Board of Directors and Board of Corporate Auditors determines the compensation amount for each member within the respective maximum total amounts.

Currently, Honda does not adopt stock option compensation plans. When Honda adopts it, Honda must obtain shareholder approval for stock options only if the stock options are issued with specifically favorable conditions or price concerning the issuance and exercise of the stock options.

*D. Employees*

The following tables list the number of Honda full-time employees as of March 31, 2008, 2007 and 2006.

**As of March 31, 2008**

<b>Total</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Financial Services Business</b>	<b>Power Product and Other Businesses</b>
178,960	36,059	130,457	2,014	10,430

At March 31, 2008, Honda had 178,960 full-time employees, including 109,213 local nationals employed in its overseas operations.

**As of March 31, 2007**

<b>Total</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Financial Services Business</b>	<b>Power Product and Other Businesses</b>
167,231	33,137	121,691	1,988	10,415



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At March 31, 2007, Honda had 167,231 full-time employees, including 98,493 local nationals employed in its overseas operations.

### As of March 31, 2006

<b>Total</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Financial Services Business</b>	<b>Power Product And Other Businesses</b>
144,785	28,783	105,623	1,921	8,458

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At March 31, 2006, Honda had 144,785 full-time employees, including 83,088 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 Metalworkers' Federation. Approximately 85% of the employees of the Company and its Japanese subsidiaries were members of AHWU at March 31, 2008.

In Japan, basic wages are negotiated annually and the average increases in wages of the Company's employees in fiscal 2006, 2007 and 2008 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 24, 2008 is as follows.

<b>Title of Class</b>	<b>Amount Owned</b>	<b>% of Class</b>
Common Stock	233,936 shares	0.013%

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, 2008, the Association owned 4,563,276 shares of the Company's common stock.

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

*A. Major Shareholders*

As of March 31, 2008, 1,834,828,430 shares of Honda's Common Stock were issued and 1,814,537,899 shares were outstanding.

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The following table shows the shareholder that owned of record 5% or more of the issued shares of Honda's Common Stock as of March 31, 2008:

Name	Shares owned (thousands)	Ownership (%)
Moxley & Co.	117,366	6.4%

According to a statement on Schedule 13G (Amendment No. 4) filed by Mitsubishi UFJ Financial Group, Inc. with the Securities and Exchange Commission on February 4, 2008, Mitsubishi UFJ Financial Group, Inc. directly and indirectly held, as of December 31, 2007, 136,594,177 shares, or 7.6% of the then issued shares, of Honda's Common Stock.

None of the above shareholders has voting rights that are different from those of our other shareholders.

ADS representing American Depositary Shares are issued by JPMorgan Chase Bank, N.A., 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, 2008 were 1,834,828,430 shares of Common Stock, of which 117,364,816 shares represented by ADS and 243,346,399 shares not represented by ADS 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 225 at March 31, 2008.

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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, 2008, Honda had sales of ¥366.8 billion and purchases of ¥1,066.3 billion with equity affiliates accounted under the equity method. As of March 31, 2008, Honda had receivables of ¥104.2 billion from affiliated companies, and had payables of ¥159.8 billion to affiliated companies.

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

*C. Interests 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 18 Financial Statements .

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 ordinary 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 accrued liabilities. Punitive damages are claimed in certain of these lawsuits. We are also subject to potential liability under other various lawsuits and claims including 74 purported class actions in the United States.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies , Honda has recorded a contingent liability when it is probable that an obligation has been incurred and the amount of loss can be reasonably estimated. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recorded for these contingent liabilities, if necessary, by considering the nature of lawsuits and claims, the progress of the case and the opinions of legal counsel. Honda does not record liabilities for lawsuits or potential claims that it believes will not result in an unfavorable outcome or when a reasonable estimate of the amount of probable loss cannot be determined. After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the

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ultimate outcome of such lawsuits and pending claims including 74 purported class actions in the United States should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position, results of operations or cash flows.

**8. Profit Redistribution Policy**

The Company strives to carry out its operations from a global perspective and to increase its corporate value. With respect to the redistribution of profits to its shareholders, which it considers to be one of the most important management issues, and its basic policy for dividends is to make distributions after taking into account its long-term consolidated earnings performance.

The Company's basic policy for dividends is to make quarterly distributions. The Company may determine dividends from surplus by a resolution of the Board of Directors. Also, please note that the year-end cash dividends for the year ended March 31, of each year are matters to be resolved at general meeting of shareholders.

The Company will also acquire its own shares at the optimal timing with the goal of improving efficiency of the Company's capital structure. The present goal is to maintain a shareholders return ratio (i.e. the ratio of the total of the dividend payment and the repurchase of the Company's own shares to consolidated net income) of approximately 30%. Retained earnings will be allocated toward financing 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 business results and strengthening the Company's financial condition.

The Company distributed year-end cash dividends of ¥22 per share for the year ended March 31, 2008. As a result, total cash dividends for the year ended March 31, 2008, together with the first quarter cash dividends of ¥20, the second quarter cash dividends of ¥22 and the third quarter cash dividends of ¥22, were ¥86 per share, an increase of ¥19 from the annual dividends paid for the year ended March 31, 2007.

The Company plans to distribute quarterly cash dividends of ¥22 per share for each quarter for the year ending March 31, 2009. As a result, total cash dividends for the year ending March 31, 2009 are planned to be ¥88 per share, an increase of ¥2 from the annual dividends paid for the year ended March 31, 2008.

Details of Distribution of Surplus (Record dates of the fiscal year ended March 31, 2008)

	<b>Resolution of the Board of Directors July 25, 2007</b>	<b>Resolution of the Board of Directors October 25, 2007</b>	<b>Resolution of the Board of Directors January 30, 2008</b>	<b>Resolution at General Meeting of Shareholders June 24, 2008</b>
Dividend per Share of Common Stock (yen)	20.00	22.00	22.00	22.00
Total Amount of Dividends Yen (millions)	36,292	39,921	39,921	39,921

***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. Offer and Listing Details***

Honda's shares have been listed on the Tokyo Stock Exchange (TSE) since 1957 and as of March 31, 2008, Honda's shares were traded over two stock exchanges in Japan.

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Since February 11, 1977, American Depositary Shares (each representing 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 1995. The Paris Stock Exchange was merged with the exchanges in Amsterdam and Brussels and created Euronext in September 2000. The Company delisted itself from Euronext Paris and SWX Swiss Exchange and terminated European Depositary Receipts during fiscal year 2008.

The monthly average turnover of Honda's shares of Common Stock and American Depositary Shares for the fiscal year ended March 31, 2008 was approximately 156,759,900 shares of Common Stock on the TSE and approximately 14,697,810 American Depositary Shares on the NYSE.

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 the U.S. dollars.

Fiscal year	Yen per share of Common Stock on the TSE*		U.S. dollars per American Depositary Share on the NYSE	
	High	Low	High	Low
2004	¥ 2,755	¥ 1,785	\$ 23.59	\$ 15.47
2005	2,850	2,185	27.30	19.25
2006	3,750	2,510	31.74	23.75
2007				
1st quarter	¥ 4,285	¥ 3,270	\$ 37.95	\$ 29.13
2nd quarter	4,030	3,410	35.00	29.43
3rd quarter	4,740	3,910	39.87	33.49
4th quarter	4,940	4,050	40.82	34.64
2008				
1st quarter	¥ 4,520	¥ 3,950	\$ 36.59	\$ 33.30
2nd quarter	4,600	3,430	37.80	31.29
3rd quarter	4,400	3,530	37.64	32.14
4th quarter	3,660	2,610	33.61	27.01
CY 2008				
Jan	¥ 3,660	¥ 2,890	\$ 33.61	\$ 27.35
Feb	3,510	3,100	32.48	29.12
Mar	3,160	2,610	30.87	27.01
Apr	3,490	2,765	32.88	27.69
May	3,550	3,120	33.50	30.55

\* The reported high and low sales prices of Honda's shares on the TSE in yen from 2004 to 2006 have been adjusted based on the shares after stock split.

*B. Plan of Distribution*



Not applicable.

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*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.

***Item 10. Additional Information***

*A. Share Capital*

Not applicable

*B. Memorandum and Articles 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 Company Law of Japan and related legislation.

**General**

Honda's authorized share capital as of the date of the filing of this Form 20-F is 7,086,000,000 shares of common stock, of which 1,834,828,430 shares were issued. Effective as of July 1, 2006, Honda implemented a two for one stock split. Under the Company Law, 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 is the depository for the ADSs. Accordingly, holders of ADSs 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.

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A law to establish a new central book entry clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the part of such law that is relevant to the shares of Honda will come into effect on a date within five years of the date of the promulgation which will be determined by a Cabinet Order and is currently expected to be around early January 2009. On the effective date, a new book entry central clearing system will be established and will become responsible for handling the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of Honda. On the same day, all existing share certificates will become null and void. The transfer of shares will be effected by book-entry in the accounts maintained under the new central clearing system.

## **Objects and Purposes**

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

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.

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, warehousing business, travel business and other transport business and communication business.

Sale of sporting goods, articles of clothing, stationary, daily sundries, pharmaceuticals, drink and foodstuffs and other goods.

Financial business, nonlife insurance agency business, life insurance agency business, construction business including building construction work and real estate business including real estate brokerage.

Publishing business, advertising business, translation business, interpretation business, management consultancy business, information services including information processing, information and communication and information provision, industrial planning and design, comprehensive security business and labor dispatch services.

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 licensing of equipment, parts and supplies and all other relevant business activities and investments relating to each of the foregoing items.

## **Dividends**

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Under its articles of incorporation, Honda's financial accounts will be closed on March 31 of each year. The record date for dividends is June 30, September 30, December 31 and March 31 of each year. In addition, the Company may distribute dividends from surplus by determining any record date.

Under the Company Law, a company is permitted to make distributions of surplus to the shareholders any number of times per fiscal year pursuant to resolutions of a general meeting of shareholders, subject to certain limitations provided by the Law and the Ordinances of the Ministry of Justice thereunder. Distributions of surplus are required, in principle, to be authorized by a resolution of a general meeting of shareholders. However, if the articles of incorporation so provide and certain other requirements under the Company Law are met, distributions of surplus may be made pursuant to a board resolution. Pursuant to the provisions of the Company Law and its articles of incorporation, the board of directors of Honda may determine distributions of its surplus.

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Distributions of surplus may be made in cash or in-kind in proportion to the number of shares held by each shareholder. If a distribution of surplus is to be made in-kind, a special resolution of a general meeting of shareholders is required, except in the case that a right to receive cash distribution instead of distribution in-kind is granted to shareholders. If such right is granted, distributions in-kind may be made pursuant to an ordinary resolution of a general meeting of shareholders or, as the case may be, a board resolution.

Under the Company Law, Honda is permitted to prepare non-consolidated extraordinary financial statements consisting of a balance sheet as of any date subsequent to the end of the previous fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. If such extraordinary financial statements are prepared and approved in accordance with the provisions of the Company Law and the Ordinances of the Ministry of Justice thereunder, the results of such extraordinary financial statements may be considered in the calculation of distributable amount.

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 generally be required to be accounted for as stated capital. However, 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 in accordance with the Company Law. Honda may at any time reduce the whole or any part of its additional paid-in capital or transfer them to stated capital by resolution of a general meeting of shareholders. The whole or any part of surplus may also be transferred to stated capital, additional paid-in capital or legal reserve by resolution of a general meeting of shareholders.

## **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 approval of shareholders to increase the number of its authorized shares in proportion to the stock split, so long as Honda does not issue more than one class of shares.

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.

## **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 Company Law, the articles of incorporation of Honda adopts unit share system called as *tan-gen-kabu*, under which 100 shares constitute one voting unit of shares. The board of directors of Honda by itself may reduce, but not to increase, the number of shares that constitute a voting unit or abolish the unit share system entirely by a board resolution. An increase in the number of shares that constitute one voting unit requires a resolution of a general shareholders' meeting. In any case, the number of shares constituting one voting unit may not exceed 1,000 shares.

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The articles of incorporation of Honda provide that Honda may not issue share certificates for a number of shares not constituting an integral number of voting units. Because the transfer of shares normally requires delivery of the share certificates for the shares being transferred, shares constituting a fraction of a voting unit and for which no share certificates are issued may not be transferable, however, the holder of shares constituting less than one voting unit may at any time require Honda to purchase or sell such shares to constitute a voting unit 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 voting unit of shares are not affected by these restrictions in their ability to transfer the ADRs. However, because transfers of less than one voting 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 voting units.

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

A holder of Honda's shares representing less than one voting 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 voting unit may, in accordance with the provisions of the share handling regulations, also make a request to the effect that such number of shares should be sold to it that will, when added to the shares less than one voting unit already held by that shareholder, constitute one voting 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 Voting Unit***

A holder of shares representing less than one voting unit has the following rights and these rights may not be restricted by the articles of incorporation:

rights to receive any consideration for acquisition by a corporation of special shares all of which may be acquired by such corporation (zembu shutoku joukou tsuki shurui kabushiki) as provided by Article 171, paragraph 1, item 1 of the Company Law,

rights to receive any cash or other consideration for acquisition by a corporation of shares which may be acquired by such corporation on occurrence of certain event (shutoku joukou tsuki shurui kabushiki) as provided by Article 107, paragraph 1, item 3 of the Company Law,

rights to be allocated any shares without consideration as provided by Article 185 of the Company Law,

rights to receive distribution of any residual assets of a corporation, and

any other rights provided in the relevant Ordinance of the Ministry of Justice, including rights to receive cash and other distribution derived from consolidation of shares, stock split, allocation of stock acquisition rights without consideration, distribution of surplus or reorganization of a corporation.



Other rights of a holder of shares constituting less than one voting unit may be restricted if the articles of incorporation so provide.

*Voting rights under the unit share system*

Under the unit share system, the shareholders shall have one voting right for each voting unit of shares that they hold. A shareholder who owns shares representing less than one voting unit will not be able to exercise voting rights and any other rights relating thereto, including the right to examine Honda's accounting books and records.

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### **Voting Rights**

Honda holds its ordinary general meeting of shareholders in June of each year. In addition, Honda may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice. Under the Company Law, 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 handling regulations, at least two weeks prior to the date of the meeting.

A shareholder of Honda is generally entitled to one vote per voting unit of shares as described in this paragraph and under Japanese Unit Share System above. In general, under the Company Law and the articles of incorporation of Honda, a resolution may be adopted at a meeting of shareholders by a majority of the shares having voting rights represented at the meeting. The Company Law 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 and the resolution shall be adopted by majority voting. 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.

Under the Company Law, in order to approve certain significant matters of a corporation, more strict requirement for the quorum or the number of voting rights to approve is provided. The articles of incorporation of Honda provide that such resolution may be adopted at a meeting of shareholders by two thirds of the voting rights of the shareholders present at the meeting representing at least one third of all the shareholders having voting rights. Such significant matters include, but not limited to:

the determination of the matters relating to acquisition of its own shares from a specific shareholder,

the determination as to acquisition of special shares all of which may be acquired by a corporation (*zembu shutoku joukou tsuki shurui kabushiki*),

the determination of consolidation of the shares,

the determination of discharge of a part of responsibilities of directors, corporate auditors or accounting auditors,

the determination of the matters concerning distribution of surplus by property other than cash (only in the case that no cash distribution is allowed to shareholders),

the determination of the matters concerning amendments to the articles of incorporation, transfer of whole or important part of business or dissolution of a corporation,

the determination of the matters concerning reorganization of a corporation.

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 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 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,

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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 Company Law, 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 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 exercise 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.

### **Shareholders' Register Manager**

The Chuo Mitsui Trust and Banking Company, Limited is the Shareholders' Register Manager 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**

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As mentioned above, the record date for Honda's dividends is June 30, September 30, December 31 and March 31, if paid. A holder of shares constituting one or more whole voting units who is registered as a holder on Honda's register of shareholders at the close of business as of March 31 is entitled to exercise shareholders' voting rights at the ordinary general meeting of shareholders with respect to the fiscal year ended on March 31. 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' prior public notice.

