Annual Report 2007

Year Ended March 31, 2007

Honda Motor Co., Ltd.

HONDA
The Power of Dreams

(Cover)

Left: *TRX450R* ATV
This high-performance all-terrain vehicle (ATV) handles road surfaces with ease and delivers powerful racing performance.

Middle: *CR-V* SUV (for the North American market)
Since its launch in September 2006, this compact sport-utility vehicle (SUV) has earned praise from customers around the world.

Right: *HRR* lawn mower
This serious push lawn mower handles tasks ranging from lawn trimming to full-scale garden care.

Corporate Profile

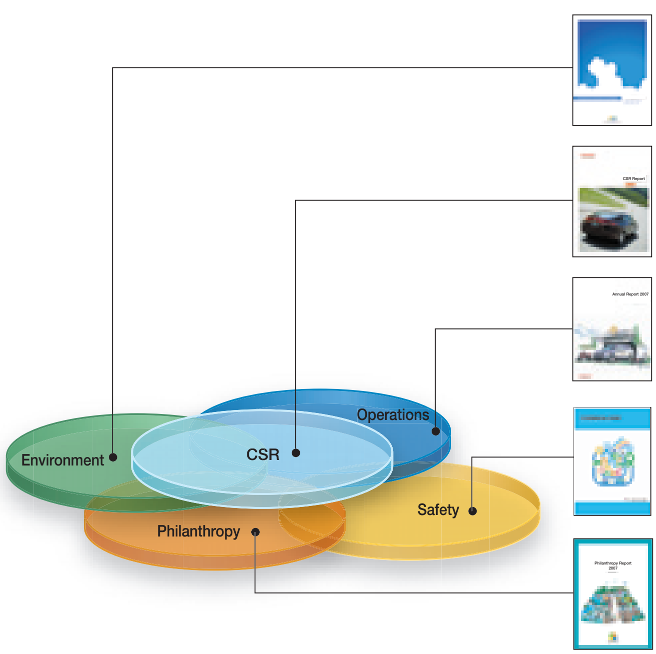
Honda Motor Co., Ltd. operates under the basic principles of “Respect for the Individual” and “The Three Joys”—commonly expressed as The Joy of Buying, The Joy of Selling and The Joy of Creating. “Respect for the Individual” reflects our desire to respect the unique character and ability of each individual person, trusting each other as equal partners in order to do our best in every situation. Based on this, “The Three Joys” expresses our belief and desire that each person working in, or coming into contact with our company, directly or through or products, should share a sense of joy through that experience.

In line with these basic principles, since its establishment in 1948, Honda has remained on the leading edge by creating new value and providing products of the highest quality at a reasonable price, for worldwide customer satisfaction. In addition, the Company has conducted its activities with a commitment to protecting the environment and enhancing safety in a mobile society.

The Company has grown to become the world’s largest motorcycle manufacturer and one of the leading automakers. With a global network of 507* subsidiaries and affiliates accounted for under the equity method, Honda develops, manufactures and markets a wide variety of products, ranging from small general-purpose engines and scooters to specialty sports cars, to earn the Company an outstanding reputation from customers worldwide.

*As of March 31, 2007

Reports Published by Honda



Environmental Report

This report describes Honda’s position on environmental initiatives, environmental performance for the fiscal year ended March 31, 2007, and future environmental targets.
http://world.honda.com/environment/reports/

CSR Report

This report provides an overview of Honda’s position on corporate social responsibility (CSR) activities and an overview of its performance in the areas of business, the environment, corporate citizenship, and quality and safety during the fiscal year ended March 31, 2007.
http://world.honda.com/CSR/

Annual Report

This report outlines Honda’s operating performance for the fiscal year ended March 31, 2007, and describes future initiatives.
http://world.honda.com/investors/annualreport/

Driving Safety Promotion Report

This report (available only in Japanese) summarizes Honda’s efforts to promote safe driving and principal activities in this area in 2006.

Philanthropy Report

This report explains Honda’s position on philanthropy and profiles major performance areas during the fiscal year ended March 31, 2007.
http://world.honda.com/community/

Through its reports on these topics, Honda provides its stakeholders with annual overviews of its initiatives and evaluations of its performance. These media also provide opportunities for communication between Honda and its stakeholders in each domain. We look forward to enhancing these communications in the future.

Honda discloses the majority of its information on the web sites shown on the right.

Honda’s Major Areas Disclosure Web Sites

Corporate profile	http://world.honda.com/profile/
CSR	http://world.honda.com/CSR/
Investor relations	http://world.honda.com/investors/
Environment	http://world.honda.com/environment/
Community	http://world.honda.com/community/
Safety	http://world.honda.com/safety/
Promoting safer driving	http://world.honda.com/safety/safer-driving/

Contents

Caution with Respect to Forward-Looking Statements
This annual report 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.

Financial Highlights

Financial Data

Honda Motor Co., Ltd., and Subsidiaries
Years ended or at March 31

	Yen (millions except per share data)			U.S. dollars (millions except per share data)
	2005	2006	**2007**	**2007**
Net sales and other operating revenue	¥8,650,105	¥ 9,907,996	**¥11,087,140**	**$ 93,919**
Operating income	630,920	868,905	**851,879**	**7,216**
Income before income taxes, minority interest and equity in income of affiliates	668,364	829,904	**792,868**	**6,716**
Equity in income of affiliates	96,057	99,605	**103,417**	**876**
Net income	486,197	597,033	**592,322**	**5,018**
Cash dividends paid during the period	47,797	71,061	**140,482**	**1,190**
Research and development	467,754	510,385	**551,847**	**4,675**
Total assets	9,368,236	10,631,400	**12,036,500**	**101,961**
Stockholders' equity	3,289,294	4,125,750	**4,482,611**	**37,972**
Capital expenditures (excluding purchase of operating lease assets)	373,980	457,841	**627,066**	**5,312**
Depreciation (excluding property on operating leases)	225,752	262,225	**361,747**	**3,064**
Per share data				
Net income	¥ 260.34	¥ 324.33	**¥ 324.62**	**$ 2.75**
Dividends paid	25.5	38.5	**77**	**0.65**
Stockholders' equity	1,778.24	2,259.26	**2,460.28**	**20.84**

(Notes) 1. On July 1, 2006, the Board of Directors declared a two-for-one stock split of the Company's common stock. All share-related information in this financial highlights are stated according to the number of shares following the stock split.
2. The information in the consolidated financial statements for the year under review is presented according to the method used until the preceding fiscal year, and is adjusted to reflect the current method. For details, please refer to the note to the consolidated financial statements entitled "3. Revisions of Classifications" in the financial section.
3. The consolidated financial statements as of and for the year ended March 31, 2007 have been translated into U.S. dollars at the rate of ¥118.05= U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2007. Those U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the reader. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

Operating Data

Years ended March 31

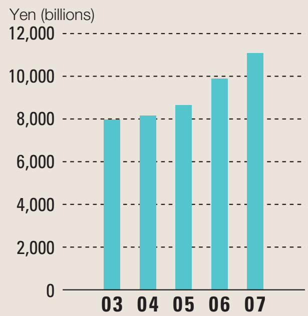
Unit Sales Breakdown	Motorcycles			Automobiles			Power Products		
(Thousands)	2006	**2007**	Change	2006	**2007**	Change	2006	**2007**	Change
Japan	368	**337**	(8.4)%	696	**672**	(3.4)%	487	**527**	8.2%
North America	615	**503**	(18.2)	1,682	**1,788**	6.3	2,827	**3,103**	9.8
Europe	353	**329**	(6.8)	291	**324**	11.3	1,477	**1,625**	10.0
Asia	7,907	**7,895**	(0.2)	521	**620**	19.0	717	**760**	6.0
Other Regions	1,028	**1,305**	26.9	201	**248**	23.4	368	**406**	10.3
Total	10,271	**10,369**	1.0%	3,391	**3,652**	7.7%	5,876	**6,421**	9.3%

Net Sales Breakdown	Motorcycle Business			Automobile Business			Financial Services Business			Power Product and Other Businesses		
Yen (millions)	2006	**2007**	Change	2006	**2007**	Change	2006	**2007**	Change	2006	**2007**	Change
Japan	¥ 99,009	**¥ 101,753**	2.8%	¥1,447,388	**¥1,412,726**	(2.4)%	¥ 21,140	**¥ 21,497**	1.7%	¥126,507	**¥145,214**	14.8%
North America	349,741	**308,293**	(11.9)	4,722,354	**5,179,139**	9.7	267,485	**364,892**	36.4	123,779	**128,552**	3.9
Europe	208,092	**219,773**	5.6	717,360	**917,199**	27.9	10,108	**12,642**	25.1	73,861	**87,143**	18.0
Asia	324,026	**383,389**	18.3	731,833	**861,612**	17.7	1,966	**3,150**	60.2	27,626	**35,003**	26.7
Other Regions	244,944	**357,409**	45.9	385,759	**518,404**	34.4	6,170	**7,520**	21.9	18,848	**21,830**	15.8
Total	¥1,225,812	**¥1,370,617**	11.8%	¥8,004,694	**¥8,889,080**	11.0%	¥306,869	**¥409,701**	33.5%	¥370,621	**¥417,742**	12.7%

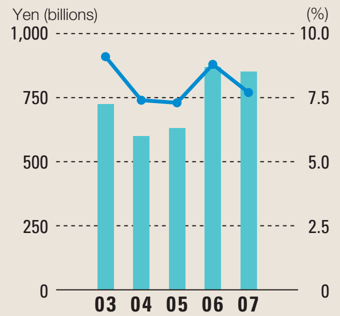
Primary Data for Five Years

Years ended or at March 31

Net Sales and Other Operating Revenue

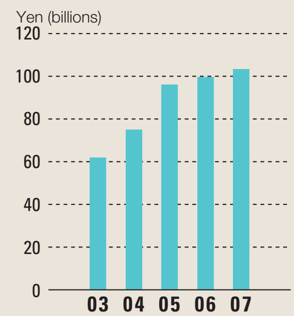


Operating Income and Operating Margin

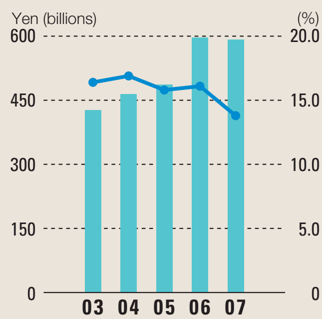


Operating Income (left scale)
Operating Margin (right scale)

Equity in Income of Affiliates

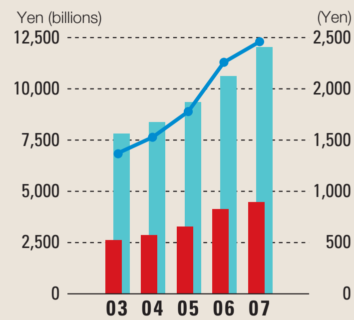


Net Income and Return on Equity (ROE)



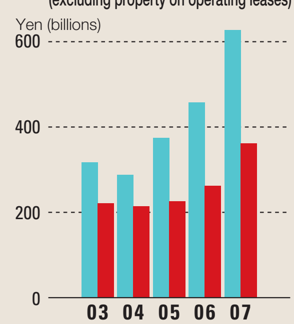
Net Income (left scale)
ROE (right scale)

Total Assets, Stockholders' Equity and Stockholders' Equity per Common Share



Total Assets (left scale)
Stockholders' Equity (left scale)
Stockholders' Equity per Common Share (right scale)

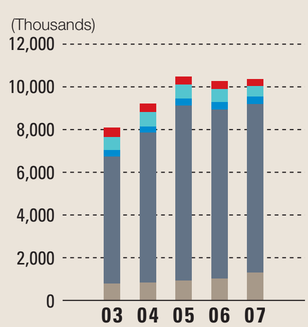
Capital Expenditure and Depreciation
(excluding property on operating leases)



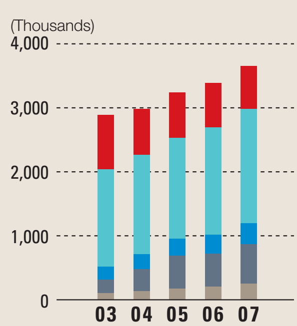
Capital Expenditure
Depreciation

Unit Sales

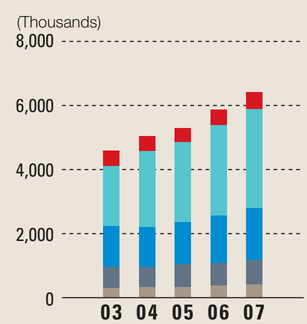
[Motorcycles]



[Automobiles]



[Power Products]



Japan North America Europe Asia Other Regions

Takeo Fukui
President and Chief Executive Officer

The Year in Review

During fiscal 2007, ended March 31, 2007, Honda set in place a number of measures aimed at global growth and advancement. To propel ourselves forward over the medium to long term, we outlined specific measures for our three initiatives that are; developing advanced systems at our production facilities in Japan, solidifying the foundation for growth in our overseas business and working to reduce our CO_2 emissions on a global level by promoting innovative products and production facilities. We also accelerated efforts to strengthen the core characteristics that make Honda unique in order to continue creating new value for our customers, such as by commercializing the *HondaJet* and solar cell businesses, bringing these projects a step closer to reality.

HondaJet

Environment

As to the economic conditions surrounding Honda during fiscal 2007, although crude oil prices became relatively more stable other raw materials prices continued to significantly increase. In the United States, despite slowing growth in personal consumption and capital investment, strong economic growth continued, albeit at a slightly slower rate, and the economies of Europe sustained a gradual recovery. Rapid economic growth also persisted in Asian countries, particularly China and India. In Japan, increases in capital investments and other factors supported a gradual economic recovery, although personal consumption was lackluster.

Overview of Fiscal 2007 Operating Performance

Tumultuous change characterized the business environment in key world markets. Amid increasingly stringent competition, we remained proactive in our efforts to launch products that create new value. These undertakings paid off in the form of higher unit sales in each of our businesses—motorcycles, automobiles and power products—and revenues grew for the seventh consecutive year as each of our businesses expanded.

Despite a demanding competitive environment, increased overseas unit sales and the currency effects caused by the depreciation of the Japanese yen rose profits, but income fell for a variety of reasons. We experienced the negative impact of changes in our model mix, as significantly increasing gasoline prices prompted a shift in demand toward compact cars. The cost of steel, aluminium and precious metals substantially increased, and selling, general and administrative expenses accompanied the rise in unit sales. R&D expenses also rose, as we spent more on safety and environmental technologies and worked to improve the attractiveness of our products. Furthermore, the gain that we posted in fiscal 2006 on the return of the substitutional portion of the Employees' Pension Funds to the Japanese government was absent in fiscal 2007.

Motorcycle Business

In key Asian markets, demand for motorcycles as an essential mode of transportation continued to grow. Sales in Latin America remained strong, mainly in Brazil, where economic performance was stable.

Since mid-2005, Indonesia, which is a major market for our products in Asia, has been affected by substantially increasing gasoline prices, coupled with substantially high inflation and interest rates, which depressed overall demand. However, a turnaround in this situation from mid-2006 allowed our equity-method affiliate there to stage a recovery in sales.

The *CR-V*, posting strong sales in all markets (North American market version shown)

Automobile Business

On a global basis, a sharp rise in gasoline prices spurred demand for automobiles featuring good fuel economy, leading to steady increases in sales of Honda vehicles in North America and Europe. Sales remained strong in China, India, Brazil and other emerging economies. In particular, strong worldwide sales of the new *Civic*, introduced in September 2005, continued in fiscal 2007. Sales of the new *CR-V*, which we launched in September 2006, also recorded strong worldwide sales results and contributed to the steady expansion of unit sales.