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.

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### **Acquisition by Honda of Shares**

Under the Company Law, Honda is generally required to obtain authorization for any acquisition of its own shares by means of:

- (i) a resolution at a general meeting of shareholders, which may be effective for one year at the most from the date thereof;
- (ii) a resolution of the board of directors if the acquisition is in accordance with its articles of incorporation; or
- (iii) a resolution of the board of directors if the acquisition is to purchase its shares from a subsidiary.

Honda may only dispose of shares so acquired in accordance with the procedures applicable to a new share issuance under the Company Law.

Upon due authorization, Honda may acquire its own shares:

in the case of (i) and (ii) above, from stock markets or by way of tender offer;

in the case of (i) above, from a specific person, but only if its shareholders approve such acquisition by special resolution; and

in the case of (iii) above, from such subsidiary.

In the event Honda is to acquire its own shares from a specific person other than its subsidiary at a price which is higher than the higher of (i) the final market price on the market trading such shares as of the date of such request or (ii) in the event that such shares are subject to a tender offer, etc., the price set in the contract regarding such tender offer, any shareholder may request that Honda includes such shareholder's shares in the proposed purchase.

Acquisitions described in (i) through (iii) above must satisfy certain other requirements, including the restriction of the source of consideration in which the total amount of the purchase price of such own shares may not exceed the distributable amount of the corporation.

### **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 Financial Instruments and Exchange Law of Japan and regulations under such 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 corporation 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, in general, 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 corporation and to all Japanese stock exchanges on which the corporation'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 or transferable to such person upon exercise of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights are taken into account in determining both the number of shares held by that holder and the corporation'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 of Japan or a non-Japanese corporation is 20%. With respect to dividends paid on listed shares issued by Japanese corporations (such as our shares) to a non-resident of Japan or a non-Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends to be paid until March 31, 2009, 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, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, and Switzerland.

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Pursuant to the 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, a portfolio investor that is a U.S. holder is generally subject to Japanese withholding tax on dividends on shares at a rate of 10%. A similar withholding tax treatment applies under the new tax treaty between the United Kingdom and Japan for dividends taxed on or after January 1, 2007 due to the renewal of such treaty. The tax treaty between France and Japan was renewed, effective from December 1, 2007, under which the standard treaty withholding rate for portfolio investors on dividends was reduced from 15% to 10%. In addition, the tax treaty between Australia and Japan has been renewed (the effective date undetermined) under which the standard treaty withholding rate on dividends will be reduced in general from 15% to 10%. 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.

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 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, (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 purposes of the New Treaty, as (i) the shares and ADSs do not form part of the business property of a permanent establishment through which the beneficial owner carries on or has carried on business and (ii) is not otherwise ineligible for benefits under the New Treaty, as the case may be, with respect to income and gain from the shares or ADSs.

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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 before January 1, 2011 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 121 day period beginning 60 days before the ex-dividend date and meets other holding period requirements. 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 Depositary, 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.

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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 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.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive income or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive or general income which in either case, 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 before January 1, 2011 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 (PFIC) Rules**

Honda believes it was not a PFIC for United States federal income tax purposes in 2007, and that it will not be a PFIC in 2008. Honda's shares and ADRs are not stock of a PFIC for United States federal income tax purposes. This conclusion is a factual determination that is made annually and thus may be subject to change.

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,

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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.

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 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. Moreover, shares or ADSs held by a U.S. holder will be treated as stock in a PFIC if Honda was a PFIC at any time during the U.S. holder's holding period in its shares or ADSs, even if Honda is not currently a PFIC. For purposes of this rule, if a U.S. holder makes a mark-to-market election with respect to its shares or ADSs, the U.S. holder will be treated as having a new holding period in its shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. 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 with respect to such U.S. holder, it must file Internal Revenue Service Form 8621. U.S. holder should consult their own tax advisors regarding the PFIC rules and potential filing and other requirements.

*F. Dividends and Paying Agents*

Not applicable.

*G. Statement by Experts*

Not applicable.

*H. Documents on Display*

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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 100 F Street, N.E., 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

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maintains a web site at [www.sec.gov](http://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.

*I. Subsidiary Information*

Not applicable.

**Item 11. Quantitative and Qualitative Disclosure about Market Risk**

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

**Foreign Currency Exchange Rate Risk**

Foreign currency forward exchange 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 currency exchange rate risk as of March 31, 2007 and 2008. For forward exchange contracts and currency options, the table presents the contract amounts and fair value. All forward exchange contracts and currency contracts to which we are a party have original maturities of less than one year.

**Foreign Exchange Risk**

	2007		Average contractual Rate	2008		Average contractual Rate
	Yen (millions)			Yen (millions)		
Forward Exchange Contracts	Contract amount	Fair Value		Contract amount	Fair Value	
To sell US\$	¥ 336,005	1,299	117.84	¥ 214,797	9,199	104.25
To sell EUR	60,305	(963)	154.35	40,963	64	157.99
To sell CA\$	16,548	(67)	100.88	14,146	560	101.72



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To sell GBP	173,894	(1,352)	228.48	70,227	2,739	207.07
To sell other foreign currencies	36,344	(670)	various	12,147	362	various
To buy US\$	9,864	(122)	114.93	7,104	(196)	102.92
To buy other foreign currencies	11,358	(85)	various	2,272	(29)	various
Cross-currencies	334,676	(1,533)	various	254,189	(517)	various
<b>Total</b>	<b>¥ 978,994</b>	<b>(3,493)</b>		<b>¥ 615,845</b>	<b>12,182</b>	

	Yen (millions)		Average contractual Rate	Yen (millions)		Average contractual Rate
	Contract amount	Fair Value		Contract amount	Fair Value	
<b>Currency Option Contracts</b>						
Option purchased to sell US\$	¥			¥ 96,720	877	various
Option written to sell US\$				136,005	(502)	various
Option purchased to sell other currencies	2,317	24	various	17,378	409	various
Option written to sell other currencies	3,476	(42)	various	22,101	(457)	various
<b>Total</b>	<b>¥ 5,793</b>	<b>(18)</b>		<b>¥ 272,204</b>	<b>327</b>	

**Table of Contents****Interest Rate Risk**

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 rate swap agreements are mainly used to convert floating rate financing (normally three-five years) to 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, 2007 and 2008. 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+ $\alpha$  and an index.

**Interest Rate Risk****Finance Subsidiaries-Receivables**

	2007 Yen (millions)			2008 Yen (millions) Expected maturity date							Fair value	Average interest rate
	Total	Fair value	Total	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	There- after			
<b>Direct financing leases</b>												
JP¥	¥ 26,894	* ¥	23,580	13,259	5,090	2,946	1,528	755	2	*	4.62%	
US\$	1,426,173	*	657,278	402,007	241,201	14,062	8			*	5.40%	
Other	439,499	*	531,776	133,930	142,577	149,202	92,570	13,485	12	*	4.17%	
<b>Total Direct Financing Leases</b>	<b>¥ 1,892,566</b>	<b>* ¥</b>	<b>1,212,634</b>	<b>549,196</b>	<b>388,868</b>	<b>166,210</b>	<b>94,106</b>	<b>14,240</b>	<b>14</b>	<b>*</b>		
<b>Other Finance Receivables</b>												
JP¥	¥ 402,970	398,869	¥ 441,695	145,881	113,143	82,716	53,570	40,091	6,294	437,032	4.62%	
US\$	2,485,210	2,545,210	2,515,518	862,084	558,698	475,684	370,941	198,020	50,091	2,645,690	7.66%	
Other	487,922	411,955	610,201	297,618	131,520	95,673	57,772	22,614	5,004	524,144	6.87%	
<b>Total Other Finance Receivables</b>	<b>¥ 3,376,102</b>	<b>3,356,034</b>	<b>¥ 3,567,414</b>	<b>1,305,583</b>	<b>803,361</b>	<b>654,073</b>	<b>482,283</b>	<b>260,725</b>	<b>61,389</b>	<b>3,606,866</b>		
<b>Retained interest in the sold pools of finance receivables**</b>	<b>88,110</b>	<b>88,110</b>	<b>54,636</b>							<b>54,636</b>		
<b>Total***</b>	<b>¥ 5,356,778</b>		<b>¥ 4,834,684</b>									

\* : Under U.S. generally accepted accounting principles, disclosure of fair values of direct financing leases is not required.

\*\* : The retained interest in the sold pools of finance receivables is accounted for as trading securities and is reported at fair value.

\*\*\* : The finance subsidiaries-receivables include finance subsidiaries-receivables included in trade receivables and other assets in the consolidated balance sheets. Additional detailed information is described in Note (3) to the accompanying consolidated financial statements.



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**Long-Term Debt (including current portion)**

	2007			2008							Average interest rate
	Yen(millions)			Yen(millions)							
	Total	Fair value	Total	Expected maturity date							
			Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	There after	Fair value		
Japanese yen bonds	¥ 230,129	229,379	¥ 250,080	30,049	60,049	59,995	69,992	29,995		251,166	1.11%
Japanese yen medium-term notes (Fixed rate)	367,900	368,425	321,600	111,400	73,000	76,000	32,900	25,300	3,000	324,504	1.03%
Japanese yen medium-term notes (Floating rate)	85,200	85,525	165,000	38,000	23,000	28,900	16,500	58,600		166,308	1.17%
U.S. dollar medium-term notes (Fixed rate)	354,500	357,121	274,346	91,783	75,232	52,161	35,108		20,062	286,869	4.55%
U.S. dollar medium-term notes (Floating rate)	1,171,527	1,183,041	1,005,456	482,189	416,938	50,155	56,174			1,010,974	3.36%
Loans and others primarily fixed rate	471,896	471,384	691,220	117,629	121,566	203,608	58,307	182,040	8,070	701,228	4.29%
<b>Total</b>	<b>¥ 2,681,152</b>	<b>2,694,875</b>	<b>¥ 2,707,702</b>	<b>871,050</b>	<b>769,785</b>	<b>470,819</b>	<b>268,981</b>	<b>295,935</b>	<b>31,132</b>	<b>2,741,049</b>	

**Interest Rate Swaps**

Notional principal	currency	Receive/Pay	2007		2008							Average receive rate	Average pay rate	
			Yen (millions)		Yen (millions)									
			Contract amounts	Fair value	Contract amount	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	Thereafter			Fair value
JP¥	Float/Fix	¥ 5,858		¥ 2,330	1,512	218	600					(4)	1.23%	1.42%
US\$	Float/Fix	2,933,563	8,661	2,885,355	1,185,667	932,304	603,944	138,637	24,803			(81,730)	3.35%	4.65%
	Fix/Float	355,921	(1,878)	403,333	95,376	113,271	49,410	35,067		110,209	13,135		4.63%	3.34%
CA\$	Float/Float	90,899	(205)	67,127	42,079	25,048						(36)	2.98%	3.14%
	Float/Fix	490,691	2,186	658,179	210,821	187,138	144,604	87,055	24,379	4,182	(9,924)		3.88%	4.16%
	Fix/Float	75,961	(346)	154,287	17,380	10,114	48,436	19,589	58,768		4,418		5.05%	4.40%
GBP	Float/Float	195,325	(302)	100,876	60,564	27,940	12,372					(325)	3.61%	4.01%
	Float/Fix	48,314	333	23,469	12,133	6,123	5,213				83		5.99%	4.96%
	Fix/Float	1,931												
<b>Total</b>		<b>¥ 4,198,463</b>	<b>8,449</b>	<b>¥ 4,294,956</b>	<b>1,625,532</b>	<b>1,302,156</b>	<b>864,579</b>	<b>280,348</b>	<b>107,950</b>	<b>114,391</b>	<b>(74,383)</b>			

**Currency & Interest Rate Swaps**

Receiving side	Paying side	currency	Receive/Pay	2007		2008							Average receive rate	Average pay rate
				Yen (millions)		Yen (millions)								
				Contract amount	Fair value	Contract amount	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	Thereafter		
JP¥	US\$	Fix/Float	¥ 386,064	(21,728)	¥ 286,141	100,705	66,733	66,976	27,749	21,162	2,816	37,036	1.03%	3.38%

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		Float/Float	87,414	(4,940)	153,023	44,006	18,621	24,997	14,374	51,025	19,641	1.15%	3.28%
JP¥	CAS	Fix/Float	2,790	(628)	2,685		2,685				(480)	0.95%	4.75%
Other	Other	Fix/Float	70,387	6,425	165,885			59,738		106,147	34,731	4.58%	4.47%
		Float/Float	61,879	3,334	55,279	19,071	36,208				13,161	4.60%	2.73%
Total			¥ 608,534	(17,537)	¥ 663,013	163,782	124,247	151,711	42,123	178,334	2,816		104,089

**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 held for purposes other than trading, 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. At March 31, 2007 and 2008, the estimated fair value of marketable equity securities was ¥169.2 billion and ¥120.0 billion, respectively.

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***Item 12. Description of Securities Other than Equity Securities***

Not applicable.

***Item 13. Defaults, Dividend Arrearages and Delinquencies***

None.

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

Effective July 1, 2006, we effected (1) a one to two split of our shares of common stock and (2) a change in the ratio of our American Depositary Share to Honda's underlying shares of common stock from 1:0.5 to 1:1. See Item 3.A. for further information.

***Item 15. Controls and Procedures***

**Disclosure Controls and Procedures**

Under the supervision and 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 2008. 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.

**Management's Report on Internal Control over Financial Reporting**

The management of Honda is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Security Exchange Act of 1934). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and Chief Operating Officer for Business Management Operations (who is our principal financial officer), assessed the effectiveness of internal control over financial reporting as of March 31, 2008 based on the criteria established in Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on that assessment, our management concluded that our internal control over financial reporting was effective as of March 31, 2008.

The Company's independent registered public accounting firm, KPMG AZSA & Co., has audited the effectiveness of the Company's internal control over financial reporting, as stated in their report which is included herein.

**Table of Contents*****Changes in Internal Control over Financial Reporting***

No significant changes were made in our internal control over financial reporting during the fiscal year ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Item 16A. Audit Committee Financial Expert***

Honda's Board of Auditors has determined that Mr. Shinichi Sakamoto is qualified as an audit committee financial expert as defined by the rules of the SEC. He was elected as one of Honda's corporate auditors at the general meeting of shareholders held on June 23, 2005. See Item 6.A. for additional information regarding Mr. Sakamoto. Mr. Sakamoto meets the independence requirements imposed on corporate auditors under the Company Law of Japan. See Item 6.C. for an explanation of such independence requirements.

***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***

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

	Yen (millions)	
	2007	2008
Audit Fees	2,708	3,042
Audit-Related Fees	38	102
Tax Fees	176	14
All Other Fees		21
Total	2,922	3,179

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. This category includes fees for agreed-upon or expanded audit procedures related to accounting and/or other records.



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 principal accountant to ensure that the independence of principal accountant under such rules is not impaired as a result of the provision of any of these services.

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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, and is informed of each such service that is actually provided.

All services to be provided to us by principal accountant and its affiliates those are not specifically set forth in this list must be specifically pre-approved by our Board of Corporate Auditors.

None of the services described above in this Item 16C. were waived from the pre-approval requirements pursuant to Rule 2-01(c)(7)(i)(C) of Regulation S-X.

### ***Item 16D. Exemptions from the Listing Standards for Audit Committees***

With respect to the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 relating to listed company audit committees, which apply to us through Section 303A.06 of the New York Stock Exchange's Listed Company Manual, we rely on an exemption provided by paragraph (c)(3) of that Rule available to foreign private issuers with boards of corporate auditors meeting certain requirements. For a New York Stock Exchange-listed Japanese company with a board of corporate auditors, the requirements for relying on paragraph (c)(3) of Rule 10A-3 are as follows:

The Board of Corporate Auditors must be established, and its members must be selected, pursuant to Japanese law expressly requiring such a board for Japanese companies that elect to have a corporate governance system with corporate auditors.