Power Product and Other Businesses

Unit sales in the power product business increased in all regions in fiscal 2007, mainly in North America and Europe. This rise was supported by products that play a role in customer lifestyles, such as lawn mowers and generators, as well as engines for OEM*1 use in construction equipment and generators.

In December 2006, we established a subsidiary in Japan to manufacture and sell next-generation thin-film solar cells that we developed using proprietary technologies. Sales began in Japan on a limited regional basis in June 2007, and by fall 2007 we expect to commence mass production on an annual capacity of 27.5 megawatts and full-fledged sales.

Fulfilling an objective that Honda has set through R&D since the time of its establishment, in October 2004 we formed a joint venture with General Electric Company, and in 2006, that venture secured orders to supply compact turbofan engines to two aircraft manufacturers. Furthering these efforts, in August 2006 we established a subsidiary in the United States to construct R&D, manufacturing and sales of compact jets. In October 2006, we began accepting orders for *HondaJet*, a compact business jet. Deliveries and associated revenue are scheduled to begin in 2010.

*1: OEM (Original equipment manufacturing)
OEM refers to a manufacturing of products and components supplied for sale under a third-party brand.

Honda Aircraft Company groundbreaking ceremony

Future Initiatives

The environment in which Honda operates is likely to grow increasingly challenging. Honda will address this situation by accelerating efforts to strengthen the core characteristics that make Honda unique as we create new value and continue to deliver products and services that exceed the expectations of our customers. In May 2006, I discussed three themes for achieving this vision—"Establishing advanced manufacturing systems and capabilities," "Strengthening the foundation for global growth" and "Strengthening our commitment to reducing our environmental footprint"—and we continue to move forward along these lines.

I would now like to introduce our recent initiatives under these themes, and talk about the measures we have implemented.

Establishing Advanced Manufacturing Systems and Capabilities

First, let me outline our initiatives to create advanced systems in the realm of manufacturing and R&D, as these areas support the ongoing global expansion of Honda's businesses.

In terms of strengthening our manufacturing systems, the new Yorii plant—scheduled to begin operations in 2010—will feature high-quality and highly efficient production and logistics systems, allowing us to make state-of-the-art automobiles quickly and in response to diverse customer demands. Also taking the environment into consideration, each of the cars produced at this plant will produce 20% lower CO_2 emissions, compared with vehicles produced in 2000. As demand in various regions around the world for fuel-efficient vehicles is rising more quickly than we had anticipated, we have decided to build a new engine plant nearby, in Ogawa, Saitama. This plant is scheduled to begin production in mid-2009.

Amid expanding global demand for our motorcycles, both small and large, we have elected to strengthen our manufacturing system by concentrating motorcycle production at our Kumamoto plant by the end of 2009, incorporating functions that will make it one of the world's leading factories. This move will enable us to enhance production technologies and expertise, which we can subsequently share with our plants worldwide.

Moving to the topic of strengthening our R&D system from a manufacturing standpoint, for motorcycles we will work to respond to increasingly diverse consumer needs and provide products that are attractive and highly competitive by pursuing ease of use, improving riding performance, adding features and making them more fun to ride. We have reorganized our R&D structure to meet these objectives. In automobiles as well, we have reorganized our R&D structure into Honda and Acura brand areas, prompted by the expansion of our premium Acura brand, which has gained a strong foothold in North America. We have created a product development system to clearly emphasize individual brand characteristics. In May 2007, we opened the Acura Design Studio in the United States to emphasize the important role that design strategy plays in defining the characteristics of the Acura brand.

Acura Design Studio, which opened in May 2007

Strengthening the Foundation for Global Growth

Addressing the topic of strengthening the foundation for global growth, this fall we will undertake a full model change for the *Accord*, a core model in North America. We are reconfiguring our production system in response to the rising demand for fuel-efficient cars, stemming from significantly increasing gasoline prices. In April 2007, we began manufacturing the *Civic*, which we have already produced at our East Liberty plant and at line one of our plant in Canada, at line two of our plant in Canada. In line with strong ongoing sales of the *CR-V*, from fall 2007 we will begin manufacturing this model at our plant in Mexico. We are also planning to begin production in a new plant in Indiana, in the United States, and a new engine factory in Canada in 2008. Honda is reinforcing its North American business foundations by putting in place a manufacturing system that can respond flexibly, both to increasing demand and to market shifts.

Groundbreaking ceremony for new factory in Indiana

In Europe, we have experienced an increase in sales of locally manufactured models with diesel engines, mainly the new *Civic* and the new *CR-V*. In response, we plan to raise production at our U.K. plant to its annual capacity of 250,000 units in late 2007.

In China, Guangzhou Honda Automobile Co., Ltd., an affiliate accounted for under the equity method, began operating a second factory in September 2006. Together with the annual production capacity of this plant, which specializes in producing automobiles for export, our total annual production capacity in China has reached 530,000 units. In March 2007, operations began at a new plant in China that manufactures transmissions and engine parts, raising our local content and cost performance. In April 2007, Guangzhou Honda established Guanzghou Honda Automobile Research & Development Co., Ltd. The purposes of this company are to promote local autonomy, enhance product development and enhance our ability to deliver products that meet the needs of clients in this market.

In the rapidly growing Indian market, in addition to raising annual production from 50,000 units to 100,000 units in 2007, we have begun building a second factory with an annual capacity of 60,000 units that will begin operations at the end of 2009.

Demand for motorcycles and automobiles in South America continues to grow, spurred by strong economic performance. In Brazil, in January 2007 we raised annual capacity at our motorcycle plant from 1 million units to 1.35 million units, and this level is scheduled to rise to 1.5 million units by the end of 2007. At our automobile plant, we also plan to double annual capacity to 100,000 units in mid-2007.

Strengthening Our Efforts to Reduce Our Environmental Footprint

Concluding on the theme of strengthening our efforts to reduce our environmental footprint, Honda currently puts the highest priority on its efforts to address global environmental issues. We have announced targets for reducing CO_2 emission levels for all products and manufacturing activities throughout the world, and we are progressing diligently toward these goals.

In terms of products, we are introducing new technologies to raise the fuel efficiency of gasoline-powered automobiles, showcased in the advanced VTEC*2 engine and the Variable Cylinder Management System*3. We are enthusiastically integrating advanced environmental technologies into our products. For example, in 2009 we plan to introduce a new dedicated hybrid vehicle, a clean diesel engine that will achieve tailpipe emissions on par with gasoline-powered automobiles, and a new fuel cell vehicle.

In manufacturing, we are stepping up efforts to reduce the environmental impact of each of our factories. We are also conducting broad-ranging research and development on a variety of energy-related production topics, such as using biotechnology to produce ethanol and solar power to generate hydrogen.

The *FCX Concept* fuel cell vehicle, which offers greatly improved environmental and driving performance

*2 VTEC: Variable Valve Timing & Lift Electronic Control System

*3 Variable Cylinder Management System
A six-cylinder V6 engine using this system fires on all six cylinders when high output is needed, such as when starting to move or accelerating. When cruising or at other times when less power is required, the engine uses only the three cylinders on one side, improving fuel efficiency.

Accelerating Efforts to Strengthen the Core Characteristics that Make Honda Unique

Establishing Advanced Manufacturing Systems and Capabilities

Strengthening Production Systems in Japan

Establishing a New Automobile Plant (annual production capacity: approximately 200,000 units)

- New automobile plant to be established in Yorii, Saitama. Production scheduled to begin in 2010.
- New engine plant to be established in Ogawa, Saitama. Production scheduled to begin in summer 2009.
- After new plants begin operating, Sayama plant will be renovated to serve as a leading-edge manufacturing facility.

Strengthening Motorcycle Production Systems

- Gradually concentrate motorcycle production at Kumamoto Factory, with 2009 as target. Strengthen leading functions and provide technical guidance to overseas production facilities.

Strengthening AT Production

- Strengthen automobile automatic transmission (AT) and transmission gear production systems at Hamamatsu Factory.

Strengthening R&D Structure

Strengthening R&D systems

- Updating our Operations Organizationally
  Motorcycles: Divide into two domains—one for people wanting convenience and the other for people pursuing the joy of riding.
  Automobiles: Separate the Honda and Acura brands.
- New R&D center to be established in Sakura, Tochigi. Operations scheduled to start in 2009.

Strengthening Our Foundation for Global Growth

Further Strengthening the Business Foundation of North American Operations

Establishing a new automobile plant in Indiana

- Production scheduled to begin in fall 2008. Annual production capacity of approximately 200,000 units.

Establishing a New Automobile Engine Plant in Canada Adjoining Existing Auto Plant

- Production scheduled to begin in 2008. Annual production capacity of approximately 200,000 units.

Expanding Production at Our Plant in Mexico

- From fall 2007, annual production capacity scheduled to increase from 30,000 units to 50,000 units. *CR-V* production scheduled to begin.

Strengthening European Business

Creating a system with an annual production capacity of 300,000 units

- In February 2007, U.K. plant has shifted to full automobile production of annual capacity of 250,000 units.
- In early 2008, expand automobile production capacity of plant in Turkey from 30,000 units to 50,000 units.

Expanding Business and Strengthening Foundation in Developing Areas

Expanding production capacity in India

- Expand annual motorcycle production capacity to exceed 5.6 million units by 2010.
- During 2007, double automobile annual production capacity to 100,000 units. Within two years, build a second automobile plant.

Expanding Motorcycle Production Capacity in Vietnam

- In mid-2007, expand annual production capacity to 1 million units.
- Made decision to build a second plant. (Production scheduled to begin in the latter half of 2008.)

Expanding Motorcycle and Automobile Production Capacity in Brazil

- By the end of 2007, expand annual production capacity to 1.5 million units.
- In mid-2007, double automobile annual production capacity to 100,000 units.

Promote localization and product development in China

- Guangzhou Honda established automobile R&D company.
- Guangzhou Honda received government approval to begin engine production.

Strengthening Our Efforts to Reduce Our Environmental Footprint

Reduce worldwide CO_2 emissions levels by 2010 (compared to 2000 levels)

- Reduce CO_2 emissions volumes for motorcycles, automobiles and power products by 10% per unit*1.
- Reduce CO_2 emissions volumes per unit during use for motorcycles and power products by 20%, and for automobiles by 10%*2.

New Gasoline Engine Technologies

- On automobiles, introduce the advanced VTEC engine and the advanced Variable Cylinder Management system.
- On motorcycles, expand use of fuel injection.
- On motorcycles, introduce low-friction engine and Variable Cylinder Management system.

Expanding Scope of Hybrid Vehicles to Include Compact Cars

- In 2009, plan to begin selling an affordably priced new dedicated hybrid vehicle.

Expanding Use of New Clean Diesel Engine on Mid- and Full-Sized Vehicles

- Develop a new four-cylinder clean diesel engine that will meet the same TierII Bin5 U.S. exhaust emission standards that are required of gasoline-powered vehicles and aim to begin sales in the United States in 2009.
- Pursue development of a V6 diesel engine.
- Also decided to begin sales of this product in the Japanese market.

Bioethanol

- In Brazil, in November 2006 began sale of Flexible Fuel Vehicle (FFV) capable of running on up to 100% ethanol.
- Developed new technology to produce bioethanol from rice straw. In May 2007, established pilot plant to promote mass-production technologies.

Fuel Cell Vehicles

- In 2008, begin leasing a new fuel cell vehicle in Japan and the United States based on the *FCX Concept* car.
- Promote initiatives involving home energy stations that produce hydrogen from natural gas, as well as solar cell-based hydrogen stations.

Solar Cell

- Established manufacturing and production subsidiary Honda Soltec Co., Ltd., in December 2006.
- Established a production line at Kumamoto Factory with annual capacity of 27.5 megawatts.
- In fall 2007, begin mass production and full-fledged sales.

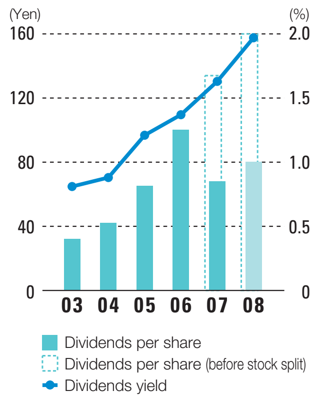
*1: For motorcycles and automobiles, units are grams/kilometer; for power products, kilograms/hour.
*2: For motorcycles, automobiles and power products, units are kilograms/unit.

Honda's Expected Global Sales in 2010

Motorcycles: more than 18 million | **Automobiles: more than 4.5 million** | **Power products: more than 7 million**

Dividends per Share

Years ended March 31



Returning Profits to Shareholders

Honda 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 we consider to be one of the most important management issues, Honda's basic policy for dividends is to make distributions after taking into account its long-term consolidated earnings performance. Honda will also acquire its own shares at the optimal timing with the goals of improving efficiency of the Company's capital structure and facilitating efforts to enhance capital agility.

The present goal is to maintain a shareholder return ratio (i.e., the ratio of the total of the dividend payment and the repurchase of Company 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 Honda and capital expenditures and investment programs that will expand operations for the purpose of improving business results and strengthening Honda's financial condition.

For fiscal 2007, Honda set a year-end cash dividend of ¥20 per share, bringing total cash dividends for the year to ¥67 per share, when adding in the interim dividend of ¥30 and a third-quarter dividend of ¥17 per share. Honda also implemented a two-for-one stock split on July 1, 2006. Had this stock split not been carried out, dividends would have been equal to ¥134 per share, a ¥34 increase over the previous year.

For the fiscal year ending March 31, 2008, we plan to pay quarterly dividends of ¥20 per share, amounting to annual dividends of ¥80 per share, up ¥13.

We will continue doing our utmost to meet the expectations of our shareholders.

In Closing

Honda's overriding quest is to become a company that society wants to exist throughout the world. To this end, we will strive to provide greater levels of enjoyment and inspiration to our customers and emphasize the characteristics that make Honda unique.

We look forward to the continued understanding and support of shareholders and other investors as we embrace the challenges of the future.

June 22, 2007

Takeo Fukui
President and Chief Executive Officer

Review of Operations

Summary of Operating Results by Business

Review of Operations (Year ended March 31, 2007)

Motorcycle Business

Net Sales ¥1,370.6 billion (11.8%)
Operating Income ¥100.6 billion (–11.7%)

Revenue from unaffiliated customers increased 11.8%, to ¥1,370.6 billion, from the previous fiscal year, due mainly to increased unit sales and the positive impact of currency translation effects. Operating income decreased 11.7 %, to ¥100.6 billion, from the previous fiscal year, due mainly to increased SG&A expenses, increased R&D expenses and the gain on the return of the substitutional portion of employees' pension funds to the Japanese government recorded in fiscal 2006. This contributed to offsetting the positive impact of increased profit attributable to higher revenue and the currency effects that were caused by the depreciation of the Japanese yen.

Automobile Business

Net Sales ¥8,889.0 billion (11.0%)
Operating Income ¥599.5 billion (–4.6%)

Revenue from unaffiliated customers increased 11.0%, to ¥8,889.0 billion, due to increased unit sales and the positive impact of currency translation effects. Operating income decreased 4.6%, to ¥599.5 billion, due mainly to the negative impact of changes in the model mix, substantially increased raw material costs, increased SG&A expenses, increased R&D expenses and the gain on the return of the substitutional portion of employees' pension funds to the Japanese government recorded in fiscal 2006, which offset the positive impacts of increased profit attributable to higher revenue, continuing cost reduction effects and the currency effects caused by the depreciation of the Japanese yen.

Power Product and Other Businesses

Net Sales ¥417.7 billion (12.7%)
Operating Income ¥36.1 billion (0.6%)

Revenue from unaffiliated customers in power product and other businesses increased 12.7%, to ¥417.7 billion, due mainly to increased unit sales of power products and the positive impact of currency translation effects. Operating income was ¥36.1 billion, an increase of 0.6% from the previous fiscal year, due mainly to the positive impact of increased profit attributable to higher revenue and the 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 the return of the substitutional portion of employees' pension funds to the Japanese government that was recorded in fiscal 2006.

Financial Services Business

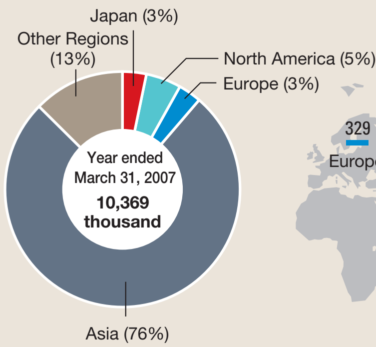
Net Sales ¥409.7 billion (33.5%)
Operating Income ¥115.5 billion (27.6%)

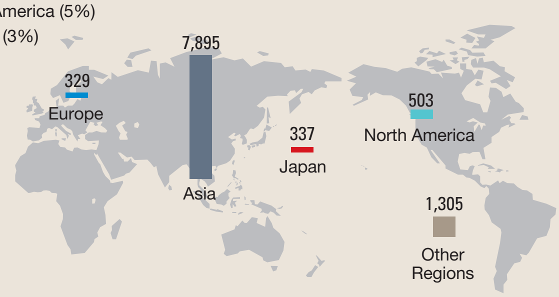
Revenue from unaffiliated customers in our financial services business increased 33.5%, to ¥409.7 billion. Operating income increased 27.6%, to ¥115.5 billion, benefiting from increased profit attributable to higher revenue and positive impact of currency effects caused by the depreciation of the Japanese yen, despite higher interest rates to raise funds.

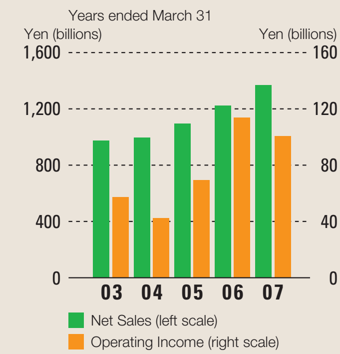
Percentage of Unit Sales by Region

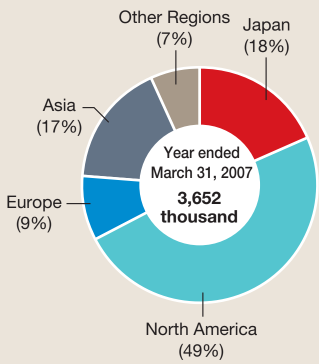
Unit Sales by Region

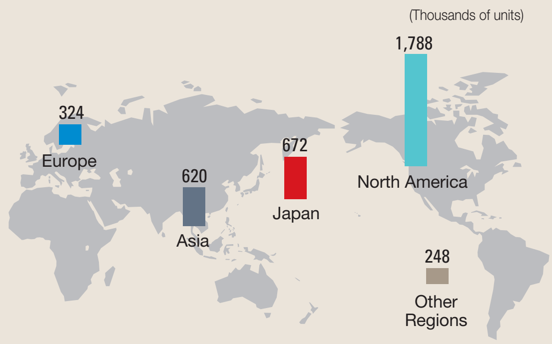
Net Sales/Operating Income

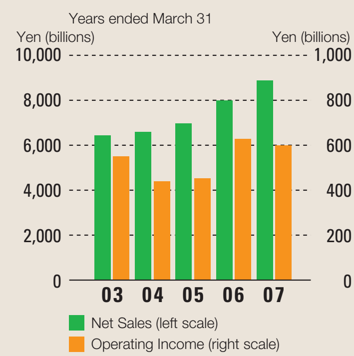


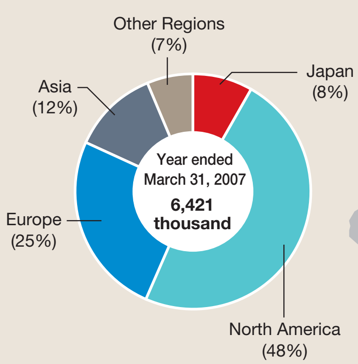


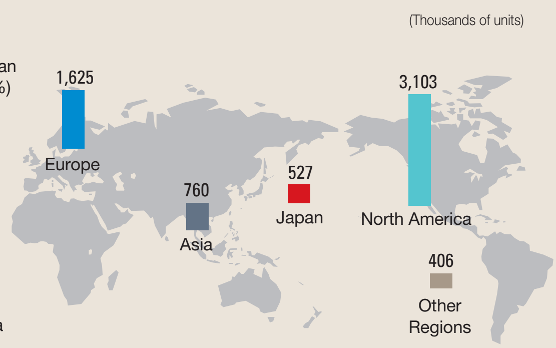


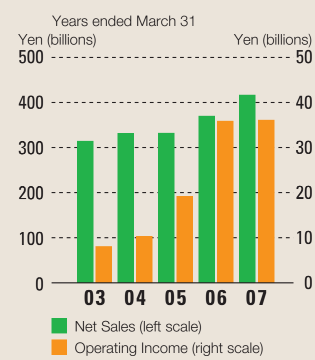


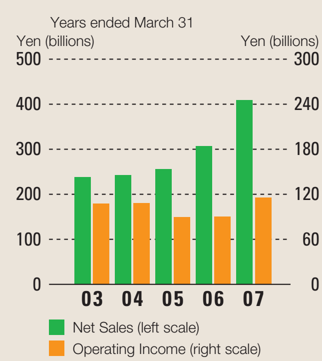












Initiatives in Emerging Markets

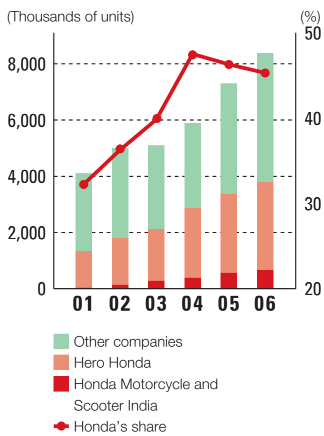
1. India—Honda's Largest Market

Ongoing Market Expansion, but Increasingly Challenging Competition

Against the backdrop of overall robust economic performance, the size of the Indian market continued to expand since motorcycle makers launched a number of highly competitive models. Honda's unit sales* in fiscal 2007 rose 13.3%, to 3,930,000 units, from the previous fiscal year. This total represents the combined sales of Hero Honda Motors Limited (Hero Honda), an affiliate accounted for under the equity method, which saw an 11.4% increase in sales from the previous fiscal year, to 3,239,000 units, and Honda Motorcycle and Scooter India Private Limited (Honda Motorcycle and Scooter India), a consolidated subsidiary, which experienced a 23.0% rise in sales to 691,000 units. From the second half of fiscal 2007, sales benefited from the November 2006 launch of the new *CBZ Extreme* and the December introduction of full model change versions of *CD Dawn* and *CD Deluxe*, which are two of the core models, spurring a recovery in Honda's market share.

* Wholesale units sold locally

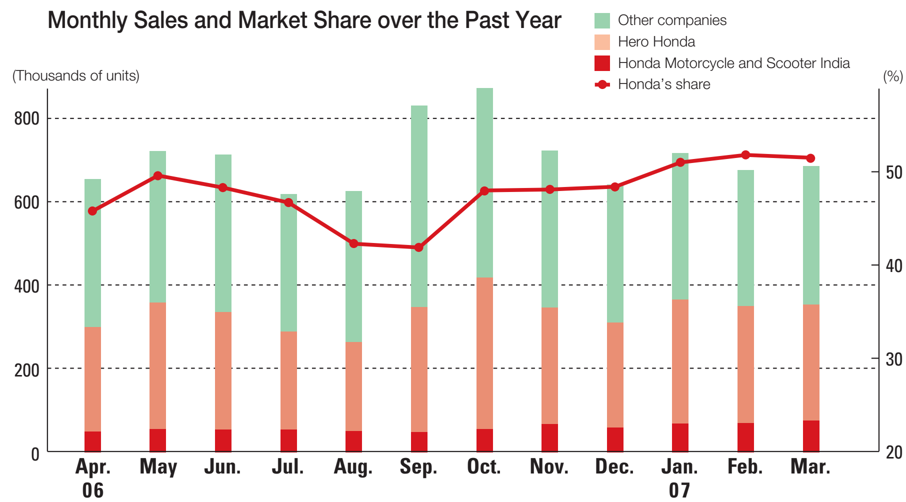
Overall Indian Market and Honda's Market Share (Year)



Source: Honda

(Reference) Units sold on a wholesale basis

Monthly Sales and Market Share over the Past Year



* Units sold on a wholesale basis

Source: Honda

CBZ Extreme

CD Deluxe

Boosting Production Capacity to Meet Growing Demand in the Long Term

Demand in India continues to expand for motorcycles, which are an essential mode of transportation in this market. Consequently, by approximately 2010 total demand is expected to rise to the 12,000,000-unit level. To meet this growing demand, Hero Honda is adding to the annual production capacity of 3,900,000 units at its two existing plants by building a third plant with an annual production capacity of 500,000 units. In September 2006, Honda Motorcycle and Scooter India also raised its annual production capacity to 1,000,000 units.

2. Indonesia—the World's Third Largest Motorcycle Market

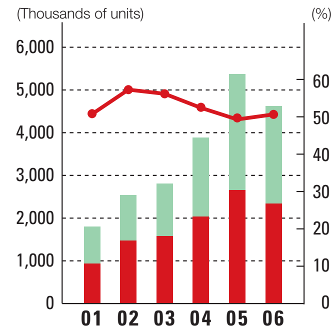
Financial Policies in the First Half of Fiscal 2007 Lead to Sluggish Market

In Indonesia—the world's third largest motorcycle market, following China and India—overall demand in calendar 2006* came to approximately 4,630,000 units, down 13.8% from the previous year. In fall 2005, the Indonesian government raised interest rates in an effort to curb the climbing rate of inflation initiated by rising gasoline prices. This move, in turn, caused a credit crunch that dampened consumer purchasing power.

In this problematic market environment, P.T. Astra Honda Motors (Astra Honda), an affiliate accounted for under the equity method, endeavored to arouse demand by launching the *Mega Pro* and *Tiger 2000*, as well as for the *Vario*, a newly introduced scooter equipped with an automatic transmission (AT) that automatically changes gears according to speed and engine revolutions. Nevertheless, unit sales declined 11.6% from the previous year, to 2,340,000 units.

* Wholesale units sold locally

Overall Indonesian Market and Honda's Market Share (Year)



Other companies
Astra Honda
Honda's share

Source: Honda

(Reference) Units sold on a wholesale basis

Easing of Financial Policies Contributes to Recovery from Second Half of Fiscal 2007

Looking at the economic environment in Indonesia, in fall 2006 inflation and interest rate policy returned to single-digit levels. In calendar 2007, overall motorcycle demand is expected to return to 2005 levels. As in India, economic expansion in Indonesia is expected to continue prompting high rates of market expansion. Astra Honda continues to promote sales growth by launching new models and strengthening its sales promotion efforts. The company is also encouraging rider safety through an enhanced riding trainer at its dealerships to create an environment that promotes motorcycles.

Models Introduced in Fiscal 2007

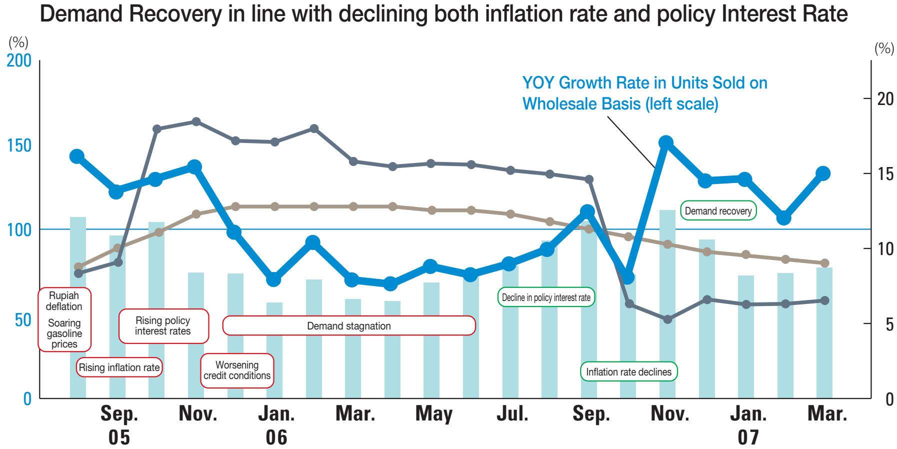
Vario

Mega Pro

Models Introduced in Fiscal 2008

Revo

Demand Recovery in line with declining both inflation rate and policy Interest Rate



Units sold per month on wholesale basis
Inflation rate (right scale)
Policy interest rate (right scale)

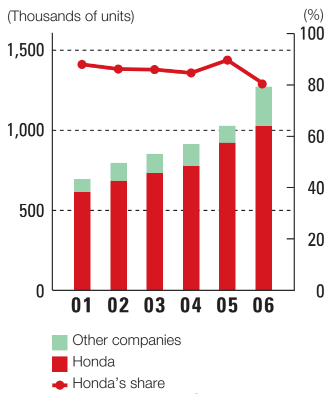
Sources: Information on inflation rates and policy interest rates from the Bank of Indonesia; units sold per month on wholesale basis from Honda

3. Robust Economic Growth Spurs Ongoing Expansion of Brazilian Market

In 2006, the size of the Brazilian market expanded 24.0% year-on-year, to approximately 1,270,000 units, with currency exchange and inflation rates stable in a robust economic climate. Honda's unit sales in fiscal 2007 increased 22.0% from the previous term, to 1,021,000 units, despite competition from expanding local production by a Chinese manufacturer.

The country's economic outlook remains stable for calendar 2007, and motorcycle demand is expected to continue expanding and rise more than 20%, to 1,550,000 units. To meet this increasing demand, in January 2007 we raised annual production capacity from 1,000,000 units to 1,350,000 units. By the end of calendar 2007, we intend to further increase annual capacity, to 1,500,000 units.

Overall Brazilian Market and Honda's Market Share (Year)



Source: Abraciclo

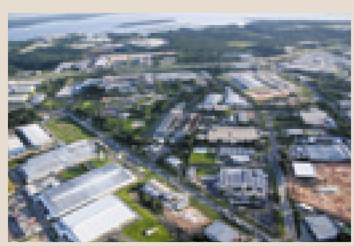
(Reference) Units sold on a wholesale basis

Model Introduced in Fiscal 2008

POP100
An easy-to-handle, reasonably priced family motorcycle

Sources of Honda's Strong Position in the Brazilian Market

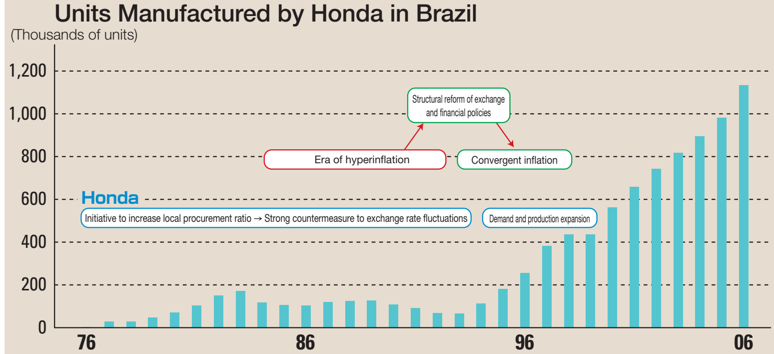
Since beginning local production in Brazil in 1976, we have raised local procurement rates and bolstered cost competitiveness, and in the process developed a solid operation with deep local roots. As a result of many years of effort, Honda currently holds approximately 80% share of the Brazilian market.