Japanese law must and does require the board of corporate auditors to be separate from the Board of Directors.

None of the members of the board of corporate auditors may be elected by management, and none of the listed company's executive officers may be a member of the board of corporate auditors.

Japanese law must and does set forth standards for the independence of the members of the board of corporate auditors from the listed company or its management.

The board of corporate auditors, in accordance with Japanese law or the listed company's governing documents, must be responsible, to the extent permitted by Japanese law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by Japanese law, the resolution of disagreements between our management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed company, including its principal accountant which audits its consolidated financial statements included in its annual reports on Form 20-F.

To the extent permitted by Japanese law:

the board of corporate auditors must established procedures for (i) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;

the board of corporate auditors must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties; and

the listed company must provide for appropriate funding, as determined by its board of corporate auditors, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us, (ii) compensation to any advisers employed by the board of corporate auditors, and (iii) ordinary administrative expenses of the board of corporate auditors that are necessary or appropriate in carrying out its duties.

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In our assessment, our Board of Corporate Auditors, which meets the requirements for reliance on the exemption in paragraph (c)(3) of Rule 10A-3 as described above, is not materially less effective than an audit committee meeting all the requirements of paragraph (b) of Rule 10A-3 (without relying on any exemption provided by acting independently of management and performing the functions of an audit committee as contemplated therein).

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth certain information with respect to purchases by Honda of its own shares during the year ended March 31, 2008. There were no purchases of Honda's shares by its affiliated purchasers during that year.

Period	(a) Total Number of Shares Purchased <sup>(1)</sup>	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1 to April 30, 2007	1,307	¥ 4,114	0	0
May 1 to May 31, 2007	8,204,915	¥ 4,160	8,204,000	1,796,000
June 1 to June 30, 2007	869	¥ 4,313	0	0
July 1 to July 31, 2007	2,813	¥ 4,511	0	0
August 1 to August 31, 2007	1,059	¥ 4,106	0	0
September 1 to September 30, 2007	941	¥ 3,739	0	0
October 1 to October 31, 2007	1,047	¥ 3,892	0	0
November 1 to November 30, 2007	1,368	¥ 3,980	0	0
December 1 to December 31, 2007	3,989	¥ 3,771	0	0
January 1, to January 31, 2008	1,453	¥ 3,513	0	0
February 1, to February 29, 2008	1,075	¥ 3,344	0	0
March 1 to March 31, 2008	73,369 <sup>(3)</sup>	¥ 3,082	0	0
<b>Total</b>	<b>8,294,205</b>	<b>¥ 4,150</b>	<b>8,204,000</b>	

- (1) For each month, the number of shares shown in column (a) in excess of the number of shares shown in column (c) represents the aggregate number of shares representing less than one unit that Honda purchased from the holders thereof upon their request. For an explanation of the right of such holders, see "Japanese Unit Share System Right of a Holder of Shares Representing Less Than One Voting Unit to Require Honda to Purchase or Sell Its Shares" under Item 10.B of this Annual Report.
- (2) During the year ended March 31, 2008, the following share repurchase programs were in effect:

Share repurchase approved by the Board of Directors pursuant to the Articles of Incorporation

Date of announcement: May 15, 2007

Maximum number of shares authorized to be repurchased: 10,000,000

Maximum yen amount authorized to be used for repurchase: ¥38,000,000,000

Repurchase period: from May 16, 2007 to June 12, 2007

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(This program expired on the last day of the repurchase period referred to above.)

- (3) Shinnichi Kogyo Co., Ltd. became a consolidated subsidiary of Company as of March 25, 2008. As a result, 70,786 shares, or 45.21% of the total number of Honda shares held by Shinnichi, are now included in the Company's treasury stock in its consolidated balance sheet, reflecting Honda's percentage of voting rights in Shinnichi.

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***Item 17. Financial Statements***

Not applicable.

***Item 18. Financial Statements***

See Consolidated Financial Statements attached hereto.

***Item 19. Exhibits***

- 1.1 Articles of Incorporation of the registrant (English translation)
- 1.2 Share Handling Regulations of the registrant (English translation)
- 1.3 Regulations of Board of Directors of the registrant (English translation)
- 1.4 Regulations of the Board of Corporate Auditors of the registrant (English translation)
- 2.1 Specimen common stock certificates of the registrant (English translation) (1)
- 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 (2)
- 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 (2)
- 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 (3)
- 2.5 Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006 among the parties referred to in Exhibit 2.2 above (4)
- 2.6 Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)
- 8.1 List of Significant Subsidiaries (See [Organizational Structure](#) in Item 4.C of this Form 20-F)

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- 11.1 Code of Ethics (6)
- 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 September 27, 2001.
- (2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995.
- (3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001.
- (4) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-114874) filed on June 28, 2006.
- (5) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-143589) filed on June 8, 2007.
- (6) Incorporated by reference to the registrant's annual report on Form 20-F filed on July 9, 2004.

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

**Consolidated Financial Statements**

**and**

**Reports of Independent Registered**

**Public Accounting Firm**

**March 31, 2008**

**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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Financial statements of affiliates are omitted because such affiliates are not individually significant.

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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 accompanying consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries ( Honda ) as of March 31, 2007 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2008. These consolidated financial statements are the responsibility of Honda's management. Our responsibility is to express an opinion on these consolidated financial statements 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.

In our opinion, 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, 2007 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008 in conformity with U.S. generally accepted accounting principles.

As described in Note 1(m) to the accompanying consolidated financial statements, Honda adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* as of April 1, 2007. As described in Note 12 to the consolidated financial statements, Honda adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements of No. 87, 88, 106 and 132(R)* as of March 31, 2007. As described in Note 1(u) to the consolidated financial statements, Honda changed its method of quantifying errors as of March 31, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Honda's internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 30, 2008 expressed an unqualified opinion on the effectiveness of Honda's internal control over financial reporting.

/S/ KPMG AZSA & Co.

Tokyo, Japan

June 30, 2008



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Honda Motor Co., Ltd.:

We have audited Honda Motor Co., Ltd. and subsidiaries ( Honda ) internal controls over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Honda’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Honda’s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Honda Motor Co., Ltd. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, stockholders’ equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2008, and our report dated June 30, 2008 expressed an unqualified opinion on those consolidated financial statements.

/S/ KPMG AZSA & Co.

Tokyo, Japan

June 30, 2008

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Balance Sheets****March 31, 2007 and 2008**

	Yen (millions)	
	2007*	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	¥ 945,546	¥ 1,050,902
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥8,199 million in 2007 and ¥8,181 million in 2008 (notes 3 and 19)	1,055,470	1,021,743
Finance subsidiaries-receivables, net (notes 3, 8 and 19)	1,426,224	1,340,728
Inventories (note 4)	1,183,116	1,199,260
Deferred income taxes (note 10)	155,390	158,825
Other current assets (notes 6, 8 and 15)	426,863	460,110
<b>Total current assets</b>	<b>5,192,609</b>	<b>5,231,568</b>
Finance subsidiaries-receivables, net (notes 3, 8 and 19)	3,039,826	2,707,820
Investments and advances:		
Investments in and advances to affiliates (note 5)	497,337	549,812
Other, including marketable equity securities (note 6)	254,610	222,110
<b>Total investments and advances</b>	<b>751,947</b>	<b>771,922</b>
Property on operating leases (note 7):		
Vehicles	345,909	1,014,412
Less accumulated depreciation	9,700	95,440
<b>Net property on operating leases</b>	<b>336,209</b>	<b>918,972</b>
Property, plant and equipment, at cost (note 8):		
Land	429,373	457,352
Buildings	1,322,394	1,396,934
Machinery and equipment	2,988,064	3,135,513
Construction in progress	204,318	227,479
	4,944,149	5,217,278
Less accumulated depreciation and amortization	2,865,421	3,015,979
<b>Net property, plant and equipment</b>	<b>2,078,728</b>	<b>2,201,299</b>
Other assets (notes 3, 8, 10, 12 and 15)	637,181	783,962
<b>Total assets</b>	<b>¥ 12,036,500</b>	<b>¥ 12,615,543</b>
<b>Liabilities, Minority Interests and Stockholders Equity</b>		
Current liabilities:		
Short-term debt (note 8)	¥ 1,265,868	¥ 1,687,115
Current portion of long-term debt (note 8)	775,409	871,050

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Trade payables:		
Notes	33,276	39,006
Accounts	1,133,280	1,015,130
Accrued expenses (note 12)	807,341	730,615
Income taxes payable (note 10)	76,031	71,354
Other current liabilities (notes 8, 10 and 15)	196,322	264,280
<b>Total current liabilities</b>	<b>4,287,527</b>	<b>4,678,550</b>
Long-term debt, excluding current portion (note 8)	1,905,743	1,836,652
Other liabilities (notes 9, 10 and 12)	1,237,712	1,414,270
<b>Total liabilities</b>	<b>7,430,982</b>	<b>7,929,472</b>
Minority interests in consolidated subsidiaries	122,907	141,806
Stockholders' equity:		
Common stock, authorized 7,086,000,000 shares; issued 1,834,828,430 shares	86,067	86,067
Capital surplus	172,529	172,529
Legal reserves (note 11)	37,730	39,811
Retained earnings (note 11)	4,654,890	5,099,983
Accumulated other comprehensive income (loss), net (notes 6, 10, 12, 14 and 16)	(427,166)	(782,198)
Treasury stock, at cost 12,835,522 shares in 2007 and 20,290,531 shares in 2008	(41,439)	(71,927)
<b>Total stockholders' equity</b>	<b>4,482,611</b>	<b>4,544,265</b>
Commitments and contingent liabilities (notes 17 and 18)		
<b>Total liabilities, minority interests and stockholders' equity</b>	<b>¥ 12,036,500</b>	<b>¥ 12,615,543</b>

\* See note 2.

See accompanying notes to consolidated financial statements.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Income****Years ended March 31, 2006, 2007 and 2008**

	2006	Yen (millions) 2007	2008
Net sales and other operating revenue (note 3)	¥ 9,907,996	¥ 11,087,140	¥ 12,002,834
Operating costs and expenses:			
Cost of sales (note 3)	7,010,357	7,865,142	8,543,170
Selling, general and administrative	1,656,365	1,818,272	1,918,596
Research and development	510,385	551,847	587,959
	9,177,107	10,235,261	11,049,725
Gain on transfer of the substitutional portion of the Employees Pension Funds (note 12)	138,016		
Operating income	868,905	851,879	953,109
Other income (notes 1(q) and 6):			
Interest	27,363	42,364	50,144
Other	2,214	13,243	5,384
	29,577	55,607	55,528
Other expenses (notes 1(q) and 6):			
Interest	11,902	12,912	16,623
Other	56,676	101,706	96,173
	68,578	114,618	112,796
Income before income taxes, minority interest and equity in income of affiliates	829,904	792,868	895,841
Income tax (benefit) expense (note 10):			
Current	319,945	300,294	356,095
Deferred	(2,756)	(16,448)	31,341
	317,189	283,846	387,436
Income before minority interest and equity in income of affiliates	512,715	509,022	508,405
Minority interest in income of consolidated subsidiaries	(15,287)	(20,117)	(27,308)
Equity in income of affiliates (note 5)	99,605	103,417	118,942
Net income	¥ 597,033	¥ 592,322	¥ 600,039
	2006	Yen 2007	2008



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Basic net income per common share (note 1(o))	¥	324.33	¥	324.62	¥	330.54
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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 and Comprehensive Income**

Years ended March 31, 2006, 2007 and 2008

	Yen (millions)						
	Common stock	Capital surplus	Legal reserves	Retained earnings	Accumulated other comprehensive income (loss), net	Treasury stock	Total stockholders equity
Balance at March 31, 2005	86,067	172,531	34,688	3,809,383	(793,934)	(19,441)	3,289,294
Transfer to legal reserves			1,123	(1,123)			
Cash dividends				(71,061)			(71,061)
Comprehensive income (loss):							
Net income				597,033			597,033
Other comprehensive income (loss), net of tax (note 14)							
Adjustments from foreign currency translation					249,160		249,160
Unrealized gains (losses) on marketable securities, net					28,966		28,966
Unrealized gains (losses) on derivative instruments, net					(64)		(64)
Minimum pension liabilities adjustment					108,685		108,685
<b>Total comprehensive income</b>							<b>983,780</b>
Purchase of treasury stock						(77,067)	(77,067)
Reissuance of treasury stock				(125)		928	803
Retirement of treasury stock		(2)		(66,221)		66,224	1
Balance at March 31, 2006	86,067	172,529	35,811	4,267,886	(407,187)	(29,356)	4,125,750
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax (note 1(u))				(62,640)	18,149		(44,491)
Adjusted balances as of March 31, 2006	86,067	172,529	35,811	4,205,246	(389,038)	(29,356)	4,081,259
Transfer to legal reserves			1,919	(1,919)			
Cash dividends				(140,482)			(140,482)
Comprehensive income (loss):							
Net income				592,322			592,322
Other comprehensive income (loss), net of tax (note 14)							
Adjustments from foreign currency translation					96,775		96,775
Unrealized gains (losses) on marketable securities, net					(4,571)		(4,571)
Unrealized gains (losses) on derivative instruments, net					84		84
Minimum pension liabilities adjustment					8,908		8,908
<b>Total comprehensive income</b>							<b>693,518</b>

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Adjustment for initially applying SFAS No. 158, net of tax (note 12)					(139,324)		(139,324)
Purchase of treasury stock						(30,974)	(30,974)
Reissuance of treasury stock				(277)		18,891	18,614
Retirement of treasury stock							
Balance at March 31, 2007	86,067	172,529	37,730	4,654,890	(427,166)	(41,439)	4,482,611

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity and Comprehensive Income (Continued)**

Years ended March 31, 2006, 2007 and 2008

	Yen (millions)						
	Common stock	Capital surplus	Legal reserves	Retained earnings	Accumulated other comprehensive income (loss), net	Treasury stock	Total stockholders equity
Transfer to legal reserves			2,081	(2,081)			
Cash dividends				(152,590)			(152,590)
Comprehensive income (loss):							
Net income				600,039			600,039
Other comprehensive income (loss), net of tax (note 14)							
Adjustments from foreign currency translation					(312,267)		(312,267)
Unrealized gains (losses) on marketable securities, net					(26,459)		(26,459)
Unrealized gains (losses) on derivative instruments, net					440		440
Pension and other postretirement benefits adjustments					(16,746)		(16,746)
Total comprehensive income							245,007
Purchase of treasury stock						(34,404)	(34,404)
Reissuance of treasury stock				(275)		3,916	3,641
Retirement of treasury stock							
Balance at March 31, 2008	¥ 86,067	¥ 172,529	¥ 39,811	¥ 5,099,983	¥ (782,198)	¥ (71,927)	¥4,544,265