The Manaus plant, which is scheduled to expand annual production to 1.5 million units by the end of calendar 2007

Manufacturing line of the *CG150 TITAN*, which is a principal model

Units Manufactured by Honda in Brazil



Source: Honda

Business Development in Developed Countries of Matured Markets

1. Soaring Gasoline Prices and Rising Interest Rates Affect North American Market

The U.S. market is divided into motorcycles and ATVs. In calendar 2006, the U.S. motorcycle market for on-road models expanded, spurred by new model launches by various manufacturers, but off-road category demand for enduro models suffered a decline as soaring gasoline prices and concerns about the economy prompted customers to curtail recreational spending. Consequently, overall demand remained approximately on par with the previous year. At the same time, in calendar 2006 the U.S. ATV market was relatively strong in the sport category, in response to the introduction of new products by various manufacturers. Higher interest rates and concerns about an economic slowdown affected demand in the utility category, however, driving down overall ATV demand compared with the preceding fiscal year.

In fiscal 2007, Honda's unit sales in North America fell 18.2%, to 503,000 units. In the motorcycle category, sales of new sports and off-road models were strong, but enduro models experienced a sales decline as a result of the shifts in the market environment. In the ATV category, sales were strong for new models, such as the *FourTrax Rancher* series, launched in December 2006, following a full model change. However, shifts in the market environment caused overall sales to decline.

Motorcycles

On-road motorcycles:
Models suited for long-distance riding over paved surfaces and focused on rideability

Cruiser

VTX1300C

Sport

CBR1000RR

Touring

Gold Wing

Off-road models:
Primarily for recreational and competitive racing in forests and on sandy trails

Enduro

CRF450X

Motocross

CRF150R

ATVs

Used mainly for practical applications, such as in agriculture

Utility

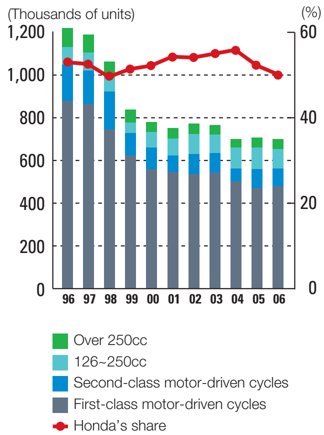
FourTrax Rancher

Mainly for recreational use

Sport

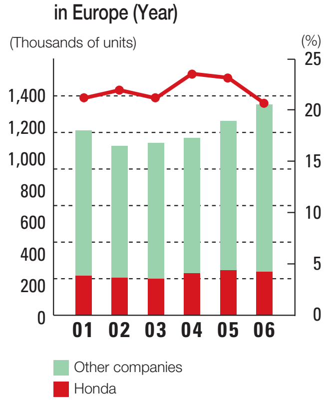
TRX450R

Overall Japanese Demand, by Category (Year)



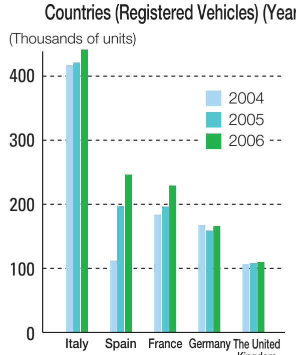
Source: Japanese Automobile Manufacturers Association

Total Registered Vehicle Demand in Europe (Year)



Source: Honda and government data from individual countries

Motorcycle Demand in Key European Countries (Registered Vehicles) (Year)



Source: Honda

2. The Japanese Market, Impacted by a Declining Birthrate

In fiscal 2007, demand in the Japanese motorcycle market for motorcycles under 50cc of engine displacement—the largest demand category—fell as a result of the declining number of youth in the population, resulting in the declining number of licensed motorcycle drivers. Overall, demand declined approximately 2%, to 730,000 units.

Looking at recent trends in the Japanese motorcycle market, restrictions on motorcycles with passengers traveling on expressways have been lifted, automatic-only vehicle licenses have been introduced, and the ETC*1 system has been expanded to include motorcycles. Each of these changes has helped to improve the riding environment, a culmination of years of effort. As a result, demand stopped declining in certain categories during fiscal 2007.

Due to the decline in demand for inexpensively priced scooters under 50cc, in fiscal 2007 Honda's unit shipments decreased 7.0%, to 343,000 units. In fiscal 2008, we expect demand to shrink slightly to approximately 720,000 units.

To meet anticipated increases in the diverse recreational mobility needs of Japanese customers, we will work to meet customers' demand focusing on customers' satisfaction, developing "Dream Shops" in Japan which offer products and services of high value, centering on sport models.

*1: ETC System (Electronic Toll Collection System)
This system for paying expressway tolls without stopping at toll booths uses a wireless system for toll collection by communicating between the antenna of a vehicle-mounted ETC unit and a toll collection machine.

3. Expanding Demand in Southern Europe, Particularly for Scooters

The motorcycle market in Europe in calendar 2006 was characterized by growing demand in Southern Europe, including Italy, Spain and France, driving up demand 8.5%, to approximately 1,310,000 units*2. A licensing system revision in Spain in October 2004, raised from 50cc to 125cc the maximum size of motorcycles that could be ridden legally with a standard automobile license, prompting a surge in demand in this country. Demand in France and Germany also surged in advance of the January 2007 introduction of Euro3*3 emissions restrictions in 15 European countries.

Honda's unit sales in Europe in fiscal 2007 came to 297,000 units, down 6.6%. Sales of *SH125i*, *SH150i* and other scooters were robust, but sales of large super sport models and motorcycles in the 125cc class were lackluster.

*2: Number of motorcycles registered in the European market (12 countries: Italy, Spain, France, Germany, the United Kingdom, the Netherlands, Belgium, Austria, Switzerland, Portugal, the Czech Republic and Hungary)

*3: Euro3: An emission regulation that calls for a 55% reduction against previous levels of carbon monoxide (CO), a reduction in hydrocarbons of between 33% and 70%, depending on vehicle type and a 50% reduction in nitrogen oxides (NOx).

Scooter

SH125i / SH150i
Strongest selling Italian-made model in fiscal 2007

Motorcycles

CBF1000
Touring–sport model made in Italy

Deauville
Touring model made in Spain

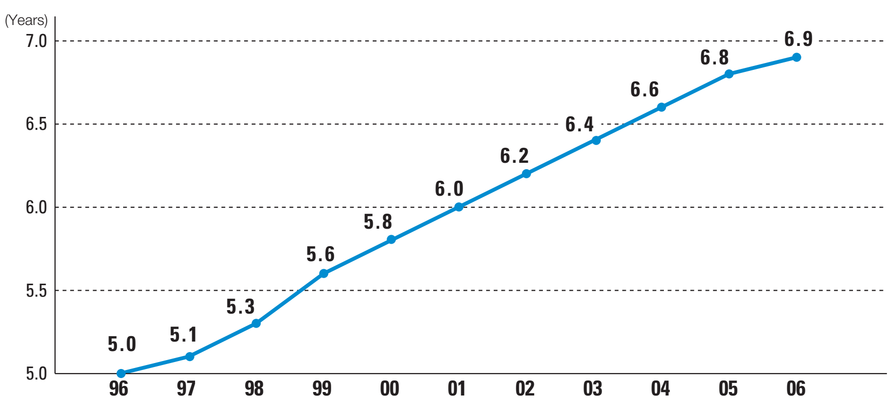
1. Japanese Market Affected by Declining Birthrate, Aging Population and Shifting Consumer Preferences

Total automobile demand in Japan in calendar 2006 declined roughly 2%, to approximately 5,740,000 units. Various manufacturers launched new mini-car models, which pushed demand in this segment up 5.2%, to approximately 2,020,000 units. Demand for registered vehicles, however, decreased 5.4%, to approximately 3,720,000 units.

Bolstered by the introduction of the *Zest* at the end of the preceding fiscal year, Honda's sales of mini-cars grew 16.8% in fiscal 2007, to 283,000 units. Conversely, registered vehicle sales dropped 12.6%, to 408,000 units, impacted negatively by a harsh market environment despite favorable sales of the *Stream* and *CR-V* following full model changes.

Given such ongoing issues as an aging population, a declining birthrate and increasingly diverse consumer preferences, as well as the trend toward a longer average period of car ownership, market conditions are expected to remain severe. Against this backdrop, the *Fit*—Honda's highest-selling mass production model—will undergo a full model change in fall 2007, in the effort to ensure that the vehicle retains its appeal. At the same time, Honda will endeavor to provide services to its 9 million existing customers to ensure that they enjoy the full automobile ownership experience.

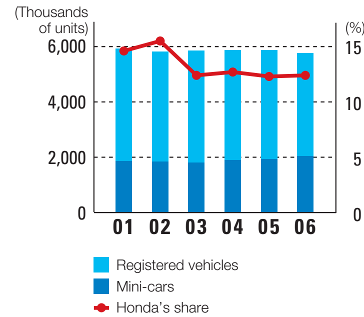
Average Vehicle Age* (growing longer annually)



* Average vehicle age: Number of years between initial new vehicle registration and March 31 of each year for cars currently in use

Source: Automobile Inspection & Registration Information Association

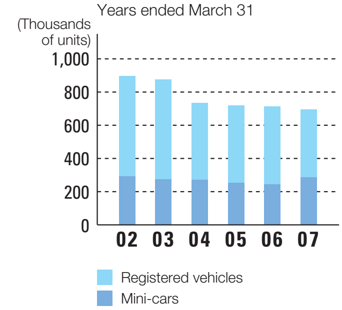
Total Japanese Market Demand by Category (Year)



Source: Registered vehicles: Japan Automobile Dealers Association
Mini-cars: Japan Mini Vehicles Association

Honda's Unit Sales

Years ended March 31



Models Introduced in Fiscal 2007

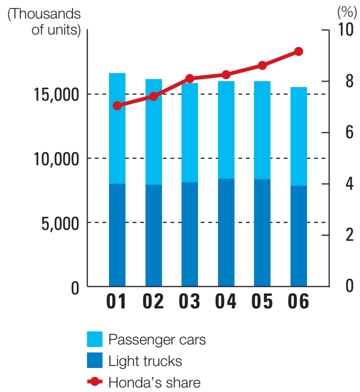
Stream

CR-V

Elysion Prestige

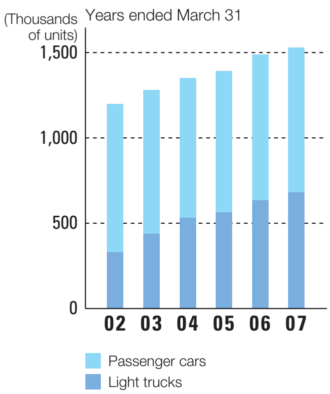
Crossroad

Total U.S. Market Demand by Category (Year)



Source: Global Insight

Honda's Unit Sales in the United States



Models Introduced in Fiscal 2007 (United States)

Fit

Acura RDX

CR-V

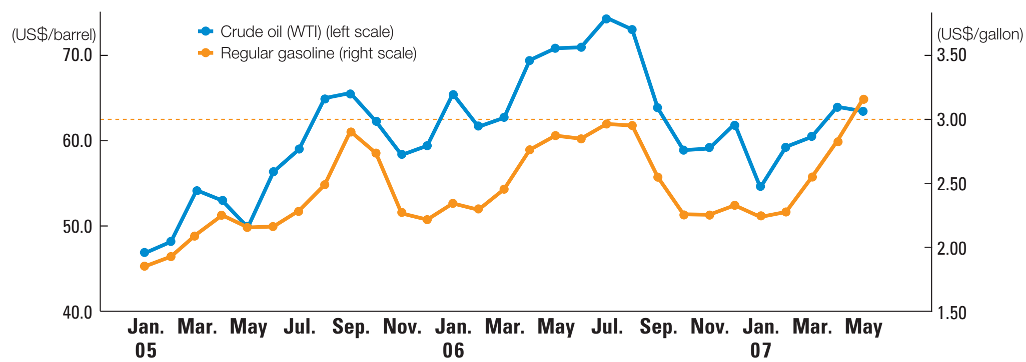
Acura MDX

2. Growing North American Demand for Fuel-Efficient Vehicles

Total demand in the United States in calendar 2006 fell 2.6% from the preceding year, to approximately 16,550,000 units. Soaring gasoline prices in the summer buying season pushed up demand for fuel-efficient cars. This trend enhanced demand for subcompact cars and crossover-utility vehicles (CUVs), which aim for SUV* utility and are based on passenger car platforms.

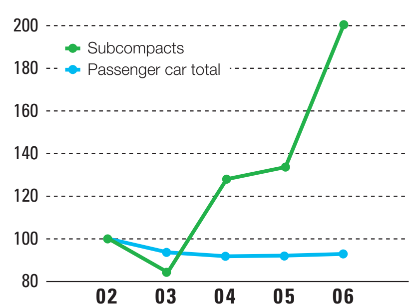
* Sport-utility vehicle (SUV): A vehicle designed and developed for recreational purposes

Crude Oil Prices and Prices of Regular Gasoline in the United States



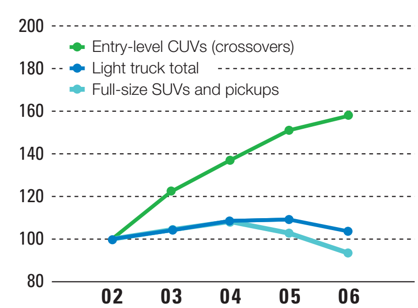
Source: EIA (Energy Information Administration)

Demand for Passenger Cars Overall and by Segment



2002 = 100 Source: Global Insight

Demand for Light Trucks Overall and by Segment



2002 = 100 Source: Global Insight

Honda enjoyed a 2.8% increase in sales in the United States during fiscal 2007, to 1,529,000 units. We benefited from the launch of the *Fit*, which first went on sale in April, and the introduction of the *CR-V*, an entry-level CUV, in September following a full model change. In the area of manufacturing, we responded to rising demand for the fuel-efficient *Civic* by starting production in April 2007 on the second line in Canada. As part of this process, we shifted production of the *Pilot* from this line to our plant in Alabama.

In calendar 2007, we expect overall U.S. automobile demand to fall slightly below the level of calendar 2006, coming to slightly less than 16,400,000 units. Affecting this demand, the U.S. economic environment should benefit from strong employment and personal consumption, but we expect a deteriorating housing situation to have a negative impact on automobile demand. Although relatively warm winter weather in calendar 2006 brought a temporary respite in gasoline prices, prices have again soared. We expect demand for fuel-efficient cars to rise in response.

On the sales front, in fall 2007 we will implement a full model change of the *Accord*, which is our core model. Production of the *CR-V*, which continues to experience brisk demand, is scheduled to begin at our plant in Mexico. With respect to development, in May 2007 we opened the Acura Design Studio in the United States, reflecting the important role that design strategy plays in defining the characteristics of the Acura brand.