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, 2006, 2007 and 2008**

	Yen (millions)		
	2006	2007	2008
Cash flows from operating activities (note 13):			
Net income	¥ 597,033	¥ 592,322	¥ 600,039
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation excluding property on operating leases	262,225	361,747	417,393
Depreciation of property on operating leases		9,741	101,032
Deferred income taxes	(2,756)	(16,448)	31,341
Minority interest in income	15,287	20,117	27,308
Equity in income of affiliates	(99,605)	(103,417)	(118,942)
Dividends from affiliates	64,055	54,849	67,764
Provision for credit and lease residual losses on finance subsidiaries-receivables	36,153	44,128	58,011
Loss (gain) on derivative instruments, net	10,351	56,836	70,251
Gain on transfer of the substitutional portion of the Employees Pension Funds (note 12)	(138,016)		
Decrease (increase) in assets:			
Trade accounts and notes receivable	(113,259)	(49,529)	(67,696)
Inventories	(109,661)	(96,839)	(100,622)
Other current assets	(59,484)	(15,206)	(2,609)
Other assets	(81,796)	(5,523)	(130,666)
Increase (decrease) in liabilities:			
Trade accounts and notes payable	21,420	38,186	32,327
Accrued expenses	51,653	41,898	(24,768)
Income taxes payable	39,900	(37,282)	20
Other current liabilities	6,126	1,103	2,301
Other liabilities	80,410	14,274	179,537
Other, net	604	(6,432)	(15,103)
Net cash provided by operating activities	580,640	904,525	1,126,918
Cash flows from investing activities:			
Increase in investments and advances	(17,314)	(9,874)	(6,417)
Decrease in investments and advances	3,711	3,829	1,270
Payments for purchases of available-for-sale securities	(158,011)	(141,902)	(158,426)
Proceeds from sales of available-for-sale securities	129,496	172,806	179,911
Payments for purchases of held-to-maturity securities	(63,395)	(13,614)	(39,482)
Proceeds from redemptions of held-to-maturity securities	55,990	41,109	32,557
Capital expenditures	(460,021)	(597,958)	(668,228)
Proceeds from sales of property, plant and equipment	39,951	20,641	26,868
Acquisitions of finance subsidiaries-receivables	(3,031,644)	(2,857,024)	(2,712,775)
Collections of finance subsidiaries-receivables	1,870,675	2,138,875	2,312,311
Proceeds from sales of finance subsidiaries-receivables	930,595	477,927	158,497
Purchases of operating lease assets		(366,795)	(839,261)
Proceeds from sales of operating lease assets		1,276	26,776
Net cash used in investing activities	(699,967)	(1,130,704)	(1,686,399)
Cash flows from financing activities:			
Increase (decrease) in short-term debt, net	(124,941)	306,063	601,957
Proceeds from long-term debt	865,677	969,491	1,061,792
Repayments of long-term debt	(568,605)	(677,539)	(782,749)
Cash dividends paid (note 11)	(71,061)	(140,482)	(152,590)

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Cash dividends paid to minority interests	(4,083)	(7,434)	(9,663)
Payments for purchases of treasury stock, net	(77,064)	(26,689)	(30,746)
Net cash provided by financing activities	19,923	423,410	688,001
Effect of exchange rate changes on cash and cash equivalents	43,406	31,527	(23,164)
Net change in cash and cash equivalents	(55,998)	228,758	105,356
Cash and cash equivalents at beginning of year	772,786	716,788	945,546
Cash and cash equivalents at end of year	¥ 716,788	¥ 945,546	¥ 1,050,902

See accompanying notes to consolidated financial statements.

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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) General and Summary of Significant Accounting Policies**

*(a) Description of Business*

Honda Motor Co., Ltd. (the Company) and its subsidiaries (collectively Honda) mainly develop, manufacture and distribute motorcycles, automobiles, power products, and also provide financing for the sale of those products. Honda's manufacturing operations are principally conducted in 33 separate factories, four of which are located in Japan. Principal overseas manufacturing facilities are located in the United States of America, Canada, Mexico, the United Kingdom, France, Italy, Spain, China, India, Indonesia, Malaysia, Pakistan, the Philippines, Taiwan, Thailand, Vietnam, Argentina, Brazil and Turkey.

*(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.

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

*(c) Consolidation Policy*

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

Investments in affiliates in which Honda has the ability to exercise significant influence over their operating and financial policies, but where Honda does not have a controlling financial interest 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 its consolidated financial statements in conformity with U.S. generally accepted accounting principles. Significant items subject to such estimates and assumptions include, but are not limited to, allowance for credit losses, losses on lease residual values, retained interests in the sold pools of finance receivables, realizable values of inventories, realization of deferred tax assets, impairment of long-lived assets, unrecognized tax benefits, product warranty obligations, the fair values of assets and obligations related to employee benefits, and the fair value of derivative financial instruments. 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



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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

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

Operating lease revenues are recorded on a straight-line basis over the term of the lease.

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

Finance subsidiaries of the Company periodically sell finance receivables. Gain or loss is recognized equal to the difference between the cash proceeds received and the carrying value of the receivables sold and is recorded in the period in which the sale occurs. Honda allocates the recorded investment in finance receivables between the portion(s) of the receivables sold and portion(s) retained, based on the relative fair values of those portions on the date the receivables are sold. Honda recognizes gains or losses attributable to the change in the fair value of the retained interests, which are recorded at estimated fair value and accounted for as trading securities. Honda determines the fair value of the retained interests by discounting the future cash flows. Those cash flows are estimated based on prepayments, credit losses and other information as available and are discounted at a rate which Honda believes is commensurate with the risk free rate plus a risk premium. Finance subsidiaries of the Company have historically amortized servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income. Effective April 1, 2007, the finance subsidiaries of the Company adopted Statement of Financial Accounting Standards (SFAS) No. 156, Accounting for Servicing of Financial Assets which requires the finance subsidiaries of the Company to measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur. The adoption of SFAS No. 156 did not have a material impact on the Company's consolidated financial position as of April 1, 2007. Servicing assets and servicing liabilities at March 31, 2007 and 2008 were not significant.

Taxes collected from customers and remitted to governmental authorities on revenue-producing transactions are accounted for on a net basis and therefore are excluded from revenues in consolidated statements of income.

*(f) Cash Equivalents*

Honda considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market funds and commercial paper, and amount to ¥117,182 million and ¥110,336 million as of March 31, 2007 and 2008, respectively.

*(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*

Investments in securities consist of investment to affiliates and debt and equity securities. Investments in affiliates in which Honda has the ability to exercise significant influence over their operating and financial policies, but where Honda does not have a controlling financial interest are accounted for using the equity method. Differences between the cost of investments in affiliates and the amount of underlying equity in net assets of the affiliates principally represent investor level goodwill.

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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Honda considers whether the fair value of any of its equity method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If Honda considers any such decline to be other-than-temporary based on various factors, then a write-down will be recorded to estimated fair value.

Honda classifies its debt and equity securities into the following categories: available-for-sale, trading, or held-to-maturity. Debt securities 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 marketable 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. The costs of available-for-sale securities sold are accounted for using the moving-average method. Honda did not hold any trading securities at March 31, 2007 and 2008, except for retained interests in the sold pools of finance receivables, which are accounted for as trading securities and included in finance subsidiaries-receivables.

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

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

*(i) Goodwill*

Goodwill, all of which is allocated to Honda's reporting units, is not amortized but is tested for impairment at least annually. Honda completed its annual tests for March 31, 2006, 2007, and 2008 and concluded no impairment needed to be recognized. The carrying amount of goodwill at March 31, 2007 and 2008 was ¥20,791 million and ¥20,498 million, respectively. (see note 2)

*(j) Property on Operating Leases*

Property on operating leases is reported at cost, less accumulated depreciation. Depreciation of the vehicles is generally provided on a straight-line basis to an estimated residual value over the lease term. The residual values of the vehicles related to the operating leases are estimated by using our estimate of future used vehicle values, taking into consideration data obtained from third parties.

*(k) Depreciation and Amortization*

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

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

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

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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

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

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

*(m) Income Taxes*

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

The Company and its consolidated subsidiaries adopted the provision of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes on April 1, 2007. FIN No. 48 requires that an entity recognizes in the consolidated financial statements the impact of a tax position, if any, based on the technical merits of the position, when that position is more likely than not to be sustained upon examination. Benefits from tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is a greater than 50 percent likely of being realized upon settlement. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The initial adoption of this interpretation did not have a material impact on the Company's consolidated financial position. Honda accounts for interest and penalties related to the liability for unrecognized tax benefits as a component of income tax expense in the consolidated statement of income.

*(n) 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, 2008 were ¥287,901 million, ¥308,409 million and ¥315,656 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 and product recalls.

*(o) Basic Net Income per Common Share*

Basic net income per common share has been computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each year. The weighted average number of common shares outstanding for the years ended March 31, 2006, 2007 and 2008 was 1,840,799,671 shares, 1,824,675,228 shares and 1,815,356,440 shares, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2006, 2007 or 2008.

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

The Company executed a two-for-one stock split for the Company's common stock effective July 1, 2006. All per share information has been adjusted retroactively for the year ended March 31, 2006 to reflect this stock split.

*(p) Foreign Currency Translation*

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

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

Foreign currency transaction gains (losses) included in other income (expenses) other for each of the years in the three-year period ended March 31, 2008 are as follows:

	Yen		
	(millions)		
	2006	2007	2008
	¥ (38,880)	¥ (48,261)	¥ 2,895

*(q) Derivative Financial Instruments*

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

Honda recognizes at fair value all derivative financial instruments in its consolidated balance sheets. Derivative asset and liability positions are presented net by counterparty on the consolidated balance sheets when valid master netting agreement exists and the other conditions set out in Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 39, "Offsetting of Amounts Related to Certain Contracts" are met.

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

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



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

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

The amount recognized in earnings included in other income (expenses) other during the year ended March 31, 2006, 2007 and 2008 are ¥55,516 million loss, ¥48,485 million loss and ¥48,746 million gain, respectively. In relation to this, the Company included gains and losses on translation of debts of finance subsidiaries denominated in foreign currencies intended to be hedged of ¥45,046 million gain, ¥8,351 million loss and ¥118,997 million loss in other income (expenses) other during the years ended March 31, 2006, 2007 and 2008, respectively. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by mainly finance subsidiaries of ¥827 million gain, ¥3,309 million gain and ¥10,550 million loss are included in other income (expenses) other during the years ended March 31, 2006, 2007 and 2008, respectively. These gains and losses are presented on a net basis.

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

*(r) 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, 2008 are as follows:

Yen		
2006	(millions) 2007	2008
¥ 181,675	¥ 219,361	¥ 239,737

*(s) Asset Retirement Liability*

Honda recognizes an asset retirement liability if the fair value of the obligation can be reasonably estimated. Asset retirement obligations include those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

*(t) New Accounting Pronouncements*

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In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements . This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This statement is effective as of an entity's first fiscal year that begins after November 15, 2007.

In February 2008, FASB issued FASB staff position (FSP) No. FAS 157-2 Effective date of FASB statement No. 157 . This FSP delays the effective date for SFAS No. 157, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

It is not anticipated that adoption will have a material impact on the Company's consolidated financial position or results of operations.

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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The Company and its subsidiaries adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*—an amendment of FASB Statements No. 87, 88, 106, and 132(R) on March 31, 2007.

This statement also changes the date at which benefit obligations are to be measured to the date of the year-end statement of financial position. Certain foreign subsidiaries of the Company use a December 31 measurement date for their plans. The measurement provisions of this statement are effective for fiscal years ending after December 15, 2008.

It is not anticipated that adoption will have a material impact on the Company's consolidated financial position or results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*—including an amendment of SFAS No. 115. This statement permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. The statement also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Honda is currently in the process of assessing the financial impact of adoption.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations*. This statement replaces SFAS No. 141. This statement requires an acquirer to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date measured at that date. The statement shall be applied prospectively to business combinations for which the acquisition date is on and after an entity's first fiscal year that begins after December 15, 2008, with early adoption not permitted. It is not anticipated that adoption will have a material impact on the Company's consolidated financial position or results of operations.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement requires that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, and requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions. This statement is effective as of an entity's first fiscal year that begins after December 15, 2008, with early adoption not permitted. It is not anticipated that the initial adoption will have a material impact on the Company's consolidated financial position or results of operations.

*(u) Cumulative Effect of Prior Year Adjustments*

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In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying current year misstatements for the purpose of materiality assessment. SAB No. 108 requires that registrants quantify a current year misstatement using an approach that considers both the impact of prior year misstatements that remain on the

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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

balance sheet and those that were recorded in the current year income statement. The Company historically quantified misstatements and assessed materiality based on a current year income statement approach. The transition provisions of SAB No. 108 permit the Company to adjust for the cumulative effect on retained earnings of immaterial errors related to prior years.

The Company adopted SAB No. 108 effective beginning of the fiscal year ended March 31, 2007, and adjusted the items described below in the accompanying consolidated financial statements as of the beginning of the fiscal year ended March 31, 2007 to correct the prior year misstatements, which were considered to be immaterial to the consolidated statements of income and consolidated balance sheets in prior years under the income statement approach. The net impact of these adjustments decreased Honda's beginning retained earnings and beginning accumulated other comprehensive loss for 2007 by ¥62,640 million net of tax effect of ¥31,235 million, and ¥18,149 million, respectively, for the items described below:

1. The Company and its certain domestic subsidiaries in Japan historically calculated depreciation of property, plant and equipment, using a salvage value determined as 5% of the acquisition cost. However, since the sales proceeds received for the liquidated assets and their economical value at the end of its useful life historically have been nominal, the Company and its certain domestic subsidiaries assessed the adequacy of the salvage value and concluded that they should have calculated depreciation using the salvage value of ¥1 for its property, plant and equipment. The Company and its certain domestic subsidiaries recalculated depreciation expenses retrospectively considering the corrected salvage value. The reassessment indicated that an accumulated overstatement of property, plant and equipment in the consolidated financial statements had occurred.
2. Equity in income of affiliates should be recognized based on affiliates' consolidated financial statements in accordance with U.S. generally accepted accounting principles. However, the Company historically recognized equity in income of affiliates based on the results of operations of the parent-only financial statements of the affiliates, as the Company assessed that the difference between the total amounts of equity in income on the consolidation basis and those on the parent-only basis had been immaterial to the Company's consolidated financial statements under the income statement approach. This misstatement resulted in an accumulated understatement of equity in income of affiliates and the carrying value of the investments in affiliates in the consolidated financial statements.
3. The Company reclassified the residual tax effect of minimum pension liabilities included in accumulated other comprehensive income during the year ended March 31, 2006, which related to corporate tax rate changes in the past based on the proportional allocation over the expiration of unrecognized obligation. However, the residual tax effect should have been reclassified only when the pension plan is liquidated or dissolved under the portfolio approach. This misstatement resulted in an understatement of accumulated other comprehensive loss and corresponding overstatement in income tax benefit.

*(v) Reclassifications and Revisions of Classifications*

Certain revisions for misclassifications and reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the fiscal year ended March 31, 2008. Detailed information is provided in note 2.

**(2) Revisions of Classifications**

Certain revisions for misclassifications have been made to the prior years consolidated financial statements.

- (a) Investor level goodwill in affiliates, which was classified as other assets, has been revised to be classified as investments in and advances to affiliates. The impact of this revision in the consolidated

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

balance sheets resulted in an increase in investments in and advances to affiliates and a corresponding decrease in other assets in the amount of ¥9,799 million at March 31, 2007.

- (b) The long-term portion of deferred tax assets related to pension benefit plans, which was classified as deferred income taxes at March 31, 2007, has been revised to be classified as other assets. The impact of this revision in the consolidated balance sheet resulted in an increase in other assets and a corresponding decrease in deferred income taxes in the amount of ¥59,782 million at March 31, 2007.