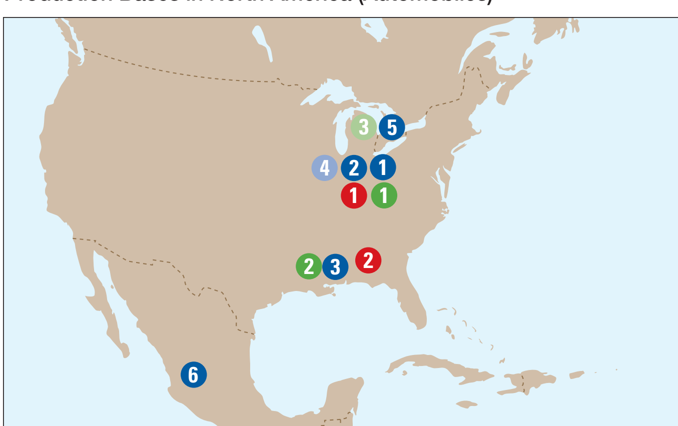
The United States is one of the few advanced countries with a clearly growing population, and we expect stable growth in the automobile market there to continue expanding. In response to market growth and to further solidify our operating foundation in North America, we are building a new auto plant in Indiana with an annual capacity of 200,000 units and an engine plant in Canada, both of which are scheduled to begin operations in fall 2008.

The new *Accord Coupe* concept car

Finished Auto Plants in North America

			Annual Capacity (Units)	Passenger cars	Light trucks
U.S.	Ohio	1 Marysville	440,000	Accord, Acura TL	Acura RDX
		2 East Liberty	240,000	Civic	CR-V, Element
	Alabama	3 Lincoln	300,000		Pilot (From February 2007), Odyssey
	Indiana	4 Greensburg	200,000	Civic (From fall 2008)	
Canada		5 Alliston	No. 1 Line 195,000	Civic, Acura CSX	
			No. 2 Line 195,000	Civic (From April 2007)	Ridgeline, Acura MDX
Mexico		6 El Salto	30,000	Accord	CR-V (From fall 2007)

Production Bases in North America (Automobiles)



Finished Auto Plants
1 Marysville plant
2 East Liberty plant
3 Alabama plant
4 New Indiana plant (scheduled to begin production in fall 2008)
5 Canada plant
6 Mexico plant

Engine Plants
1 Anna engine plant
2 Alabama plant
3 New Canada engine plant (scheduled to begin production in fall 2008)

Transmission Plants
1 Ohio transmission plant
2 Georgia transmission plant

3. Ongoing Demand for Diesel-Powered Cars in Western Europe and Sharp Demand Growth in Eastern Europe, Centered on Russia

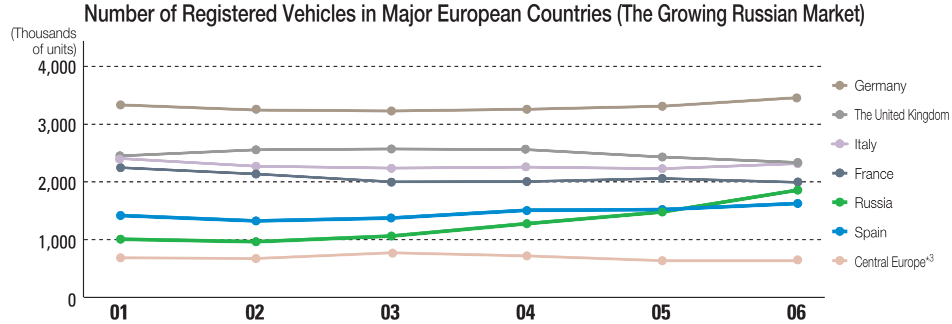
In calendar 2006, total demand for passenger cars in Western Europe*2 came to approximately 14,620,000 units, up 1.8% from the previous year. Germany—Europe's largest market—experienced a 4.5% year-on-year rise in demand, to approximately 3,470,000 units, as consumers sought to make purchases ahead of a January 2007 increase in the value-added tax (VAT). Demand increased in Italy and Spain against a background of strong economic performance.

Further, demand for diesel-powered cars remained strong, helped by their impressive fuel and power efficiency. This demand, as well as a growing awareness of their environmental benefits, pushed diesels above 50% as a percentage of registered passenger cars in calendar 2006.

Amid the emerging countries of Eastern Europe, as a producer of abundant crude oil, natural gas and other energy resources, Russia continues its rapid economic growth. In line with its strong economic performance, in fiscal 2006 passenger car demand in the country expanded 25.5%, to approximately 1,870,000 units. Foreign brands increased rapidly in the Russian passenger car market and gained a majority share of the market.

*2 Western Europe: 15 EU countries (Ireland, United Kingdom, Italy, Austria, the Netherlands, Greece, Sweden, Spain, Denmark, Germany, Finland, France, Belgium, Poland and Luxembourg) and the 3 European Free Trade Association Countries (Iceland, Switzerland and Norway)

Number of Registered Vehicles in Major European Countries (The Growing Russian Market)



*3 Central Europe: Poland, Hungary, the Czech Republic, Slovakia

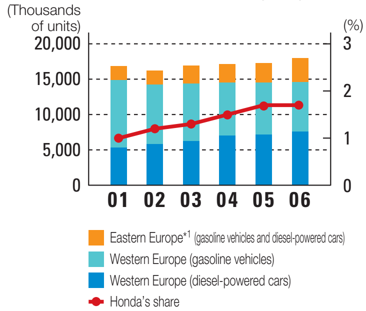
Source: European Automobile Manufacturers' Association, Global Insight (figures for Russia for 2002–2006 and Central Europe for 2002–2003)

Honda's unit sales in fiscal 2007 came to 327,000 units, up 14.8% from the previous year. In Western Europe, the new *Civic* enjoyed positive sales, while consumers also responded positively to the *CR-V* following its launch in January 2007. Sales were also robust in Eastern Europe, propelled by a doubling of sales in Russia, compared with the preceding year.

Since equipping the *Accord* with the first Honda-developed diesel engine in January 2004, we have expanded our lineup and sales of diesel-powered cars. In fiscal 2007, diesel-powered cars accounted for 27.4% of unit sales in this market, or 89,000 units. In fiscal 2008, we are targeting diesel-powered car sales to exceed 100,000 units.

From a production standpoint, in February 2007 we responded to brisk sales of the locally produced *Civic* and *CR-V* by beginning full-scale operations at our second U.K. plant. In addition, we shifted some of the mechanical processes for manufacturing diesel engines from Japan to the United Kingdom as part of our ongoing shift toward local production.

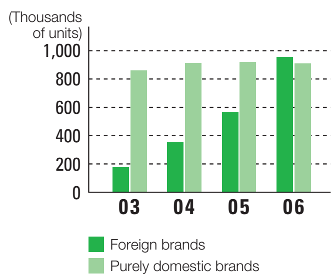
Total Passenger Car Demand and Perecentage of Diesel-Powered Cars (Year)



*1 Eastern Europe: Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Romania, Croatia, Slovenia, Estonia, Latvia, Lithuaania, Belorussia, Russia

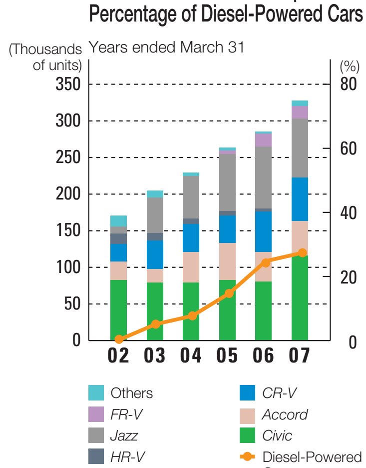
Source: Eastern Europe: Global Insight
Western Europe: Association Auxiliare de l'Automobile (AAA)

Rising Sales of Foreign Brands in the Russian Market (Year)



Source: The Association of European Businesses (AEB)

Honda's Unit Sales in Europe and Percentage of Diesel-Powered Cars



4. Growing Asian Markets, Centered on China and India

① China Growing into the World's Second Largest Automobile Market

In calendar 2006, the Chinese automobile market, including commercial vehicles, grew 25.3%, to approximately 7,220,000 units*, following the United States as the world's second-largest market. Economic expansion is enabling a growing segment of society to purchase automobiles, and the move toward motorization is rippling outward from urban centers into the countryside, enlarging the market.

However, in December 2006 China's National Development and Reform Commission announced policies designed to address a surplus of facilities of small and medium-sized manufacturers in the country by restructuring automobile production and encouraging development of their own brands. Attention continues to focus on the potential impact of this development.

Source: China Association of Automobile Manufacturers

In this climate, Guangzhou Honda Automobile Co., Ltd. (Guangzhou Honda), and Dongfeng Honda Automobile Co., Ltd. (Dongfeng Honda), affiliates accounted for under the equity method, posted strong unit sales, helped by the *City* and the *Civic*, which launched in April 2006. As a result, in fiscal 2007 these two companies delivered combined sales of 323,000 units, up 25.9% from the previous year.

From a production standpoint, to meet growing demand, in February 2006 Dongfeng Honda expanded its capacity to 120,000 vehicles per year and, in September 2006 Guangzhou Honda began production at its second plant, which has an annual capacity of 120,000 units. In expanding their capacity, the two plants introduced leading-edge technologies that take into consideration the global and production environments.

In addition to raising capacity for finished cars, Honda Auto Parts Manufacturing Co., Ltd., began operations in March 2007, to provide the advanced automatic transmissions (AT) that require advanced manufacturing technology.

To support the provision of products that meet the needs of customers in China, Guangzhou Honda established a wholly owned R&D subsidiary, Guangzhou Honda Automobile Research & Development Co., Ltd., in April 2007.

② The Growing Indian Market

Supported by brisk economic expansion, total automobile demand in India, excluding commercial vehicles, increased to approximately 1,240,000 units in calendar 2006, up 18.2% from the preceding year.

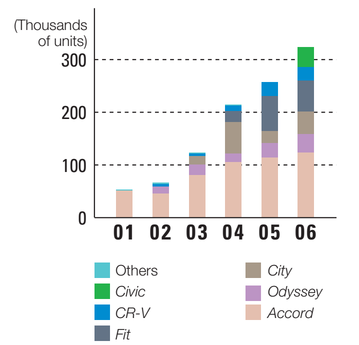
Honda's sales in this market in fiscal 2007, came to 60,000 units, up 40.3%. In addition to the core *City* model, the *Civic*, which launched in July 2006, posted favorable sales.

To meet growing demand, at the end of calendar 2007 Honda Ciel Cars India Limited plans to expand its annual capacity from 50,000 units to 100,000 units, and in May 2007 the company acquired a site with the goal of building a second plant.

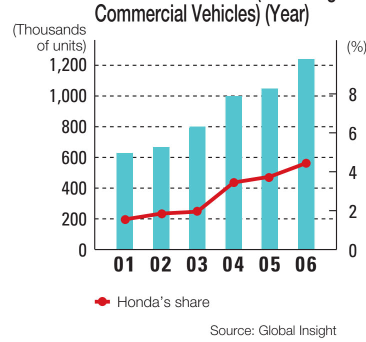
Overall Market for Passenger Cars in China (Year)

Source: Global Insight

Honda's Unit Sales in China (Year)

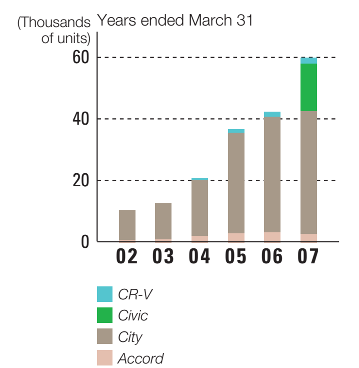


Total Market in India (Excluding Commercial Vehicles) (Year)

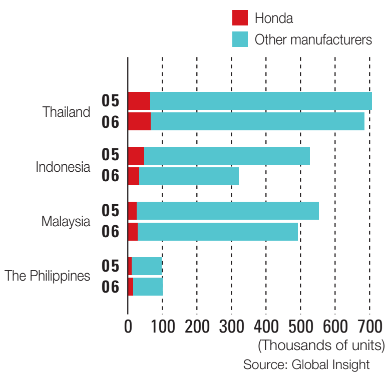


Source: Global Insight

Honda's Unit Sales in India (Year)



Total Honda Unit Sales in Key ASEAN Countries (Year)



③ Political Uncertainty and Natural Disaster Affects Demand in the ASEAN Market

In the key ASEAN countries, such factors as soaring gasoline prices and rising interest rates, as well as political instability in Thailand, caused the automobile market to shrink.

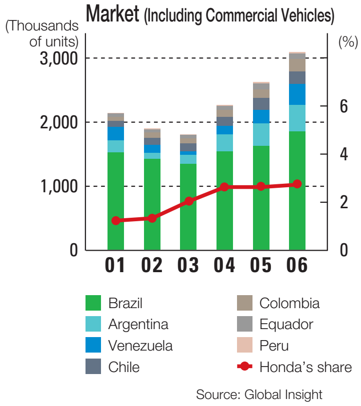
In Indonesia, Honda's sales in fiscal 2007 fell compared with the preceding year affected by its economical situation, but strong sales performance by the new *Civic* prompted year-on-year increases in Honda's sales in Thailand and Malaysia. Introduced into each of these markets in the second half of fiscal 2007, the new *CR-V* registered brisk sales. To expand localized production, in April 2007 we began the production in Thailand of camshafts, connecting rods, crankshafts and other engine parts that require sophisticated technologies.

5. Expanding Market Demand and the Growth of Alternative Fuel (Ethanol) Vehicles in Brazil

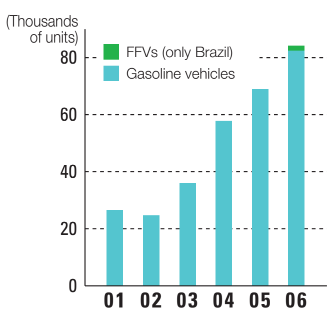
Brazil, the largest market in South America, is experiencing robust economic growth. Buoyed by such factors as rising incomes and falling interest rates, total demand in calendar 2006 (excluding large trucks and buses), reached approximately 1,830,000 units, up 13.1% from the previous year. As market expansion is expected to continue, we anticipate total demand growth in calendar 2007 of more than 15%, to 2,110,000 units.

In fiscal 2007, Honda's unit sales rose 18.0%, to 67,000 units. Sales of the new *Civic*, which went on sale in April 2006, were extremely favorable.

The South American Automobile Market (Including Commercial Vehicles)



Honda's Unit Sales (Year)

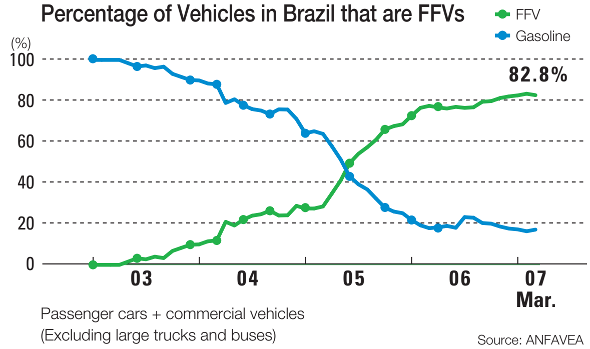


The Expanding Market for Flexible Fuel Vehicles (FFVs)

Following the first oil shock in the latter 1970s, the Brazilian government began promoting ethanol fuels as an alternative to petroleum fuels. The market for FFVs, which can run on a mixture of ethanol and gasoline—and is less expensive than gasoline—has expanded to the point where as of March 2007, more than 80% of passenger cars were FFVs. In November 2006, Honda introduced the *Civic FFV*, followed by the *Fit FFV* in December.