**(3) Finance Subsidiaries-Receivables and Securitizations**

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

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

Finance subsidiaries of the Company purchase insurance to cover a substantial amount of the estimated residual value of vehicles leased as direct financing leases 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, 2007 and 2008:

	Yen (millions)	
	2007	2008
Direct financing leases	¥ 1,892,566	¥ 1,212,634
Retail	2,923,944	3,143,376
Wholesale	437,242	404,433
Term loans to dealers	14,916	19,605
<b>Total finance receivables</b>	<b>5,268,668</b>	<b>4,780,048</b>

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Retained interests in the sold pools of finance receivables	88,110	54,636
	5,356,778	4,834,684
Less:		
Allowance for credit losses	35,020	34,805
Allowance for losses on lease residual values	33,928	24,887
Unearned interest income and fees	143,131	73,695
	5,144,699	4,701,297
Less:		
Finance receivables included in trade receivables, net	509,697	476,305
Finance receivables included in other assets, net	168,952	176,444
Finance subsidiaries-receivables, net	4,466,050	4,048,548
Less current portion	1,426,224	1,340,728
Noncurrent finance subsidiaries-receivables, net	¥ 3,039,826	¥ 2,707,820

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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, 2008 and thereafter:

Years ending March 31	Yen (millions)
2009	¥ 1,854,779
2010	1,192,229
2011	820,283
2012	576,389
2013	274,965
After five years	61,403
	2,925,269
Total	¥ 4,780,048

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, 2008 as follows:

	Yen (millions)		
	2006	2007	2008
Finance income	¥ 310,937	¥ 413,334	¥ 549,052
Finance cost	115,636	188,844	303,890

Finance subsidiaries of the Company periodically sell finance receivables. Finance subsidiaries sold retail finance receivables subject to limited recourse provisions totaling approximately ¥930,629 million, ¥562,488 million and ¥232,474 million to investors in fiscal years 2006, 2007 and 2008, respectively. Pre-tax net gains or losses on such sales resulted in loss of ¥11,849 million, a gain of ¥1,175 million, and a gain of ¥9 million in fiscal years 2006, 2007 and 2008, respectively, which are included in gain or loss on sale of receivables.

Finance subsidiaries sold direct financing lease receivables subject to limited recourse provisions totaling approximately ¥100,374 million in fiscal year 2006. Pre-tax net gain on such sales resulted in a net gain of ¥483 million is included in a gain on sale of receivables for fiscal year 2006. The leases sold during fiscal year 2006 had 100% insurance coverage of the residual value of the vehicles collateralizing those leases. Finance subsidiaries did not sell any direct financing lease receivable in fiscal year 2007 and 2008.

Retained interests in securitizations were comprised of the following at March 31, 2007 and 2008:

	Yen (millions)	
	2007	2008
Subordinated certificates	¥ 44,198	¥ 28,846
Residual interests	43,912	25,790
Total	¥ 88,110	¥ 54,636

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

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, 2008 are as follows:

	2006	2007	2008
Weighted average life (years)	1.60 to 1.75	1.66 to 1.77	1.66 to 1.73
Prepayment speed	1.00% to 1.30%	1.25% to 1.30%	1.25%
Expected credit losses	0.35% to 0.55%	0.23% to 0.27%	0.21% to 0.30%
Residual cash flows discount rate	6.53% to 12.00%	5.43% to 12.00%	5.82% to 12.00%

At March 31, 2008, the significant assumptions used in estimating the retained interest in the sold pools of finance receivables are as follows:

	Weighted average assumption
Prepayment speed	1.27%
Expected credit losses	0.19%
Residual cash flows discount rate	11.44%

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.

The following illustration presents quantitative information about balances of outstanding securitized portfolios as of March 31, 2007 and 2008.

	Yen (millions)	
	2007	2008
Securitized receivables		
Retail	¥ 1,208,409	¥ 664,879
Direct financing leases	67,758	33,470
Total securitized receivables	¥ 1,276,167	¥ 698,349

**(4) Inventories**

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Inventories at March 31, 2007 and 2008 are summarized as follows:

	Yen (millions)	
	2007	2008
Finished goods	¥ 772,917	¥ 755,122
Work in process	34,970	38,756
Raw materials	375,229	405,382
	¥ 1,183,116	¥ 1,199,260

### (5) Investments and Advances-Affiliates

Significant investments in affiliates accounted for under the equity method at March 31, 2007 and 2008 are Showa Corporation (33.5%), Keihin Corporation (42.2%), Guangzhou Honda Automobile Co., Ltd. (50.0%), Dongfeng Honda Engine Co., Ltd. (50.0%), and P.T. Astra Honda Motor (50.0%).

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Certain adjustments were recorded to investments and advances to affiliates as of April 1, 2006, please refer to note 1(u) for further information.

The difference between the carrying amount of investment in affiliates and the amount of underlying equity in net assets is not material as of March 31, 2007 and 2008.

Investments in affiliates include equity securities which have quoted market values at March 31, 2007 and 2008 compared with related carrying amounts as follows;

	Yen (millions)	
	2007	2008
Carrying amount	¥ 185,914	¥ 210,532
Market value	412,892	263,946

\* See note 2.

Certain combined financial information in respect of affiliates accounted for under the equity method at March 31, 2007 and 2008, and for each of the years in the three-year period ended March 31, 2008 is shown below:

	Yen (millions)	
	2007	2008
Current assets	¥ 1,434,855	¥ 1,576,260
Other assets, principally property, plant and equipment	1,317,057	1,409,729
<b>Total assets</b>	<b>2,751,912</b>	<b>2,985,989</b>
Current liabilities	1,038,968	1,139,403
Other liabilities	306,418	333,601
<b>Total liabilities</b>	<b>1,345,386</b>	<b>1,473,004</b>
<b>Stockholders' equity</b>	<b>¥ 1,406,526</b>	<b>¥ 1,512,985</b>

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	<b>2006</b>	<b>Yen (millions) 2007</b>	<b>2008</b>
Net sales	¥ 3,426,348	¥ 4,598,573	¥ 5,275,548
Net income	229,640	268,577	283,927
Cash dividends received by Honda during the year	64,055	54,849	67,764

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, 2007 and 2008 included in retained earnings was ¥354,552 million and ¥400,703 million, respectively.

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

Trade receivables and trade payables include the following balances with affiliates at March 31, 2007 and 2008, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2008. Honda mainly purchases materials, supplies and services from affiliates, and sells parts used in its products, equipment and services to affiliates.

	Yen (millions)	
	2007	2008
Trade receivables from	¥ 77,317	¥ 104,232
Trade payables to	155,603	159,848

	Yen (millions)		
	2006	2007	2008
Purchases from	¥ 611,711	¥ 1,083,686	¥ 1,066,342
Sales to	155,195	329,398	366,832

**(6) Investments and Advances-Other**

Investments and advances at March 31, 2007 and 2008 consisted of the following:

	Yen (millions)	
	2007	2008
Current		
Auction rate securities	¥ 41,318	¥
Corporate debt securities	311	641
U.S. government and agency debt securities	2,993	
Advances	581	1,913
	¥ 45,203	¥ 2,554

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

Yen  
(millions)

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	2007	2008
Noncurrent		
Auction rate securities (non-marketable)	¥	¥ 13,661
Marketable equity securities	169,280	120,085
Government bonds	2,999	2,999
U.S. government and agency debt securities	10,034	17,032
Non-marketable equity securities accounted for under the cost method		
Non-marketable preferred stocks	2,000	2,000
Other	11,639	13,725
Guaranty deposits	30,847	29,446
Advances	2,481	1,896
Other	25,330	21,266
	¥ 254,610	¥ 222,110

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

Certain information with respect to marketable securities at March 31, 2007 and 2008 is summarized below:

	Yen (millions)	
	2007	2008
Available-for-sale		
Cost	¥ 107,573	¥ 61,104
Fair value	210,598	120,085
Gross unrealized gains	103,113	64,084
Gross unrealized losses	88	5,103
Held-to-maturity		
Amortized cost	¥ 16,337	¥ 20,672
Fair value	16,348	20,851
Gross unrealized gains	26	179
Gross unrealized losses	15	

Maturities of debt securities classified as held-to-maturity at March 31, 2008 were as follows:

	Yen (millions)
Due within one year	¥ 641
Due after one year through five years	18,033
Due after five years through ten years	1,998
Total	¥ 20,672

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, 2008, were, ¥462 million net losses, ¥10,463 million net gains and ¥232 million net losses, respectively.

Gross unrealized losses on marketable 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, 2008 were as follows:

	Yen (millions)
	Unrealized losses
Fair value	

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Available-for-sale		
Less than 12 months	¥ 12,242	¥ (4,910)
12 months or longer	215	(193)
	¥ 12,457	¥ (5,103)
Held-to-maturity		
Less than 12 months	¥	¥
12 months or longer		
	¥	¥

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

Honda judged this decline in fair value of investment securities to be temporary, with considering 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.

**(7) Property on Operating Leases**

Future minimum lease rentals expected to be received from property on operating leases at March 31, 2008 are as follows:

<b>Years ending March 31</b>	<b>Yen (millions)</b>
2009	¥ 177,679
2010	164,938
2011	73,503
2012	10,095
2013	412
Total future minimum lease rentals	¥ 426,627

Future minimum rentals as shown above should not necessarily be considered indicative of future cash collections.

**(8) Short-term and Long-term Debt**

Short-term debt at March 31, 2007 and 2008 is as follows:

	<b>Yen (millions)</b>	
	<b>2007</b>	<b>2008</b>
Short-term bank loans	¥ 311,117	¥ 415,605
Medium-term notes	182,355	436,731
Commercial paper	772,396	834,779
	¥ 1,265,868	¥ 1,687,115

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The weighted average interest rates on short-term debt outstanding at March 31, 2007 and 2008 were 4.00% and 4.36%, respectively.

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

Long-term debt at March 31, 2007 and 2008 is as follows:

	Yen (millions)	
	2007	2008
Honda Motor Co., Ltd.:		
Loans, maturing through 2031:		
Unsecured, principally from banks	¥ 516	¥ 435
	516	435
Subsidiaries:		
Loans, maturing through 2030:		
Secured, principally from banks	18,581	13,614
Unsecured, principally from banks	134,949	164,887
0.47% Japanese yen unsecured bond due 2007	50,000	
0.79% Japanese yen unsecured bond due 2008	30,000	30,000
0.99% Japanese yen unsecured bond due 2009	30,000	30,000
1.14% Japanese yen unsecured bond due 2009	30,000	30,000
0.31% Japanese yen unsecured bond due 2010	150	100
0.66% Japanese yen unsecured bond due 2010	30,000	30,000
0.94% Japanese yen unsecured bond due 2010	30,000	30,000
1.30% Japanese yen unsecured bond due 2011		40,000
1.51% Japanese yen unsecured bond due 2011	30,000	30,000
1.48% Japanese yen unsecured bond due 2012		30,000
3.65% Thai baht unsecured bond due 2007	7,340	
5.32% Thai baht unsecured bond due 2008	3,670	3,180
3.82% Thai baht unsecured bond due 2009		3,180
5.46% Thai baht unsecured bond due 2009	5,505	4,770
4.20% Thai baht unsecured bond due 2010		9,540
Medium-term notes, maturing through 2023	2,282,138	2,259,434
Less unamortized discount, net	1,697	1,438
	2,680,636	2,707,267
Total long-term debt	2,681,152	2,707,702
Less current portion	775,409	871,050
	¥ 1,905,743	¥ 1,836,652

The loans maturing through 2031 and through 2030 are either secured by property, plant and equipment or subject to collateralization upon request, and their interest rates range from 0.69% to 12.54% per annum at March 31, 2008 and weighted average interest rate on total outstanding long-term debt at March 31, 2007 and 2008 is 3.96% and 4.11%, respectively. Property, plant and equipment with a net book value of approximately ¥23,654 million and ¥26,564 million at March 31, 2007 and 2008, respectively, were subject to specific mortgages securing indebtedness. Furthermore, finance subsidiaries-receivables of approximately ¥1,931 million at March 31, 2007 were pledged as collateral by a

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financial subsidiary for certain loans. There is no collateral pledged at March 31, 2008.

Medium-term notes are unsecured, and their interest rates range from 0.77% to 5.38% at March 31, 2007 and from 1.03% to 5.39% at March 31, 2008.

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

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2008 and thereafter:

Years ending March 31:	Yen (millions)
2009	¥ 871,050
2010	769,785
2011	470,819
2012	268,981
2013	295,935
After five years	31,132
	1,836,652
Total	¥ 2,707,702

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 is included in other assets and other current assets and/or liabilities in the consolidated balance sheets, as appropriate (see note 15). Unless a right of setoff exists, the offsetting of assets and liabilities is not made in the consolidated balance sheets.

At March 31, 2008, Honda had unused line of credit facilities amounting to ¥938,591 million, of which ¥409,971 million related to commercial paper programs and ¥528,620 million related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2008, Honda also had committed lines of credit amounting to ¥923,379 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.

**(9) Other Liabilities**

Other liabilities at March 31, 2007 and 2008 consist of the following:

	Yen (millions)	
	2007	2008
Accrued liabilities for product warranty, excluding current portion	¥ 153,409	¥ 152,733
Pension and other postretirement benefits (note 12)	524,457	593,771
Deferred income taxes	316,048	304,933
Other	243,798	362,833
	¥ 1,237,712	¥ 1,414,270



**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(10) Income Taxes**

Total income tax expense/(benefit) for each of the years in the three-year period ended March 31, 2008 were allocated as follows:

	Yen (millions)		
	2006	2007	2008
Income from continuing operations	¥ 317,189	¥ 283,846	¥ 387,436
Other comprehensive income (note 14)	154,370	935	(89,519)
	¥ 471,559	¥ 284,781	¥ 297,917

Income before income taxes, minority interest 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, 2008 consisted of the following:

	Income before income taxes	Yen (millions) Income taxes		Total
		Current	Deferred	
2006:				
Japanese	¥ 317,997	¥ 103,697	¥ 38,225	¥ 141,922
Foreign	511,907	216,248	(40,981)	175,267
	¥ 829,904	¥ 319,945	¥ (2,756)	¥ 317,189
2007:				
Japanese	¥ 182,433	¥ 89,155	¥ (13,798)	¥ 75,357
Foreign	610,435	211,139	(2,650)	208,489
	¥ 792,868	¥ 300,294	¥ (16,448)	¥ 283,846
2008:				
Japanese	¥ 228,868	¥ 181,010	¥ (4,064)	¥ 176,946
Foreign	666,973	175,085	35,405	210,490
	¥ 895,841	¥ 356,095	¥ 31,341	¥ 387,436

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The statutory income tax rate is approximately 40% for each of the years in the three-year period ended March 31, 2008. The foreign subsidiaries are subject to taxes based on income at rates ranging from 16% to 40%.

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

The effective tax rate for Honda for each of the years in the three-year period ended March 31, 2008 differs from the Japanese statutory income tax rate for the following reasons:

	2006	2007	2008
Statutory income tax rate	40.0%	40.0%	40.0%
Valuation allowance provided for current year operating losses of subsidiaries	0.3	0.4	0.5
Difference in statutory tax rates of foreign subsidiaries	(2.3)	(3.7)	(4.9)
Reversal of valuation allowance due to utilization of operating loss carryforwards	(0.8)	(0.2)	(0.9)
Research and development credit	(3.0)	(3.3)	(3.2)
Other adjustments relating to prior years	3.1		
Adjustments for unrecognized tax benefits			9.0
Other	0.9	2.6	2.7
<b>Effective tax rate</b>	<b>38.2%</b>	<b>35.8%</b>	<b>43.2%</b>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2007 and 2008 are presented below:

	Yen (millions)	
	2007	2008
<b>Deferred tax assets:</b>		
Inventories	¥ 35,114	¥ 33,441
Allowance for dealers and customers	153,328	136,155
Accrued bonus	40,628	40,803
Property, plant and equipment	61,409	67,387
Foreign tax credit	10,427	11,367
Operating loss carryforwards	39,781	36,625
Pension and other postretirement benefits	210,378	230,819
Other	141,104	164,258
<b>Total gross deferred tax assets</b>	<b>692,169</b>	<b>720,855</b>
Less valuation allowance	35,447	34,434
<b>Net deferred tax assets</b>	<b>656,722</b>	<b>686,421</b>
<b>Deferred tax liabilities:</b>		
Inventories	(13,650)	(8,877)
Prepaid pension expenses	(34,422)	(37,115)
Property, plant and equipment, excluding lease transactions	(59,680)	(49,293)
Direct financing lease transactions	(388,194)	(320,742)
Operating lease transactions	(17,322)	(72,138)

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Undistributed earnings of subsidiaries and affiliates	(106,273)	(120,744)
Net unrealized gains on marketable securities	(41,039)	(23,940)
Other	(27,262)	(26,514)
Total gross deferred tax liabilities	(687,842)	(659,363)
Net deferred tax (liability) asset	¥ (31,120)	¥ 27,058

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

Deferred income tax assets and liabilities at March 31, 2007 and 2008 are reflected in the consolidated balance sheets under the following captions:

	Yen (millions)	
	2007	2008
Current assets-Deferred income taxes	¥ 155,390	¥ 158,825
Other assets	131,365	175,933
Other current liabilities	(1,827)	(2,767)
Other liabilities	(316,048)	(304,933)
Net deferred tax (liability) asset	¥ (31,120)	¥ 27,058

\* See note 2.