In fiscal 2008, we expect favorable sales of the *Civic* and the sale of FFVs to raise unit sales approximately 25% from the previous year and are expanding supply capacity in preparation. In January 2007, Honda raised annual production capacity from 50,000 units to 80,000 units. Midway through calendar 2007, we expect to further raise this level to 100,000 units.

Percentage of Vehicles in Brazil that are FFVs



Enhancing Customer Enjoyment of Power Products

Honda's history in the power product business began in 1953, with the introduction of the model "H," its first general purpose engine. Since that time, we have developed this business to include a host of products that use such engines, including tillers, generators, outboard engines, lawnmowers and snowblowers. Currently, approximately 70% of Honda's general purpose engines are supplied to original equipment manufacturers (OEM)*.

*OEM: (Original Equipment Manufacturing)
OEM refers to a manufacturing of products and components supplied for sale under a third-party brand.

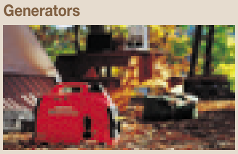
Power Product Engines

The *GCV160* power product engine
Power product engines offering excellent quality, performance and durability are used in home lawn mowers, which find large markets in Europe and the Americas.

Lawnmowers

The *HRR* lawnmower
This full-fledged push lawnmower handles tasks ranging from lawn trimming to garden care. Lawn mowers are typical fixtures of homes in Europe and the Americas.

Generators



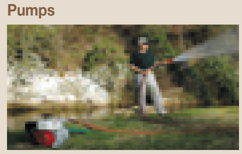
The *EU1000* generator
The compact and powerful, yet quiet, *EU1000* generator stably supplies electricity of excellent quality and can be used in a wide range of environments.

EB5000
The *EB5000* generator can be used at construction sites

Outboard Engines

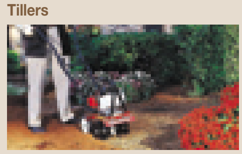
The *BF75* outboard engine
Based on its U.S. survey of competitive information on marine engines, J.D. Power and Associates of the United States accorded Honda the highest customer satisfaction ranking in the electronic fuel-injected (EFI) four-stroke outboard engine segment.

Pumps



The *WH20X* pump
High-pressure pumps are compact, lightweight and capable of distributing water over a large area, suiting them for use in water sprinklers.

Tillers

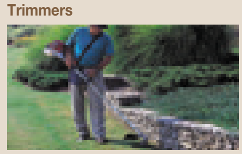


The *FG100* tiller
Small yet powerful, Honda's tillers are operated with only a single lever, can be easily used by anyone and are ideal for horticultural and home gardening applications.

Snowblowers

The *HS928TA* snowblower
Easy to operate, with adjustable speed and a small turning radius, Honda snowblowers operate quietly, so they can be operated in the early-morning hours without worry of disturbing the neighbors.

Trimmers



The *UMK* trimmer
Coming to life with just a light pull on the starter rope, our trimmers are good for applications ranging from clearing weeds from the garden to clearing away underbrush in mountainous areas.

Home-Use Cogeneration Units

Sales were brisk in fiscal 2007, with unit sales increasing in all regions compared with the preceding term. Honda posted strong sales in North America—the largest market for this segment—of engines provided on an OEM basis for use in lawnmowers, generators and pressure washers. Sales of engines on an OEM basis for use in lawn mowers, generators and construction equipment were also favorable in Europe.

Our OEM business received a major boost from brisk sales in North America, reflecting the launch of new lawn mower models. With demand for generators down across all markets, we also recorded a year-on-year decline in generator sales. In Europe, despite flagging sales of core push lawnmowers, due to inclement weather, and a decline in generator sales attributable to rising sales of lower-priced Chinese models, overall sales were approximately the same level as the previous year, thanks to an increase in OEM engine sales.

Since 2003, Honda's sales of home-use cogeneration* units to gas companies in Japan have exceeded 45,000 units. In March 2007, Climate Energy LLC of the United States began sales of *Freewatt*, a compact home-use system that combines the Honda cogeneration unit with Climate Energy's heating unit.

* Cogeneration refers to the application of energy derived from a single source to two or more applications, such as using the heat supplied during the combustion process that drives an engine for other heating or cooling purposes. In addition to being highly efficient during operation, such systems reduce CO_2 emissions by reducing the need for other forms of energy.

Honda Soltec: Scheduled to start operation in fall 2007

Solar Business

Honda has developed a next-generation thin film solar cell that requires only half as much energy to manufacture as conventional solar cells made of crystalline silicon. In December 2006, Honda established Honda Soltec Co., Ltd., in Ozu-machi, Kumamoto Prefecture, to sell these solar cells. Although we plan to begin sales in autumn 2007, we began sales of solar cells made by Honda Engineering in June 2007 in only the Kanto area (including Tokyo).

Financial Services Business

Financial Services Business, Supporting Honda's Core Businesses

Honda offers a variety of financial services to support sales of Honda motorcycles, automobiles and other products. These services are provided through financial subsidiaries in Japan, North America, Europe and other areas. The services of these subsidiaries include loans, leases and other financial services, such as wholesale financial services to dealerships. Financial services are particularly prevalent in the United States, where Honda's financing services are used for approximately half of all its automobile purchases.

Honda maintains some of the best credit and receivables management in the industry, which is reflected in its low rates of credit loss and delinquent payments.

In fiscal 2007, operating income rose 27.6%, to ¥115.5 billion. Particularly in the United States, financial services subsidiaries experienced changes in the costs of raising fund due to interest rate shifts, as well as movement in credit loss percentages and used vehicle prices, which affected reserve levels.

Special Feature

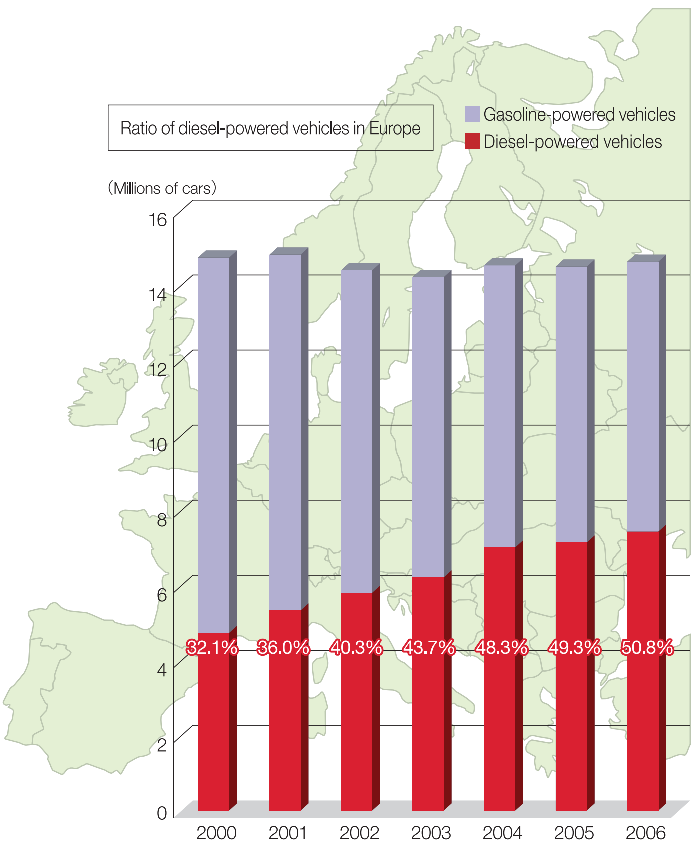
Targeting the World's Cleanest Diesel Engine

Environmental issues such as global warming have great significance for Honda, which conducts business on a global basis. We have been committed to environmental efforts, such as the reduction of CO_2 emissions, in various areas including not only product development but also production, distribution, and sales. In the area of product development, we have made proactive efforts to improve combustion efficiency and develop advanced technologies such as fuel cells and hybrid systems. In 2003, Honda announced its first diesel engine for automobiles. Diesel-powered vehicles which are more fuel efficient, therefore emit less CO_2, are one of the effective methods to address the issue of global warming. In 2006, Honda announced the next-generation diesel engine with even cleaner exhaust. This engine complies with the U.S. TierⅡ Bin5* exhaust emissions standard (according to Honda in-house measurements) which means it reduces emissions of nitrogen oxides (NOx) to a level on par with gasoline engines. This engine creates possibilities for diesel-powered vehicles in the area of environmental performance as well as driving performance. This special feature introduces Honda's efforts to develop clean diesel engines.

*TierⅡ Bin5:
This standard for exhaust emissions was established in the United States by the Environmental Protection Agency based on the U.S. Clean Air Act and went into effect in 2004. The regulation value of NOx for emission category Bin5: 0.07g/mile. Meeting the TierⅡ Bin5 classification requires NOx exhaust volumes to be reduced by 75% or more from the previous emission standard.

Improved Environmental Performance Makes Diesel Engines Worth Another Look

One of Every Two Cars in Europe Powered by Diesel



Although the overall size of the European auto market has not changed markedly, the percentage of diesel-powered vehicles has continued to increase.

Note: Figures for this graph are totals for the 15 EU countries (Ireland, United Kingdom, Italy, Austria, the Netherlands, Greece, Sweden, Spain, Denmark, Germany, Finland, France, Belgium, Poland and Luxembourg) and the 3 European Free Trade Association countries (Iceland, Switzerland and Norway).
Source: AAA (Association Auxiliaire de l'Automobile)

Diesel-powered vehicles are very popular in Europe. For many years, diesel-powered passenger cars have been more prevalent in Europe than any other part of the world, and this trend has grown stronger each year, to the point that in 2006, diesel-powered vehicles accounted for more than 50% of new car sales in Europe. In some European countries, such as France and Belgium, this ratio is as high as 60% to 70%.

One reason for the popularity of diesel-powered vehicles in Europe is the issue of global warming. European consumers are aware that diesel-powered vehicles offer good fuel economy, emit less CO_2 and in general are more environmentally-responsible. Frequent long-distance trips enhance the importance of fuel economy, and many European countries offer tax credits that encourage diesel-powered vehicles.

Another major factor for the popularity of diesel-powered vehicles is the advancement of diesel engines. In the early 1990s, efforts to improve diesel engine emissions accelerated rapidly, against a backdrop of increasingly stringent emission regulations throughout the world. Ever since the Euro 1 automobile emission standards went into effect in 1992, emission regulations in Europe have gradually become more stringent. The current Euro 4 standards which were enacted in 2005 require a 97% reduction in NOx and hydrocarbon (HC) emissions and a 91% reduction in particulate matter (PM) compared with 1990 levels. In regions other than Europe as well, pollution is attributed to NOx and PM emissions. Particularly in Europe, automakers have improved electronic combustion-control and exhaust gas post-processing technologies to overcome this issue and meet regulatory standards. One such improvement emerged in the late 1990s. The common rail system, which used high-pressure fuel injection, offered substantially cleaner exhaust while at the same time boosting diesel engine performance. This system played a major role in accelerating the popularity of diesel-powered vehicles in Europe.

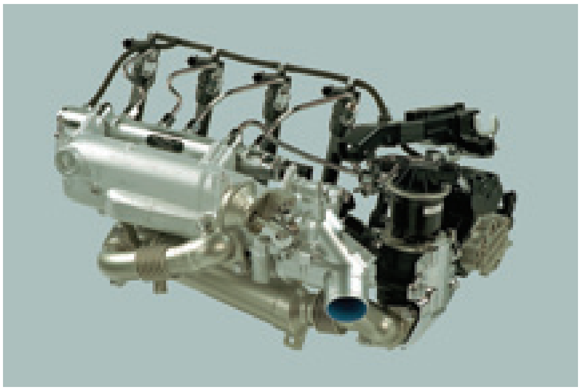
Common Rail System Transformed the Diesel Engine

The advent of the common rail system was a major factor in the ensuing popularity of diesel-powered passenger cars in Europe. The common rail system electronically controls fuel-injection timing and volume with high-pressure fuel injection, ensuring that combustion is appropriate for current vehicle conditions.

Diesel engines employ spontaneous combustion. As piston pressure compresses air to a high temperature, fuel is injected directly, resulting in combustion. Injecting this fuel at high pressure causes fuel and air to mix, creating the right conditions for combustion. In the past, fuel-injection mechanisms were linked to the motive force of the engine, so reduced engine speed caused injection pressure to fall. As a result, air and fuel mixed incompletely, resulting in incomplete combustion and PM tended to form. PM tended to be more prevalent at lower travel speeds.

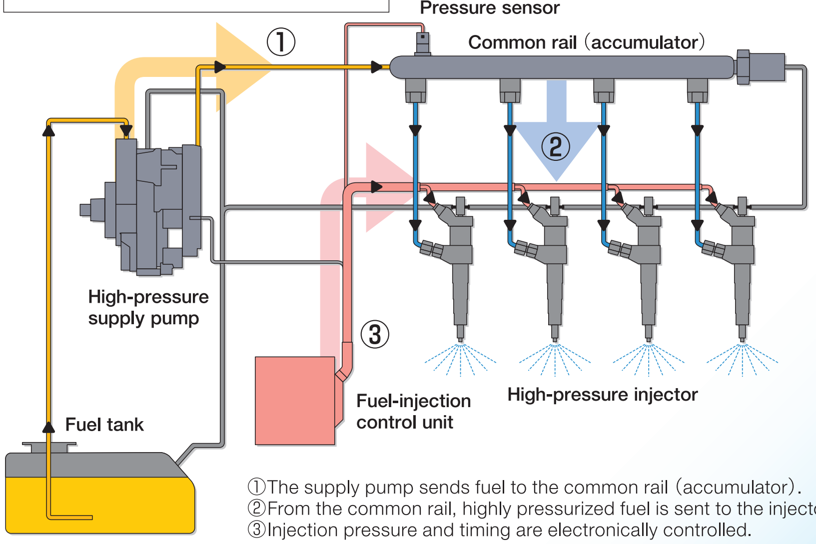
Diesel engines using the common rail system, on the other hand, employ an accumulator for high fuel pressurization. As a result, high-pressure fuel injection is sustained without relying on engine speed. Ultrahigh fuel-injection pressures have enabled finer fuel atomization, and therefore higher injection speeds. This situation makes it easier to mix air and fuel and allows fuel to be injected several times during each combustion cycle. Electronic control ensures consistently optimal combustion conditions so that NOx and PM production is kept to a minimum, even during low-speed travel.

Achieving smooth patterns of combustion also addressed such issues as noise and vibration that are normally associated with diesel engines. The common rail system delivered significant technological improvements and effectively overcame several of the downsides associated with diesel-powered vehicles—filthy exhaust, noise and vibration. Generally, diesel engines are more fuel-efficient than their gasoline-powered counterparts, and CO_2 exhaust volumes are lower. In addition, the historic problems of NOx and PM emissions have been overcome, and diesel-powered vehicles now offer a more comfortable ride. Such changes have improved the reputation of diesel-powered vehicles significantly.



Common Rail System

Key Components of a Common Rail System



①The supply pump sends fuel to the common rail (accumulator).
②From the common rail, highly pressurized fuel is sent to the injector.
③Injection pressure and timing are electronically controlled.

An Innovative Diesel Engine Appreciated in Europe, Home of the Diesel

Developing Honda's First Diesel Engine for Automobiles

Honda launched a diesel engine development project in fall 1997, when diesel-powered vehicles were gradually becoming popular in Europe. Keenly aware of the issue of global warming, Honda was looking into CO_2 reduction from the perspectives of improving gasoline engine fuel economy and developing new technologies involving hybrids and fuel cell vehicles. We recognized, however, that our CO_2 reduction efforts needed to include development of the diesel engine's potential.