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 over the periods in which those temporary differences become deductible and operating loss carryforwards utilized. Management considers 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 and operating loss carryforwards, net of the existing valuation allowances at March 31, 2007 and 2008. The net change in the total valuation allowance for the year ended March 31, 2006 was an increase of ¥10,502 million, for the year ended March 31, 2007 was a decrease of ¥34,792 million, and for the year ended March 31, 2008 was a decrease of ¥1,013 million. The valuation allowance primarily relates to deferred tax assets associated with net operating loss carryforwards incurred by certain foreign subsidiaries.

At March 31, 2008, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of ¥112,182 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	¥ 3,180
1 to 5 years	14,846
5 to 15 years	21,993
Indefinite periods	72,163
	¥ 112,182

At March 31, 2007 and 2008, Honda did not recognize deferred tax liabilities of ¥78,252 million and ¥105,848 million, respectively, for certain portions of the undistributed earnings of the Company's foreign subsidiaries because such portions were considered indefinitely reinvested. At March 31, 2007 and 2008, the undistributed earnings not subject to deferred tax liabilities were ¥2,995,170 million and ¥3,327,339 million, respectively.

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

Honda adopted the provision of FIN No. 48 on April 1, 2007. As of the date of adoption of FIN No. 48, Honda identified unrecognized tax benefits of ¥36,330 million. As of March 31, 2008, Honda's gross unrecognized tax benefits totaled ¥99,527 million. Of this amount, the amount that would impact Honda's effective tax rate, if recognized, is ¥85,403 million.

Honda recognized interest and penalty of ¥3,011 million for the year ended March 31, 2008. As of March 31, 2008, Honda had recorded approximately ¥5,960 million for accrued interest and accrued penalty. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<b>Yen (millions)</b>
Balance at beginning of year	¥ 36,330
Additions for tax positions related to the current year	9,213
Additions for tax positions of prior years	74,674
Reductions for tax positions of prior years	(14,769)
Settlements	(51)
Reductions for statute of limitations	(555)
Effect of exchange rate changes	(5,315)
Balance at end of year	¥ 99,527

Tax liabilities associated with uncertain tax positions are primarily classified as other (noncurrent) liabilities, as we do not expect to pay cash or settle on these positions within the next twelve months.

Honda is subject to income tax examinations in many tax jurisdictions, mainly related to transfer pricing issues. Tax examinations can involve complex issues and the resolution of issues may span multiple years, particularly if subject to negotiation or litigation. Although Honda believes its estimates of the total unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the amount of total unrecognized tax benefits in the future periods.

The Company has been examined by the Tokyo Regional Taxation Bureau regarding transfer pricing matters for the period from the year ended March 31, 2002 to the year ended March 31, 2007. Honda has recognized the liability for unrecognized tax benefits, including those related to this examination.

In addition, Honda has open tax years from primarily 2001 to 2008 with various significant taxing jurisdictions including the United States (fiscal years 2001-2008), Japan (fiscal years 2002-2008), Canada, the United Kingdom, Germany, France, Belgium, Thailand, India, Brazil, and Australia.

If our estimates of unrecognized tax benefits and potential tax benefits are not representative of actual outcomes, our consolidated financial statements could be materially affected in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. It is difficult to estimate the timing and range of possible change related to our uncertain tax positions, as finalizing audits with the relevant income tax authorities may involve formal administrative and legal proceedings. Accordingly, it is not possible to reasonably estimate the expected changes to the total unrecognized tax benefits over next twelve months, although any settlements or statute expirations may result in a significant increase or decrease in our total unrecognized tax benefits, including those positions related to tax examinations being currently conducted.

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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(11) Dividends and Legal Reserves**

The Company Law of Japan provides that earnings in an amount equal to 10% of dividends of retained earnings shall be appropriated as a capital surplus or a legal reserve on the date of distribution of retained earnings until an aggregated amount of capital surplus and a 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.

Dividends and appropriations to the legal reserves charged to retained earnings during the years in the three-year period ended March 31, 2008 represent dividends paid out during those years and the related appropriations to the legal reserves. Dividends per share for each of the years in the three-year period ended March 31, 2008 were ¥38.5, ¥77 and ¥84, respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥22 per share aggregating ¥39,921 million proposed and resolved in the general stockholders' meeting held in June 2008.

The Company executed a two-for-one stock split for the Company's common stock effective July 1, 2006. Information pertaining to dividends per share has been adjusted retroactively for the year ended March 31, 2006 to reflect this stock split.

**(12) Pension and Other Postretirement Benefits**

The Company and its subsidiaries have various pension plans covering substantially all of their employees in Japan and certain employees in 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.

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.

As stipulated in the Japanese Welfare Pension Insurance Law, the Honda Employees Pension Fund (a confederated welfare pension fund, the Fund ), of which the Company and a part of its domestic subsidiaries and affiliates accounted for under the equity method were members, has obtained approval from the Japanese Minister of Health, Labor and Welfare for exemption from benefits obligations related to past employee service with respect to the substitutional portion of the Fund on July 1, 2005 and completed its transfer on March 9, 2006. Previously on April 1, 2004, the Company received approval of exemption from the obligation for benefits related to future employee services with respect to the fund. As a result, the Company recognized a gain of

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

¥228,681 million, which is the difference between the settled accumulated benefit obligation and the assets transferred to the government; a gain of ¥56,448 million for the derecognizing of previous accrued salary progression; and settlement loss of ¥147,113 million for the related unrecognized loss. Collectively, the Company recognized a net gain of ¥138,016 million for the fiscal year ended March 31, 2006.

The Company and its consolidated subsidiaries adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*—an amendment of FASB Statements No. 87, 88, 106, and 132(R) on March 31, 2007, recognized its overfunded or underfunded status as an asset or liability in its consolidated balance sheets.

The incremental effect of applying SFAS No. 158 at March 31, 2007, on balance sheet items is as follows:

	Yen (millions)		
	Before Application of SFAS158	Adjustments	After Application of SFAS 158
Other assets	¥ 625,834	¥ 11,347	¥ 637,181
Total assets	12,025,153	11,347	12,036,500
Accrued expenses	847,008	(39,667)	807,341
Total current liabilities	4,327,194	(39,667)	4,287,527
Other liabilities	1,047,374	190,338	1,237,712
Total liabilities	7,280,311	150,671	7,430,982
Accumulated other comprehensive loss, net	(287,842)	(139,324)	(427,166)
Total stockholder's equity	4,621,935	(139,324)	4,482,611

\* See note 2

The incremental effect of applying SFAS No. 158 on Accumulated other comprehensive loss, net, includes tax effect of ¥ 72,881 million.

**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	
	2007	2008	2007	2008
<b>Change in benefit obligations:</b>				
Benefit obligations at beginning of year	¥ (1,133,325)	¥ (1,206,419)	¥ (395,416)	¥ (434,757)
Service cost	(42,115)	(41,133)	(30,492)	(30,259)
Interest cost	(23,809)	(24,128)	(22,373)	(24,661)
Plan participants' contributions			(129)	(146)
Actuarial gain (loss)	(4,165)	(785)	21,746	44,695
Benefits paid	31,638	39,106	3,731	4,596
Amendment			(10)	(42)
Business combination	(34,643)		(906)	
Foreign exchange translation			(10,908)	62,220
<b>Benefit obligations at end of year</b>	<b>(1,206,419)</b>	<b>(1,233,359)</b>	<b>(434,757)</b>	<b>(378,354)</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	712,331	782,835	358,075	449,467
Actual return on plan assets	36,223	(62,277)	46,161	23,780
Employer contributions	33,649	35,513	40,163	36,715
Plan participants' contributions			129	146
Benefits paid	(31,638)	(39,106)	(3,731)	(4,596)
Business combination	32,270		875	
Foreign exchange translation			7,795	(66,410)
<b>Fair value of plan assets at end of year</b>	<b>782,835</b>	<b>716,965</b>	<b>449,467</b>	<b>439,102</b>
<b>Funded status</b>	<b>(423,584)</b>	<b>(516,394)</b>	<b>14,710</b>	<b>60,748</b>
<b>Amounts recognized in the consolidated balance sheets consist of:</b>				
Noncurrent assets	¥ 3,283	¥ 1,573	¥ 51,000	¥ 88,603
Current liabilities	(5,272)	(5,524)	(6)	(2)
Noncurrent liabilities	(421,595)	(512,443)	(36,284)	(27,853)
<b>Total</b>	<b>(423,584)</b>	<b>(516,394)</b>	<b>14,710</b>	<b>60,748</b>
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>				
Actuarial loss (gain)	¥ 331,485	¥ 406,128	¥ 57,578	¥ 19,710
Net transition obligation	1,741		279	234
Prior service cost (benefit)	(68,507)	(61,218)	8,064	7,389
<b>Total</b>	<b>264,719</b>	<b>344,910</b>	<b>65,921</b>	<b>27,333</b>

Pension plans with accumulated benefit obligations in excess of plan assets:

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Projected benefit obligations	¥ (1,164,971)	¥ (1,217,213)	¥ (4,403)	¥ (2,892)
Accumulated benefit obligations	(1,054,331)	(1,104,923)	(3,888)	(2,686)
Fair value of plan assets	740,407	699,848	2,476	1,346

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

Pension expense and Other amounts recognized in other comprehensive income for each of the years in the three-year period ended March 31, 2008 included the following:

	2006	Yen (millions) 2007	2008
<b><i>Japanese plans:</i></b>			
Pension Cost			
Service cost-benefits earned during the year	¥ 41,271	¥ 42,115	¥ 41,133
Interest cost on projected benefit obligations	31,788	23,809	24,128
Expected return on plan assets	(33,102)	(27,580)	(28,625)
Amortization of actuarial loss (gain)	28,394	16,326	14,348
Amortization of net transition obligation	1,992	1,992	1,741
Amortization of prior service cost (benefit)	(6,945)	(7,289)	(7,289)
	¥ 63,398	¥ 49,373	¥ 45,436
Other amounts recognized in other comprehensive income			
Actuarial loss (gain)			88,991
Amortization of actuarial loss (gain)			(14,348)
Amortization of net transition obligation			(1,741)
Amortization of prior service cost (benefit)			7,289
	¥	¥	¥ 80,191
Total recognized in Pension cost and Other comprehensive income	¥ 63,398	¥ 49,373	¥ 125,627
<b><i>Foreign plans:</i></b>			
Pension Cost			
Service cost-benefits earned during the year	¥ 25,121	¥ 30,492	¥ 30,259
Interest cost on projected benefit obligations	18,838	22,373	24,661
Expected return on plan assets	(21,013)	(27,597)	(33,700)
Amortization of actuarial loss (gain)	4,192	5,041	2,046
Amortization of net transition obligation	62	41	45
Amortization of prior service cost (benefit)	577	752	759
	¥ 27,777	¥ 31,102	¥ 24,070
Other amounts recognized in other comprehensive income			
Actuarial loss (gain)			(35,822)
Amortization of actuarial loss (gain)			(2,046)
Amortization of net transition obligation			(45)
Prior service cost (benefit)			84
Amortization of prior service cost (benefit)			(759)

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	¥	¥	¥ (38,588)
Total recognized in Pension cost and Other comprehensive income	¥ 27,777	¥ 31,102	¥ (14,518)

The estimated actuarial loss and prior service benefit for all domestic defined pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are ¥18,730 million and ¥7,289 million, respectively. And the estimated actuarial loss, net transition obligation and prior service cost for all foreign defined pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are ¥524 million, ¥37 million and ¥672 million, respectively.

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

Weighted-average assumptions used to determine benefit obligation at March 31, 2007 and 2008 were as follows:

	2007	2008
<i><u>Japanese plans:</u></i>		
Discount rate	2.0%	2.0%
Rate of salary increase	2.3%	2.3%
<i><u>Foreign plans:</u></i>		
Discount rate	5.2 ~ 6.0%	5.5 ~ 6.8%
Rate of salary increase	2.9 ~ 6.4%	2.9 ~ 6.4%

Weighted-average assumptions used to determine net periodic benefit cost for each of the years in the three-year period ended March 31, 2008 were as follows:

	2006	2007	2008
<i><u>Japanese plans:</u></i>			
Discount rate	2.0%	2.0%	2.0%
Rate of salary increase	2.3%	2.2%	2.3%
Expected long-term rate of return	4.0%	4.0%	4.0%
<i><u>Foreign plans:</u></i>			
Discount rate	5.4 ~ 6.3%	4.9 ~ 5.8%	5.2 ~ 6.0%
Rate of salary increase	3.5 ~ 6.7%	3.5 ~ 5.2%	2.9 ~ 6.4%
Expected long-term rate of return	6.8 ~ 8.0%	6.8 ~ 8.0%	6.5 ~ 8.3%

Honda determines the expected long-term rate of return based on the expected long-term return of the various asset categories. Honda considers the current expectations for future returns and the actual historical returns of each plan asset category.

*Measurement date*

Honda uses a March 31 measurement date for their plans excluding certain foreign subsidiaries which use a December 31 measurement date for their plans.

*Plan Assets*



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Honda's domestic and foreign pension plan weighted-average asset allocations at March 31, 2007 and 2008, by asset category are as follows:

	<b>2007</b>	<b>2008</b>
<i><u>Japanese plans:</u></i>		
Equity securities	43%	36%
Debt securities	36%	43%
Other	21%	21%
	100%	100%
<i><u>Foreign plans:</u></i>		
Equity securities	70%	68%
Debt securities	27%	26%
Other	3%	6%
	100%	100%

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

Honda investment policies for the domestic and foreign pension benefit are designed to maximize total returns that 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 obligations for all domestic defined benefit plans at March 31, 2007 and 2008 were ¥1,088,890 million and ¥1,117,817 million, respectively. The accumulated benefit obligations for all foreign defined benefit plans at March 31, 2007 and 2008 were ¥340,527 million and ¥299,948 million, respectively.

*Cash flows*

Honda expects to contribute ¥28,843 million to its domestic pension plans and ¥18,170 million to its foreign pension plans in the year ending March 31, 2009. The Pension Protection Act of 2006 (PPA) is effective for plan years beginning after December 31, 2007. Certain of the Company's subsidiaries in the United States are unable to determine the amounts of contribution for fiscal year 2009 because the procedures required by the PPA have not completed. The contribution amounts to foreign pension plan described above do not include the contributions of these subsidiaries.

*Estimated future benefit Payment*

The following table presents estimated future gross benefit payments:

	Yen (millions)	
	Japanese plans	Foreign plans
2009	¥ 42,942	¥ 4,912
2010	45,492	5,716
2011	43,338	6,588
2012	45,073	7,782
2013	45,842	9,110
2014 - 2018	261,300	77,741

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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.

### (13) Supplemental Disclosures of Cash Flow Information

	2006	Yen (millions) 2007	2008
Cash paid during the year for:			
Interest	¥ 134,609	¥ 187,268	¥ 227,024
Income taxes	282,986	351,225	301,286

During the fiscal year ended March 31, 2006, the Company reissued certain of its treasury stock at fair value of ¥802 million to a minority shareholder of its subsidiary, when the Company made the subsidiary a wholly owned subsidiary.

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

During the fiscal year ended March 31, 2006, the Company retired 11,000,000 shares of treasury stock at a cost of ¥66,224 million by offsetting it against capital surplus of ¥2 million and unappropriated retained earnings of ¥66,221 million, as a result of the resolution of board of directors.

During the year ended March 31, 2007, the Company reissued certain of its treasury stock at fair value of ¥18,521 million to the outside shareholder of affiliates to obtain 100% share of these companies.

**(14) Accumulated Other Comprehensive Income (Loss)**

The components and related changes in accumulated other comprehensive income (loss) for each of the years in the three-year period ended March 31, 2008 are as follows:

	2006	Yen (millions) 2007	2008
<b>Adjustments from foreign currency translation:</b>			
Balance at beginning of year	¥ (624,937)	¥ (375,777)	¥ (279,002)
Adjustments for the year	249,160	96,775	(312,267)
Balance at end of year	(375,777)	(279,002)	(591,269)
<b>Net unrealized gains on marketable securities:</b>			
Balance at beginning of year	33,744	62,710	58,139
Reclassification adjustments for realized (gain) loss on marketable securities	(841)	(5,575)	(73)
Increase (decrease) in net unrealized gains on marketable securities	29,807	1,004	(26,386)
Balance at end of year	62,710	58,139	31,680
<b>Net unrealized gains (losses) on derivative instruments:</b>			
Balance at beginning of year		(64)	20
Reclassification adjustments for realized (gain) loss on derivative instruments	(38)	421	18
Increase (decrease) in net unrealized gains on derivative instruments	(26)	(337)	422
Balance at end of year	(64)	20	460
<b>Minimum pension liabilities adjustment:</b>			
Balance at beginning of year	(202,741)	(94,056)	
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax (note 1(u))		18,149	
Adjusted balances at beginning of year	(202,741)	(75,907)	

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Adjustments for the year	108,685	8,908	
Adjustment for initially applying SFAS No. 158, net of tax (note 12)		66,999	
Balance at end of year	(94,056)		
Pension and other postretirement benefits adjustment*			
Balance at beginning of year			(206,323)
Adjustment for initially applying SFAS No. 158, net of tax (note 12)		(206,323)	
Reclassification adjustments for realized (gain) loss on pension and other postretirement benefits adjustment			
			8,697
Increase (decrease) in net unrealized gains on pension and other postretirement benefits adjustment			(25,443)
Balance at end of year		(206,323)	(223,069)
Total accumulated other comprehensive income (loss):			
Balance at beginning of year	(793,934)	(407,187)	(427,166)
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax (note 1(u))		18,149	
Adjusted balances at beginning of year	(793,934)	(389,038)	(427,166)
Adjustments for the year	386,747	101,196	(355,032)
Adjustment for initially applying SFAS No. 158, net of tax (note 12)		(139,324)	
Balance at end of year	¥ (407,187)	¥ (427,166)	¥ (782,198)

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**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:

	Before-tax amount	Yen (millions) Tax (expense) or benefit (note 10)	Net-of-tax amount
<b>2006:</b>			
Adjustments from foreign currency translation	¥ 301,737	¥ (52,577)	¥ 249,160
Unrealized gains (losses) on marketable securities:			
Unrealized holding gains (losses) arising during the year	49,675	(19,868)	29,807
Reclassification adjustments for losses (gains) realized in net income	(1,395)	554	(841)
Net unrealized gains (losses)	48,280	(19,314)	28,966
Unrealized gains (losses) on derivative instruments			
Unrealized holding gains (losses) arising during the year	(43)	17	(26)
Reclassification adjustments for losses (gains) realized in net income	¥ (64)	26	(38)
Net unrealized gains (losses)	(107)	43	(64)
Minimum pension liabilities adjustment	191,207	(82,522)	108,685
Other comprehensive income (loss)	541,117	¥ (154,370)	¥ 386,747
<b>2007:</b>			
Adjustments from foreign currency translation	¥ 95,275	¥ 1,500	¥ 96,775
Unrealized gains (losses) on marketable securities:			
Unrealized holding gains (losses) arising during the year	1,408	(404)	1,004
Reclassification adjustments for losses (gains) realized in net income	(9,520)	3,945	(5,575)
Net unrealized gains (losses)	(8,112)	3,541	(4,571)
Unrealized gains (losses) on derivative instruments			
Unrealized holding gains (losses) arising during the year	(562)	225	(337)
Reclassification adjustments for losses (gains) realized in net income	703	(282)	421
Net unrealized gains (losses)	141	(57)	84
Minimum pension liabilities adjustment	14,827	(5,919)	8,908
Other comprehensive income (loss)	¥ 102,131	¥ (935)	¥ 101,196

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2008:			
Adjustments from foreign currency translation	¥ (370,075)	¥ 57,808	¥ (312,267)
Unrealized gains (losses) on marketable securities:			
Unrealized holding gains (losses) arising during the year	(43,138)	16,752	(26,386)
Reclassification adjustments for losses (gains) realized in net income	(122)	49	(73)
Net unrealized gains (losses)	(43,260)	16,801	(26,459)
Unrealized gains (losses) on derivative instruments			
Unrealized holding gains (losses) arising during the year	704	(282)	422
Reclassification adjustments for losses (gains) realized in net income	30	(12)	18
Net unrealized gains (losses)	734	(294)	440
Pension and other postretirement benefits adjustment*			
Unrealized gains (losses) arising during the year	(45,466)	20,023	(25,443)
Reclassification adjustments for losses (gains) realized in net income	13,516	(4,819)	8,697
Net unrealized gains (losses)	(31,950)	15,204	(16,746)
Other comprehensive income (loss)	¥ (444,551)	¥ 89,519	¥ (355,032)

\* The primary component of other comprehensive income (loss) for Pension and other postretirement benefits adjustment is actuarial gains or losses.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(15) Fair Value of Financial Instruments**

The estimated fair values of significant financial instruments at March 31, 2007 and 2008 are as follows (see note 1(q)):

	Yen (millions)			
	2007		2008	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries-receivables (a)	¥ 3,434,721	¥ 3,444,144	¥ 3,590,110	¥ 3,661,502
Marketable securities	210,598	210,598	120,085	120,085
Held-to-maturity securities	16,337	16,348	20,672	20,851
Debt	(3,947,020)	(3,960,743)	(4,394,817)	(4,428,164)
Foreign exchange instruments (b)				
Asset position	¥ 3,735	¥ 3,735	¥ 116,169	¥ 116,169
Liability position	(24,783)	(24,783)	429	429
Net	¥ (21,048)	¥ (21,048)	¥ 116,598	¥ 116,598
Interest rate instruments (c)				
Asset position	¥ 10,866	¥ 10,866	¥ (19,662)	¥ (19,662)
Liability position	(2,417)	(2,417)	(54,721)	(54,721)
Net	¥ 8,449	¥ 8,449	¥ (74,383)	¥ (74,383)

- (a) The carrying amounts of finance subsidiaries-receivables at March 31, 2007 and 2008 in the table exclude ¥1,709,978 million and ¥1,111,187 million of direct financing leases, net, classified as finance subsidiaries-receivables in the consolidated balance sheets, respectively. The carrying amounts of finance subsidiaries-receivables at March 31, 2007 and 2008 in the table also include ¥678,649 million and ¥652,749 million of finance receivables classified as trade receivables and other assets in the consolidated balance sheets, respectively.
- (b) The fair values of foreign currency forward exchange contracts, foreign currency option contracts and foreign currency swap agreements are included in other assets and other current assets and/or liabilities in the consolidated balance sheets as follows (see note 8):

	Yen (millions)	
	2007	2008
Other current assets	¥ 3,735	¥ 36,488
Other assets		79,681
Other current liabilities	(24,783)	429



¥ (21,048)      ¥ 116,598

- (c) The fair values of interest rate swap agreements are included in other assets and other current assets and/or liabilities in the consolidated balance sheets as follows (see note 8):

	Yen (millions)	
	2007	2008
Other current assets	¥ 3,890	¥ 753
Other assets	6,976	(20,415)
Other current liabilities	(2,417)	(54,721)
	¥ 8,449	¥ (74,383)

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**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The estimated fair values have been determined using relevant market information and appropriate valuation methodologies. However, these estimates are subjective in nature and involve uncertainties and matters of significant 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 values.

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 those receivables approximates fair value. The fair value of the retained interest in the sold pools of finance receivables were estimated by calculating the present value of the future cash flows using a discount rate commensurate with the risks involved.

*Marketable securities*

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

*Held-to-maturity securities*

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

*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 exchange 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.

**(16) Risk Management Activities and Derivative Financial Instruments**

Honda is a party 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 exchange 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

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

with income from finance receivables. These instruments involve, to varying degrees, elements of credit, exchange rate and interest rate risks in excess of the amount recognized in the consolidated balance sheets.

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

Foreign currency forward contracts and currency swap agreements are agreements to exchange different currencies at a specified rate on a specific future date. Foreign currency option contracts are contracts that allow the holder of the option the right but not the obligation to exchange different currencies at a specified rate on a specific future date.

Contract amounts outstanding for foreign currency forward exchange contracts, foreign currency option contracts and currency swap agreements at March 31, 2007 and 2008 are as follows:

	Yen (millions)	
	2007	2008
Foreign currency forward exchange contracts	¥ 978,994	¥ 615,845
Foreign currency option contracts	5,793	272,204
Currency swap agreements	608,534	663,013
	¥ 1,593,321	¥ 1,551,062

*Cash flow hedge*

The Company applies hedge accounting for certain foreign currency forward exchange contracts related to forecasted foreign currency transactions between the Company and its subsidiaries. Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income (loss). The amounts are reclassified into earnings in the same period when forecasted hedged transactions affect earnings. The amount recognized in accumulated other comprehensive income (loss) was ¥20 million gain in the fiscal year ended March 31, 2007 and ¥460 million gain in the fiscal year ended March 31, 2008, respectively. All amounts recorded in accumulated other comprehensive income (loss) as year-end are expected to be recognized in earnings within the next twelve months. The period that hedges the changes in cash flows related to the risk of foreign currency rate is at most around two months.

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There are no derivative financial instruments where hedge accounting has been discontinued due to the forecasted transaction no longer being probable. The Company excludes financial instruments' time value component from the assessment of hedge effectiveness, of which amount was ¥1,187 million loss for the year ended March 31, 2007, and ¥256 million loss for the year ended March 31, 2008, respectively. There is no portion of hedging instruments that has been assessed as hedge ineffectiveness.

### *Derivative financial instruments not designated as accounting hedges*

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

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

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, 2007 and 2008, the notional principal amounts of interest rate swap agreements were ¥4,198,463 million and ¥4,294,956 million, respectively.

**(17) Commitments and Contingent Liabilities**

At March 31, 2008, Honda had commitments for purchases of property, plant and equipment of approximately ¥122,073 million.

Honda has entered into various guarantee and indemnification agreements. At March 31, 2007 and 2008, Honda has guaranteed ¥41,151 million and ¥36,456 million of bank loan of employees for their housing costs, respectively. If an employee defaults on his/her loan payments, Honda is required to perform under the guarantee. The undiscounted maximum amount of Honda's obligation to make future payments in the event of defaults is ¥41,151 million and ¥36,456 million, respectively, at March 31, 2007 and 2008. At March 31, 2008, 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 products 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, 2008 are as follow:

	Yen (millions)	
	2007	2008
Balance at beginning of year	¥ 283,947	¥ 317,103
Warranty claims paid during the period	(113,454)	(137,591)
Liabilities accrued for warranties issued during the period	143,280	136,355
Changes in liabilities for pre-existing warranties during the period	605	(1,476)
Foreign currency translation	2,725	(20,631)
Balance at end of year	¥ 317,103	¥ 293,760

With respect to product liability, personal injury claims or lawsuits, Honda believes that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by Honda's insurance and accrued liabilities. Punitive damages are claimed in certain of these lawsuits. Honda is also subject to potential liability under other various lawsuits and claims including 74 purported

class actions in the United States. In accordance with Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, Honda has recorded a contingent liability when it is probable that an obligation has been incurred and the amount of loss can be reasonably estimated. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recorded for these contingent liabilities, if necessary, by considering the nature of lawsuits and claims, the progress of the case and the opinions of legal counsel. Honda does not record liabilities for lawsuits or potential claims that it believes will not result in an unfavorable outcome or when a reasonable estimate of the amount of probable loss cannot be determined. After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the ultimate outcome of such lawsuits and pending claims including 74 purported class actions in the United States should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position, results of operations or cash flows.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(18) Leases**

Honda is the lessee under several operating leases, primarily for office and other facilities, and certain office equipment.

Future minimum lease payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year at March 31, 2008 are as follows:

<b>Years ending March 31:</b>	<b>Yen (millions)</b>
2009	¥ 26,144
2010	20,273
2011	16,733
2012	12,989
2013	10,844
After five years	52,349
<b>Total minimum lease payments</b>	<b>¥ 139,332</b>

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2008 were ¥46,102 million, ¥46,910 million and ¥49,442 million, respectively.



**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(19) Allowances for Trade Receivable and Finance Subsidiaries-receivables**

The allowances for trade receivable and finance subsidiaries-receivables for the years ended March 31, 2006, 2007 and 2008 are set forth in the following table:

	Balance at beginning of period	Additions Charged to costs and expenses	Yen (millions) Deductions Bad debts written off	Foreign currency translation	Balance at end of period
<b>March 31, 2006:</b>					
Trade accounts and notes receivable					
Allowance for doubtful accounts	¥ 9,710	¥ 3,825	¥ 3,320	¥ 474	¥ 10,689
Finance subsidiaries-receivables					
Allowance for credit losses	¥ 30,926	¥ 28,155	¥ 29,373	¥ 3,242	¥ 32,950
Allowance for losses on lease residual values	34,025	7,998	7,974	3,725	37,774
	¥ 64,951	¥ 36,153	¥ 37,347	¥ 6,967	¥ 70,724
<b>March 31, 2007:</b>					
Trade accounts and notes receivable					
Allowance for doubtful accounts	¥ 10,689	¥ 2,918	¥ 5,850	¥ 442	¥ 8,199
Finance subsidiaries-receivables					
Allowance for credit losses	¥ 32,950	¥ 27,286	¥ 27,273	¥ 549	¥ 33,512
Allowance for losses on lease residual values	37,774	16,842	20,807	119	33,928
	¥ 70,724	¥ 44,128	¥ 48,080	¥ 668	¥ 67,440
<b>March 31, 2008:</b>					
Trade accounts and notes receivable					
Allowance for doubtful accounts	¥ 8,199	¥ 2,879	¥ 2,785	¥ (112)	¥ 8,181
Finance subsidiaries-receivables					
Allowance for credit losses	¥ 33,512	¥ 46,121	¥ 41,177	¥ (5,102)	¥ 33,534
Allowance for losses on lease residual values	33,928	11,890	17,410	(3,521)	24,887
	¥ 67,440	¥ 58,011	¥ 58,587	¥ (8,623)	¥ 58,241

**(20) Segment Information**

Honda has four reportable segments: the Motorcycle business, the Automobile business, the Financial services business and the Power product and other businesses, which are based on Honda's organizational structure and characteristics of products and services. Operating segments are defined as components of Honda's about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. The accounting policies used for these reportable segments are consistent with the accounting policies used in Honda's consolidated financial statements. (See note 2.)