Recalling his assignment as the person responsible for achieving this task, Kenichi Nagahiro—Executive Chief Engineer at Honda R&D Co., Ltd.—now comments, "At first, I thought it was a joke." Honda researchers and particularly the people who were involved in engine development had a strong preference for gasoline engines. Mr. Nagahiro himself had spent nearly 20 years working on the development of gasoline engines such as VTEC* that served as the foundation of Honda's gasoline engine technology. By comparison, diesel engines produced dirty exhaust, were noisy and offered poor drivability compared with gasoline-powered vehicles. For Honda's engineers, even though diesel engines were also internal combustion engines they were on an entirely different track. Therefore, hardly anyone had any experience with developing diesel engines. However, precisely because they had no experience in developing diesel engines and they were so strongly oriented toward gasoline engines, these engineers took it as a personal challenge to develop a diesel engine that seemed nothing like a diesel engine—which ultimately culminated in a successful venture.

When the project started, the common rail system had just been introduced, and the trend in fuel-injection systems was starting to shift from mechanical to electronic controls. Honda had already accumulated a wealth of experience in electronically controlled combustion gasoline engines and was approaching leadership status in this area. Still, Honda knew little about developing diesel engines. Many technical issues had to be overcome, and a steady parade of problems emerged that never would have occurred while developing gasoline engines. Even so, the project team applied the technical expertise and experience it had cultivated in developing gasoline engines to resolve these issues.

* Variable Valve Timing & Lift Electronic Control (VTEC) system
This system changes the timing and degree of lift of an engine's intake and exhaust valves, depending on whether the engine speed is high or low. By reacting instantaneously to change intake and exhaust valve openings from lower to higher, the system delivers excellent low- and medium-range torque, while also providing exhilarating power at high speeds.

Principal members of the diesel engine development project, standing around the *Accord*, equipped with Honda's independently developed diesel engine. The third person from the right is Kenichi Nagahiro, the large project leader for the development.

Achieving Clean, Smooth and Efficient Combustion

"Catching up with the leading automakers and developing a cutting-edge diesel engine meant that we had to be faster than the competitors and had to introduce new technologies that had not been used in the past," explains Mr. Nagahiro.

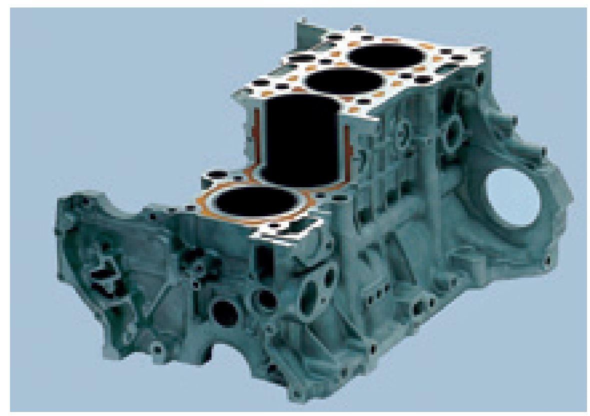
During this period, the project team had almost completely tossed out their initial drawings, as they were making improvement after improvement.

First of all, it was essential for the project to fully utilize the common rail system. Overcoming conventional diesel engine weaknesses such as reducing NOx and PM and cutting down on noise and vibration depended on how to control combustion. The project objective was to achieve clean, smooth and efficient combustion. The team adjusted the timing and amount of fuel-injection as they pursued ideal combustion. As they approached ideal combustion volumes, the team was able to apply new technologies that derived from their gasoline engine experience, such as to vary the circulatory speed of intake air in the cylinders in line with engine speed. The team also made efforts to reduce engine weight by using an aluminum cylinder block.

Recognizing that reduced engine weight contributes to fuel economy and improves drivability, Honda now applies aluminum to all of its engines. Diesel engines, however, have higher combustion pressures than gasoline engines, which requires more rigid engine blocks. Suitable casting technology was required, therefore, to meet diesel engineering requirements. Utilizing its cumulative casting expertise, Honda succeeded in mass-producing the first such engine in the 2-liter class.

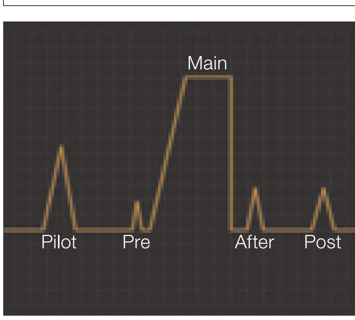
Honda announced its new i-CTDi, 2.2-liter diesel engine at a motor show in Geneva, Switzerland, in March 2003. In January 2004, we began equipping *Accord* models sold in Europe with this engine.

A diesel engine production line at Honda's U.K. automobile plant



Advanced casting technology is required for this aluminum cylinder block to ensure sufficient space for the coolant to circulate around the cylinders in the area known as the water jacket.

Fuel-Injection Timing under the Common Rail System



Pilot injection
The air-fuel mixture is prepared in advance, simplifying combustion.

Pre-injection
A pilot flame is prepared in the combustion chamber.

Main injection
Main combustion

After-injection
Complete combustion of fuel remaining after combustion

Post-injection
Injection to handle exhaust gas that remains after combustion

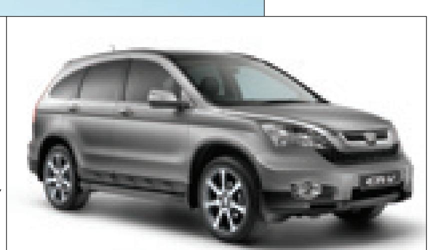
Honda's first independently developed diesel engine, the 2.2-liter i-CTDi

The Challenges for the Super-Clean Diesel

Astonishing Europe with an Unconventional Diesel

The *Accord* models equipped with our diesel engines first went on sale in January 2004. They invigorated Honda's dealers throughout Europe that have long looked forward to highly competitive diesel-powered vehicles that embodied the Honda spirit. Our diesel-powered lineup eventually expanded to four models, as we added the *CR-V* in January 2005, the *FR-V* in August 2005 and the *Civic* in January 2006.

Accord



CR-V

FR-V

Civic

Building on their popularity in Europe, cumulative sales of diesel-powered vehicles reached 100,000 units in only three years.

The i-CTDi diesel engine consolidated its popularity in Europe, the birthplace and heart of the diesel-powered vehicle market, and in 2005 this engine was named International Engine of the Year in the 2-liter to 2.5-liter category. Bestowed by the U.K. publication Engine Technology International, the award was deemed appropriate for the i-CTDi diesel engine by 56 journalists from 26 countries. Among the reasons cited for the selection were its exceptional comfort while driving, its low levels of noise and vibration, and its many differences from other diesel engines. Environmental performance naturally being important, these comments were high praise for Honda—which had concentrated on the development of diesel-powered vehicles equal to gasoline-powered cars in the area of driving comfort.

In our pursuit of both environmental performance and the joy of driving, the i-CTDi diesel engine has opened our eyes to the possibilities of diesel-powered vehicles.

Meeting the U.S. TierⅡ Bin5 Exhaust Standard

One expectation of diesel-powered vehicles is that they deliver the same level of emission cleanliness as their gasoline-powered counterparts. U.S. TierⅡ Bin5 emission requirements provide some of the world's most stringent standards in this category. Rather than resting on the laurels of its success in Europe, Honda decided to pursue technical developments to take on the challenge of clearing this hurdle. In September 2006, Honda announced its own developed next generation super-clean diesel engine that exceeds the TierⅡ Bin5 standard (according to our in-house measurement).

Based on the i-CTDi diesel engine, this next generation super-clean diesel engine involves an optimally shaped combustion chamber, a shortened fuel injection interval through a common rail system with injection pressure of 2,000 atmospheres and highly efficient exhaust gas recirculation*. This system controls combustion with even better precision, reducing NOx and PM generation. The new NOx catalyst we have developed for the next-generation diesel engine also makes exhaust emissions cleaner.

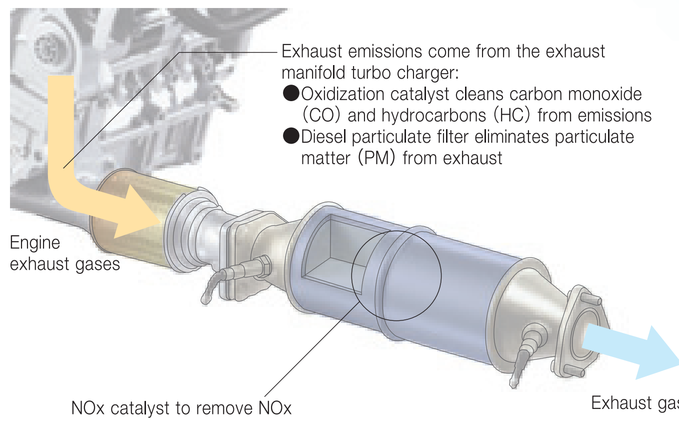
The catalysts that have been used in the past for gasoline engines are insufficient for diesel engines, which consume large amounts of oxygen during combustion. Large diesel engines, such as those used in trucks, employ urea as a catalyst, inconveniently requiring periodic refilling of large tanks of urea that resulted in the increased size of the system.

By contrast, our own developed NOx catalyst for next-generation diesel engines converts NOx to N_2 by using ammonia, which is generally regarded as an excellent cleaner. We use a two-layer structure, generating the ammonia inside that catalyst. The first layer absorbs the NOx in exhaust gases and converts it to ammonia, while the second absorbs the converted ammonia and uses it to clean the NOx in the exhaust gas to N_2. This method avoids the hassle of supplying urea periodically, results in a compact and lightweight catalyst and improves NOx cleaning performance in the range in which diesel engines mainly operate—between 200˚C and 300˚C. The end result is cleaner exhaust gases.

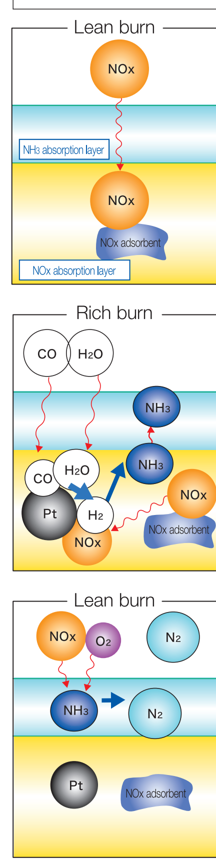
In addition to commercializing this exhaust gas cleaning technology, Honda is developing a diesel fuel that has a different cetane number, and is therefore more easily combustible. Based on this research, we expect to begin sales in the United States by 2009.

*Exhaust gas recirculation: A system whereby some exhaust gases are returned to the intake to reduce combustion temperatures and decrease NOx production.

Exhaust Emissions Purification System on the Next-Generation Super-Clean Diesel Engine



Reaction Mechanism of Newly Developed Diesel Engine NOx Catalyst



①The newly developed diesel engine NOx catalyst has a two-layer structure, consisting of an NOx absorption layer and an Ammonia (NH_3) absorption layer.

②Fuel economy improves during lean burn when fuel is less concentrated, but NOx is emitted. This NOx is absorbed by adsorbents on the NOx absorption layer.

③When needed, the system shifts to a rich burn where fuel is concentrated, and CO and H_2O are emitted.

④NOx that is absorbed is converted to Ammonia as it flows past the platinum in the NOx absorption layer.

⑤Any Ammonia that is emitted is absorbed by the Ammonia absorption layer.

⑥Fuel that is again lean-burned emits NOx, which reacts with the ammonia that was adsorbed into the ammonia absorption layer, turning it into harmless nitrogen.

Continuing to Challenge Environmental Issues Ahead of the Times

Strive to Reduce CO_2 While Maintaining a Global Viewpoint

At a press conference in mid-2006, Honda announced its 2010 global CO_2 reduction targets for products and production operations, which the Company is currently striving to achieve. In accordance with these targets, we aim to reduce automobile emissions by 10% from our 2000 figures, and diesel-powered vehicle emissions are also in line with these targets. In 2009, we plan to offer a vehicle with a clean diesel engine in the U.S., and we are developing a V-6 diesel engine to power larger cars.

Masaaki Kato, President of Honda R&D Co., Ltd., elaborated on the role of R&D in the future as follows.

"We are pursuing initiatives to raise the fuel economy of our gasoline engines, strengthen hybrids in the compact car market and expand diesel offerings into the mid-size and larger vehicle markets. As we move in these directions, we will optimize environmental technologies and work to reduce CO_2 emissions."

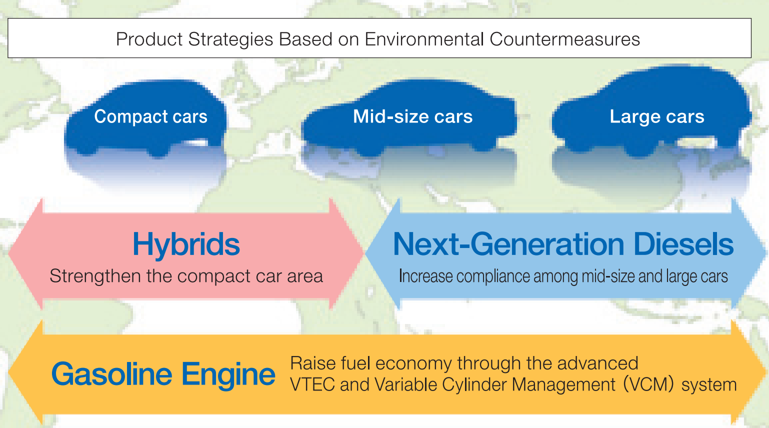
The performance of our diesel-powered vehicles has been greatly improved as demonstrated by the praise for our diesel-powered vehicle in Europe. By clearing the same TierⅡ Bin5 environmental performance standards that requires the emissions levels equivalent to their gasoline-powered counterparts, we have expanded the possibilities for diesel-powered vehicles. At the same time, diesel engine technologies have become an important part of Honda's CO_2 reduction efforts.

In 1973, Honda became the first company to achieve the 1970 U.S. Clean Air Act (Muskie Law[*1]) regulations with its CVCC engine[*2]. An ongoing link exists between our interpretation of this success as the basic concept of developing environmental technologies, and our announcement of 2010 global CO_2 reduction targets and the development of a superclean diesel engine. Automobiles remain essential to our lifestyles, and as long as this remains the case Honda will work to meet the expectations of its customers and society and strive to fulfill the environmental targets it has established for itself.

*1 Muskie Law
In 1970, the so-called "Muskie Law," an amendment to the U.S. Clean Air Act, was passed. Under the new law, the carbon monoxide, hydrocarbon and nitrogen oxide levels in emissions of 1975- and 1976-model vehicles had to be at least 90% lower than for 1970 and 1971 models. At the time, these were the most stringent emission standards in the world.

*2 CVCC engine
This engine employs a pre-combustion chamber alongside the main combustion chamber, enabling lean combustion and making possible substantial reductions in CO, HC and NOx. This engine was used on the Civic CVCC, which in 1973, became the first vehicle to pass the 1970 U.S. Clean Air Act requirements. CVCC is an acronym for Compound Vortex Controlled Combustion.

Masaaki Kato
President of Honda R&D Co., Ltd.



Environment and Safety

Honda proactively employs advanced environmental and safety technologies, reflecting its commitment not only to comply with regulations, but also to pass on the "joy of mobility" to future generations.

FCX Concept Fuel Cell Vehicle
In 2008, we plan to begin limited sales based on this concept model in Japan and the United States.

Environmental Initiatives

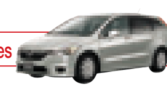
From its earliest days, Honda has developed environmental initiatives to meet the challenges of each era. In 1992, Honda established the "Honda Environment Statement," which clarifies our position on environmental conservation. Since then, we have carried out our environmental activities in line with this statement.