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

Principal products and services, and functions of each segment are as follows:

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

**Segment Information**

As of and for the year ended March 31, 2006

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Net sales and other operating revenue:							
External customers	¥ 1,225,812	¥ 8,004,694	¥ 306,869	¥ 370,621	¥ 9,907,996		¥ 9,907,996
Intersegment			4,068	11,941	16,009	(16,009)	
Total	¥ 1,225,812	¥ 8,004,694	¥ 310,937	¥ 382,562	¥ 9,924,005	¥ (16,009)	¥ 9,907,996
Cost of sales, SG&A and R&D expenses	1,127,157	7,492,257	220,352	353,350	9,193,116	(16,009)	9,177,107
Gain on transfer of the substitutional portion of the Employee s Pension Funds	15,319	115,935		6,762	138,016		138,016
Segment income	¥ 113,974	¥ 628,372	¥ 90,585	¥ 35,974	¥ 868,905		¥ 868,905
Equity in income of affiliates	¥ 30,700	¥ 67,439		¥ 1,466	¥ 99,605		¥ 99,605
Assets	¥ 1,006,308	¥ 4,843,148	¥ 5,008,718	¥ 294,170	¥ 11,152,344	¥ (520,944)	¥ 10,631,400
Investments in affiliates	¥ 95,978	¥ 305,339		¥ 13,194	¥ 414,511		¥ 414,511

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Depreciation and amortization	¥	30,232	¥	222,165	¥	771	¥	9,057	¥	262,225	¥	262,225
Capital expenditures	¥	52,246	¥	392,934	¥	1,316	¥	11,345	¥	457,841	¥	457,841
Provision for credit and lease residual losses on finance subsidiaries-receivables					¥	36,153			¥	36,153	¥	36,153

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

As of and for the year ended March 31, 2007

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Net sales and other operating revenue:							
External customers	¥ 1,370,617	¥ 8,889,080	¥ 409,701	¥ 417,742	¥ 11,087,140		¥ 11,087,140
Intersegment			3,633	21,168	24,801	(24,801)	
Total	¥ 1,370,617	¥ 8,889,080	¥ 413,334	¥ 438,910	¥ 11,111,941	¥ (24,801)	¥ 11,087,140
Cost of sales, SG&A and R&D expenses	1,270,009	8,289,537	297,792	402,724	10,260,062	(24,801)	10,235,261
Gain on transfer of the substitutional portion of the Employee s Pension Funds							
Segment income	¥ 100,608	¥ 599,543	¥ 115,542	¥ 36,186	¥ 851,879		¥ 851,879
Equity in income of affiliates	¥ 23,380	¥ 78,537		¥ 1,500	¥ 103,417		¥ 103,417
Assets	¥ 1,161,707	¥ 5,437,709	¥ 5,694,204	¥ 338,671	¥ 12,632,291	¥ (595,791)	¥ 12,036,500
Investments in affiliates	¥ 118,475	¥ 360,673		¥ 15,065	¥ 494,213		¥ 494,213
Depreciation and amortization	¥ 40,576	¥ 309,877	¥ 10,676	¥ 10,359	¥ 371,488		¥ 371,488
Capital expenditures	¥ 68,880	¥ 540,859	¥ 367,728	¥ 16,394	¥ 993,861		¥ 993,861
Provision for credit and lease residual losses on finance subsidiaries- receivables			¥ 44,128		¥ 44,128		¥ 44,128

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

As of and for the year ended March 31, 2008

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Net sales and other operating revenue:							
External customers	¥ 1,558,696	¥ 9,489,391	¥ 533,553	¥ 421,194	¥ 12,002,834		¥ 12,002,834
Intersegment			15,499	21,571	37,070	(37,070)	
Total	¥ 1,558,696	¥ 9,489,391	¥ 549,052	¥ 442,765	¥ 12,039,904	¥ (37,070)	¥ 12,002,834
Cost of sales, SG&A and R&D expenses	1,407,409	8,827,726	431,254	420,406	11,086,795	(37,070)	11,049,725
Gain on transfer of the substitutional portion of the Employee s Pension Funds							
Segment income	¥ 151,287	¥ 661,665	¥ 117,798	¥ 22,359	¥ 953,109		¥ 953,109
Equity in income of affiliates	¥ 28,035	¥ 89,521		¥ 1,386	¥ 118,942		¥ 118,942
Assets	¥ 1,240,527	¥ 5,591,311	¥ 5,907,839	¥ 330,604	¥ 13,070,281	¥ (454,738)	¥ 12,615,543
Investments in affiliates	¥ 118,219	¥ 411,001		¥ 16,976	¥ 546,196		¥ 546,196
Depreciation and amortization	¥ 48,000	¥ 356,003	¥ 101,987	¥ 12,435	¥ 518,425		¥ 518,425
Capital expenditures	¥ 86,687	¥ 544,922	¥ 839,888	¥ 21,794	¥ 1,493,291		¥ 1,493,291
Provision for credit and lease residual losses on finance subsidiaries-receivables			¥ 58,011		¥ 58,011		¥ 58,011

## Explanatory notes:

1. Segment income is measured in a consistent manner with consolidated operating income, which is net income before other income, other expenses, income tax (benefit) expense, minority interest in income, and equity in income of affiliates. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable.
2. Assets of each segment are defined as total assets, including derivative financial instruments, investments in affiliates, and deferred tax assets. Segment assets are based on those directly associated with each segment and those not directly associated with specific segments are allocated based on the most reasonable measures applicable except for the corporate assets described below.
3. Intersegment sales and revenues are generally made at values that approximate arm s-length prices.
4. Unallocated corporate assets, included in reconciling items, amounted to ¥354,903 million as of March 31, 2006, ¥377,873 million as of March 31, 2007, and ¥385,442 million as of March 31, 2008 respectively, which consist primarily of cash and cash equivalents and marketable securities held by the Company. Reconciling items also include elimination of intersegment transactions.
5. Depreciation and amortization of the Financial Services Business include ¥9,741 million for the year ended March 31, 2007 and ¥101,032 million for the year ended March 31, 2008 respectively, of depreciation of property on operating leases.
6. Capital expenditures of the Financial Services Business includes ¥366,795 million for the year ended March 31, 2007 and ¥839,261 million for the year ended March 31, 2008 respectively, of purchase of operating lease assets.



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

## External Sales and Other Operating Revenue by Product or Service Groups

	March 31, 2006	Yen (millions) March 31, 2007	March 31, 2008
Motorcycles and relevant parts	¥ 1,051,855	¥ 1,221,638	¥ 1,418,028
All-terrain vehicles (ATVs), personal watercraft and relevant parts	173,957	148,979	140,668
Automobiles and relevant parts	8,004,694	8,889,080	9,489,391
Financial, insurance services	306,869	409,701	533,553
Power products and relevant parts	263,651	287,302	288,243
Others	106,970	130,440	132,951
<b>Total</b>	<b>¥ 9,907,996</b>	<b>¥ 11,087,140</b>	<b>¥ 12,002,834</b>

**Geographical Information****As of and for the year ended March 31, 2006**

	Japan	Yen (millions) United States	Other Countries	Total
Sales to external customers	¥ 2,021,999	¥ 4,876,436	¥ 3,009,561	¥ 9,907,996
Long-lived assets	¥ 949,358	¥ 499,599	¥ 477,764	¥ 1,926,721

**As of and for the year ended March 31, 2007**

	Japan	Yen (millions) United States	Others Countries	Total
Sales to external customers	¥ 2,061,720	¥ 5,291,683	¥ 3,733,737	¥ 11,087,140
Long-lived assets	¥ 992,723	¥ 929,107	¥ 610,100	¥ 2,531,930

**As of and for the year ended March 31, 2008**



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	Yen (millions)			
	Japan	United States	Others Countries	Total
Sales to external customers	¥ 2,053,401	¥ 5,313,858	¥ 4,635,575	¥ 12,002,834
Long-lived assets	¥ 1,084,163	¥ 1,479,137	¥ 669,546	¥ 3,232,846

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

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

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

	March 31, 2006	Yen (millions) March 31, 2007	March 31, 2008
North America	¥ 5,463,359	¥ 5,980,876	¥ 6,068,425
Europe	1,009,421	1,236,757	1,519,434
Asia	1,085,451	1,283,154	1,577,266
Other Regions	655,721	905,163	1,251,932

Explanatory notes:

Major countries or regions in each geographic area:

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

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

As of and for the year ended March 31, 2006

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated

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Net sales and other operating revenue:									
External customers	¥ 2,021,999	¥ 5,475,261	¥ 1,001,177	¥ 856,892	¥ 552,667	¥ 9,907,996		¥	9,907,996
Transfers between geographic areas	2,415,874	141,064	188,341	140,501	19,023	2,904,803	(2,904,803)		
Total	¥ 4,437,873	¥ 5,616,325	¥ 1,189,518	¥ 997,393	¥ 571,690	¥ 12,812,799	¥ (2,904,803)	¥	9,907,996
Cost of sales,									
SG&A and R&D expenses	4,204,939	5,262,382	1,163,213	932,394	514,527	12,077,455	(2,900,348)		9,177,107
Gain on transfer of the substitutional portion of the									
Employees Pension Funds	138,016					138,016			138,016
Operating income	¥ 370,950	¥ 353,943	¥ 26,305	¥ 64,999	¥ 57,163	¥ 873,360	¥ (4,455)	¥	868,905
Assets	¥ 2,695,212	¥ 6,128,303	¥ 800,786	¥ 717,933	¥ 309,209	¥ 10,651,443	¥ (20,043)	¥	10,631,400
Long-lived assets	¥ 949,358	¥ 589,596	¥ 157,819	¥ 157,704	¥ 72,244	¥ 1,926,721		¥	1,926,721

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****As of and for the year ended March 31, 2007**

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Net sales and other operating revenue:								
External customers	¥ 2,061,720	¥ 6,002,797	¥ 1,228,564	¥ 1,024,680	¥ 769,379	¥ 11,087,140		¥ 11,087,140
Transfers between geographic areas	2,712,403	169,847	119,161	246,723	28,259	3,276,393	(3,276,393)	
Total	¥ 4,774,123	¥ 6,172,644	¥ 1,347,725	¥ 1,271,403	¥ 797,638	¥ 14,363,533	¥ (3,276,393)	¥ 11,087,140
Cost of sales,								
SG&A and R&D expenses	4,545,988	5,715,817	1,315,736	1,194,250	725,377	13,497,168	(3,261,907)	10,235,261
Gain on transfer of the substitutional portion of the Employees Pension Funds								
Operating income	¥ 228,135	¥ 456,827	¥ 31,989	¥ 77,153	¥ 72,261	¥ 866,365	¥ (14,486)	¥ 851,879
Assets	¥ 2,985,123	¥ 6,834,409	¥ 948,922	¥ 935,963	¥ 414,147	¥ 12,118,564	¥ (82,064)	¥ 12,036,500
Long-lived assets	¥ 992,723	¥ 1,028,132	¥ 198,232	¥ 219,358	¥ 93,485	¥ 2,531,930		¥ 2,531,930

**As of and for the year ended March 31, 2008**

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Net sales and other operating revenue:								
External customers	¥ 2,053,401	¥ 6,091,512	¥ 1,502,240	¥ 1,307,117	¥ 1,048,564	¥ 12,002,834		¥ 12,002,834
Transfers between geographic areas	2,835,639	173,751	91,983	331,173	44,253	3,476,799	(3,476,799)	
Total	¥ 4,889,040	¥ 6,265,263	¥ 1,594,223	¥ 1,638,290	¥ 1,092,817	¥ 15,479,633	¥ (3,476,799)	¥ 12,002,834
Cost of sales,								
SG&A and R&D expenses	4,696,482	5,832,635	1,542,676	1,507,566	976,335	14,555,694	(3,505,969)	11,049,725
Gain on transfer of the substitutional portion of the Employees Pension Funds								
Operating income	¥ 192,558	¥ 432,628	¥ 51,547	¥ 130,724	¥ 116,482	¥ 923,939	¥ 29,170	¥ 953,109
Assets	¥ 3,127,143	¥ 6,863,970	¥ 948,544	¥ 1,080,439	¥ 574,890	¥ 12,594,986	¥ 20,557	¥ 12,615,543
Long-lived assets	¥ 1,084,163	¥ 1,589,356	¥ 171,030	¥ 260,141	¥ 128,156	¥ 3,232,846		¥ 3,232,846

Explanatory notes:

1. Major countries or regions in each geographic area:

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North America  
Europe  
Asia  
Other Regions

United States, Canada, Mexico  
United Kingdom, Germany, France, Italy, Belgium  
Thailand, Indonesia, China, India  
Brazil, Australia

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

2. Operating income of each geographical region is measured in a consistent manner with consolidated operating income, which is net income before other income, other expenses, income tax (benefit) expense, minority interest in income, and equity in income of affiliates.
3. Assets of each geographical region are defined as total assets, including derivative financial instruments, investments in affiliates, and deferred tax assets.
4. Sales and revenues between geographic areas are generally made at values that approximate arm's-length prices.
5. Unallocated corporate assets, included in reconciling items, amounted to ¥354,903 million as of March 31, 2006, ¥377,873 million as of March 31, 2007, and ¥385,442 million as of March 31, 2008 respectively, which consist primarily of cash and cash equivalents and marketable securities held by the Company. Reconciling items also include elimination of transactions between geographic areas.

**(21) Selected Quarterly Financial Data (Unaudited) \***

Quarterly financial data for the years ended March 31, 2006, 2007 and 2008 are set forth in the following table:

	Yen (millions)			Yen
	Net sales and other operating revenue	Operating Income	Net income	Basic net income per common share
<b>Year ended March 31, 2006:</b>				
First quarter	¥ 2,264,579	¥ 170,393	¥ 110,666	¥ 59.87
Second quarter	2,337,670	162,694	133,708	72.45
Third quarter	2,472,006	194,986	133,146	72.41
Fourth quarter	2,833,741	340,832	219,513	119.89
	¥ 9,907,996	¥ 868,905	¥ 597,033	¥ 324.33
<b>Year ended March 31, 2007:</b>				
First quarter	¥ 2,599,724	¥ 203,521	¥ 143,402	¥ 78.46
Second quarter	2,630,874	193,024	127,909	70.05
Third quarter	2,768,652	205,110	144,827	79.45
Fourth quarter	3,087,890	250,224	176,184	96.70
	¥ 11,087,140	¥ 851,879	¥ 592,322	¥ 324.62
<b>Year ended March 31, 2008:</b>				
First quarter	¥ 2,931,123	¥ 221,684	¥ 166,117	¥ 91.38
Second quarter	2,971,346	286,338	208,483	114.94
Third quarter	3,044,814	276,243	200,009	110.25
Fourth quarter	3,055,551	168,844	25,430	14.01
	¥ 12,002,834	¥ 953,109	¥ 600,039	¥ 330.54

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\* All quarterly financial data is unaudited and also has not been reviewed by the independent registered public accounting firm.

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**INDEX OF EXHIBITS**

- 1.1 Articles of Incorporation of the registrant (English translation)
  - 1.2 Share Handling Regulations of the registrant (English translation)
  - 1.3 Regulations of Board of Directors of the registrant (English translation)
  - 1.4 Regulations of the Board of Corporate Auditors of the registrant (English translation)
  - 2.1 Specimen common stock certificates of the registrant (English translation) (1)
  - 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 (2)
  - 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 (2)
  - 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 (3)
  - 2.5 Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006 among the parties referred to in Exhibit 2.2 above (4)
  - 2.6 Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)
  - 8.1 List of Significant Subsidiaries (See Organizational Structure in Item 4.C of this Form 20-F)
  - 11.1 Code of Ethics (6)
  - 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 September 27, 2001.
  - (2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995.
  - (3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001.
  - (4) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-114874) filed on June 28, 2006.
  - (5) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-143589) filed on June 8, 2007.
  - (6) Incorporated by reference to the registrant's annual report on Form 20-F filed on July 9, 2004.

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.