In fiscal 2006, Honda achieved all of its own fiscal 2006 environmental impact reduction targets. In fiscal 2007, we took the initiative in announcing our new global CO_2 reduction targets for products and production activities for 2010. This stringent target requires us to reduce CO_2 emissions by 10% for products and production activities by 2010 compared to fiscal 2000. We have recently set and announced new environmental impact reduction targets for 2010 within Japan. These achievements and targets indicate our determination to further advance our efforts to address environmental issues and be at the forefront of the times in the area of the environment.

Working to Achieve 2010 Global CO_2 Reduction Targets for Products and Production Activities

Honda's goal is to manufacture products that produce the lowest level of CO_2 emissions at plants that also emit the least CO_2. We have established targets to reduce CO_2 emissions from our products and production activities worldwide.

2010 CO_2 Emissions Targets for Products and Production Activities Worldwide (compared to fiscal 2000)


	Motorcycles	Automobiles	Power Products
CO_2 reduction target for products Average CO_2 emission from Honda's products worldwide	10% reduction (g/km)	10% reduction (g/km)	10% reduction (kg/hour of operation)
CO_2 reduction target for production activities Average CO_2 emission from Honda's manufacturing process per unit	20% reduction (per unit produced)	10% reduction (per unit produced)	20% reduction (per unit produced)

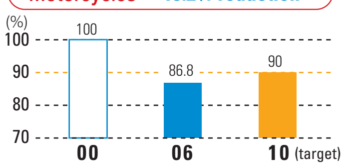
Scope of Data Collection

<CO_2 reduction target for Motorcycles>	For more than 90% of products sold worldwide, including Japan, North America, Europe, Thailand, India, China, Indonesia, Vietnam, Brazil, the Philippines, Malaysia and Pakistan.
<CO_2 reduction target for Automobiles>	For more than 90% of products sold worldwide, including Japan, North America, Europe, Asia, the Pacific, China and Latin America.
<CO_2 reduction target for Power Products>	Including all products sold worldwide except outboard.
<CO_2 reduction target for production activities>	In addition to Honda Motor Co., Ltd., all Honda manufacturing plants and major parts suppliers in Japan and worldwide are subject to this target. It includes almost 100% of Honda's consolidated subsidiaries, affiliated companies, and manufacturing plants of major affiliated companies.

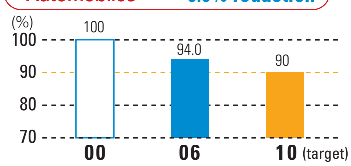
Progress of CO_2 Reduction by Fiscal 2007 for Products and Production Activities

CO_2 reduction for products:

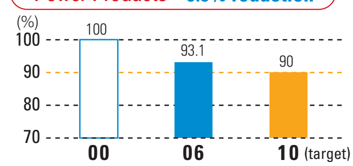
Motorcycles 13.2% reduction*1



Automobiles 6.0% reduction

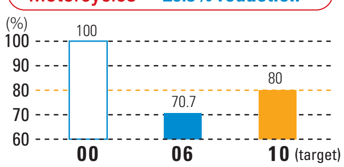


Power Products 6.9% reduction

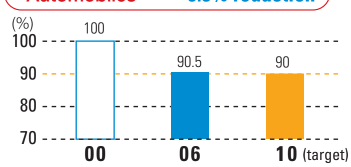


CO_2 reduction for production activities:

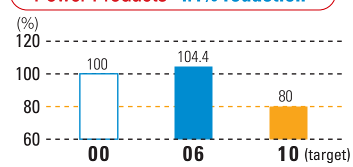
Motorcycles 29.3% reduction*2



Automobiles 9.5% reduction



Power Products 4.4% reduction*3



Major activities:

Motorcycles: To meet its CO_2 reduction targets for (calendar year) 2010, Honda intends to invest worldwide in technologies to improve fuel efficiency and expand the application of its programmed fuel injection (FI) systems.

- Fuel injection: Install in the majority of motorcycle models released worldwide by the end of 2010
- Variable Cylinder Management system: Improve fuel efficiency by 30% or more, compared with the 2005 level.

Automobiles: Honda is implementing a variety of technologies to improve fuel efficiency and reduce CO_2 emissions.

- Hybrid vehicles: Honda is developing a dedicated hybrid vehicle to advance global hybrid development. We plan to introduce this hybrid vehicle in 2009.
- Diesel vehicles: Honda is developing a new generation of clean diesel engines, which we plan to install in vehicles for the North American market within the next two years.
- Gasoline vehicles: Honda plans to further improve fuel efficiency through advanced engine design.
- Fuel cell vehicles: In 2008, Honda plans to begin limited sales in Japan and the United States of a next-generation fuel cell vehicle based on the *FCX Concept*.

Power Products: Honda is committed to the effort to achieve cleaner emissions and improvement in fuel efficiency ahead of the regulations of each country and region.

- Next-generation general-purpose engines: Improve fuel efficiency by approximately 20% compared with other conventional engines
- Compact household cogeneration system: A reduction of approximately 30% in CO_2 emissions is expected. Together with Climate Energy, LLC, Honda began sales of this system in March 2006.

*1: We have already reduced emissions by 13.2%. compared to fiscal 2001. We will continue to strive to reduce CO_2 emissions further with the CO_2 reduction target of 10% by 2010 unchanged.
*2: We have already achieved the target. However, we see production increasing in regions with a high CO_2 emissions coefficient. We will hold our CO_2 reduction target unchanged and will continue to strive to further reduce CO_2 emissions toward 2010.
*3: The basic unit of production for power products increased due to products that are higher-value-added as well as larger.

Honda's Advanced Environmental Initiatives

Honda's mission is to operate manufacturing facilities throughout the world that place as little burden on the environment as possible as they manufacture products with superior environmental performance. Following is a look at the environmental performance of automobiles in our major regions. Through our unique technologies, Honda introduces products that demonstrate environmental performance that exceeds the regulations established in each region for the reduction of emissions and improvement of fuel efficiency. It is our responsibility to contribute to the achievement of a sustainable mobility society by meeting people's mobility needs while minimizing the environmental impacts caused by our products. In the product domain, we are implementing measures based on the following three approaches.

1. Further improvements in the reduction of emissions from internal combustion engines and improvement of fuel efficiency
2. Evolution of hybrid vehicles
3. Promotion of alternative fuel-powered vehicles

1. Further Improvements in the Reduction of Emissions from Internal Combustion Engines and Improvement of Fuel Efficiency

• North America (the United States)

In the United States, Honda continues to lead the automotive industry in corporate average fuel economy for cars and trucks combined. Moreover, in terms of cleaner emissions all Honda and Acura brand vehicles meet or exceed the U.S. EPA*1's stringent TierII Bin5*2 exhaust gas standard for clean emissions.

• Europe

In Europe, since the introduction of the 2001 *Civic* (with some local variations) Honda has promoted reductions in exhaust emissions by ensuring that all models meet the Euro4 emissions standard when they undergo full model changes. By increasing the fuel economy of existing models and introducing hybrid and diesel vehicles, we are steadily reducing vehicle CO_2 emissions, particularly for diesel vehicles. Since the *Accord* equipped with a Honda-developed 2.2-liter engine went on sale in December 2003, we have equipped the *FR-V* (called *Edix* in Japan) with this engine. In January 2006, we also began offering the new *Civic* with this engine. In January 2007, we released a new *CR-V* equipped with a diesel particulate filter (DPF)*3 to achieve higher fuel efficiency and cleaner exhaust.

• Asia

In Thailand, Honda's locally produced *Jazz* (called *Fit* in Japan) has already achieved the Euro4 emissions standard, which is to be required in the future. Since the introduction of the *Jazz*, all models introduced in Thailand have achieved the Euro4 emissions standard. The new *Civic*, introduced in 2005, and the new *CR-V*, introduced in 2006, are also made in Thailand and are compliant with the Euro4*4 emissions standard.

• China

Honda has attained Europe's Euro4*4 emissions standards ahead of Chinese regulations for all models introduced in the country. In July 2007, the Company plans to release the *Civic Hybrid*, a vehicle with even higher fuel efficiency than the *City* (called *Fit ARIA* in Japan) and the *Civic*, which are already at the top of their class in this area.

2. Evolution of Hybrid Vehicles

In November 1999, Honda introduced the *Insight*, the first hybrid vehicle equipped with the Honda integrated motor assist (IMA*5) system, achieving the world's highest fuel economy among mass-produced gasoline-powered vehicles. In December 2001, we introduced the *Civic Hybrid*, and in December 2004, we began sales in North America of the *Accord Hybrid*, adopting Honda's Variable Cylinder Management system for its V6 engine. Further, in November 2005 we began sales of an all-new *Civic Hybrid*, equipped with the new 3-Stage *i*-VTEC + IMA Honda Hybrid System. In the future, Honda is developing a new dedicated hybrid vehicle suitable for family use in major automobile markets in the world. With this new dedicated hybrid vehicle, Honda will achieve further advancement of fuel efficient technologies and a reduction in cost. We plan to contribute to the reduction of CO_2 emissions by delivering hybrid vehicles that are priced affordably enough to be practical for more customers throughout the world.

3. Promotion of Alternative Fuel-Powered Vehicles

• North America (the United States)
In 2005, we were the first company in the world to lease a fuel cell vehicle to an individual owner. Honda's track record now extends to 23 *FCX* fuel cell vehicles leased in North America (a total of 34 leases of the *FCX* in Japan and the United States). In 2007, we also delivered one of these vehicles to American actress Q'orianka Kilcher. In Torrance, California, we are converting natural gas to hydrogen and using the hydrogen to power fuel cell vehicles. We are in the process of testing hydrogen fueling stations, such as the *Home Energy Station*, which also provides hydrogen to generate heat and electric power in homes. We have substantially enhanced the power and highway fuel economy of the third generation natural gas-powered *Civic GX*, following the first-generation in 1998 and the second-generation in 2001. As these vehicles have advanced, we have offered affordable a home refueling appliance for natural gas-powered vehicles. Honda is thus playing a leading role in promoting alternative fuel-powered vehicles.

• Other Regions (Brazil)
In Brazil, where ethanol produced from sugar cane is commonly used as fuel, since the mid-1980s Honda has offered motorcycles and automobiles that run on a mixture of ethanol and gasoline. The ethanol ratio of fuels in Brazil is increasing, and a 100% ethanol fuel—E100—is now available. To meet this challenge, Honda introduced flex-fuel models of the *Civic* in November 2006 and the *Fit* in December, both of which can operate on any gasoline–ethanol mixture.

• Other Product Deployment
Since Honda released its home-use cogeneration unit in Japan in March 2003, total unit sales through gas companies have reached 45,000. In March 2007, the Company launched *Freewatt*, a compact home-use cogeneration system developed in cooperation with Climate Energy, LLC, in North America. We began sales in the cold northeastern United States and aim to expand into other cold regions of the country.

*1: EPA
The U.S. Environmental Protection Agency
*2: TierII Bin5
This standard for exhaust emissions was established in the United States by the Environmental Protection Agency based on the U.S. Clean Air Act and went into effect in 2004. Regulating the value of NOx for emissions category BIN5: 0.07g/mile. To meet TierII Bin5 standards, we have cut emissions by 75% or more from the previous levels.
*3: Diesel particulate filter (DPF)
This ceramic filter attracts and strains out black smoke and other particulate matter from the exhaust of diesel vehicles, cleaning their emissions.
*4: Euro4
Emissions regulations implemented in Europe from 2005. Although China and many Asian countries have introduced European regulations, at present they only require compliance with Euro3 standards. Euro4 is a stringent level that Thailand is considering adopting from 2008.
*5: Honda IMA (Integrated Motor Assist)
A new hybrid system developed independently by Honda. While the engine is the primary power source, an electric motor will assist during acceleration. Due to a design that is more simple than a conventional hybrid system, a structure that is both lighter weight and more compact in size was achieved. Using energy efficiently, this new hybrid system achieves high fuel efficiency during both city and highway driving.

Freewatt, manufactured by Climate Energy, LLC
(Honda's cogeneration unit at left)

For further details on Honda's environmental activities, please refer to Honda's Environmental Report 2007.
URL: http://www.honda.co.jp/environmental-report/2007/

Safety Initiatives

As a manufacturer of mobility products, Honda is committed to making products that provide high levels of safety, not only for drivers and passengers but also for pedestrians. At the same time, we engage in activities that promote safe driving and actively work to solve issues related to traffic systems.

To create a mobility society with fewer traffic accidents and greater comfort, Honda is pursuing safety for all people through technology and education based on the idea of living in safety and harmony.

Safety Technologies

Honda will develop safety technologies to enhance accident prediction and prevention, technologies to help reduce injuries to passengers and pedestrians from car accidents, and technologies for enhancing compatibility, while expanding our lineup of products incorporating such technologies. The *Zest* mini-car, introduced in March 2006, was the first mini-car to achieve the maximum rating of six stars in the 2006 New Car Assessment*1 collision safety tests for overall collision safety performance in both the driver's seat and the front passenger's seat. Honda has long advanced real-world safety research that even takes pedestrians into account. The Company employs the world's first indoor omnidirectional collision test facility to more accurately recreate actual collision conditions. Honda continues to pursue its own safety goals above and beyond regulatory standards.

Omnidirectional collision testing
Source: Japan's National Agency for Automotive Safety & Victims' Aid

Promoting Safer Driving

Honda intends to enhance its contribution to traffic safety in mobility societies, including Asian countries. Honda also intends to remain active in a variety of traffic safety programs, including advanced driving and motorcycle training provided by local dealerships.

Our activities to promote safer driving include reflecting the characteristics of traffic information and licensing systems in Japan. These had been extended to 24 other countries as of March 31, 2007.

For motorcycles, in Thailand and Indonesia we have introduced a new training device for safe driving called *Riding Trainer*, and we held seminars at dealerships to provide safety advice. In Turkey, we worked to develop motorcycle safety promotion activities, such as by expanding course offerings and class days for our popular workshops held in a traffic education center.

For automobiles, in April 2006 we began developing a Russian version of the Rainbow Dealer System, which certifies dealerships that satisfy Honda's safety criteria. In Vietnam, we have been particularly focused on road safety activities, educating dealership sales staff as role models for safe driving.

By listening closely to opinions from our customers and society at large, Honda is seeking to further extend its safety developments in the future.

At the Bukit Batok Driving Centre in Singapore, we have introduced a children's traffic safety education program developed in Japan and opened a motorcycle school for children and their parents.

*1: The New Car Assessment is an automotive safety assessment carried out by the Ministry of Land, Infrastructure and Transportation and the National Agency for Automotive Safety & Victims' Aid. The overall evaluation of collision safety performance is a battery of three tests: a full-wrap frontal collision test, an offset frontal collision test and a side collision test. Vehicles are assessed by point values calculated for each test method employed, the points for the three tests are added together, and the sum is expressed as a graded rating from one up to a maximum of six stars.

Preparing for the Future

Looking globally, the U.S. economy is showing signs of a moderate downturn, while European economies are expected to continue recovering and Asian economies are expected to continue expanding. Japan's economy is forecast to sustain its gradual recovery. However, the global environment in which Honda's management operates still remains uncertain because of global political and economic uncertainties, fluctuations in oil and raw material prices and currency movements. As a result, we expect 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 our 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 ability. 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:

1. 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 seek to 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 research future technologies.

2. Production Efficiency

Honda will seek to establish 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.

3. 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.

4. Product Quality

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

5. Safety Technologies

Honda will seek to develop safety technologies for accident prediction and prevention, technologies to reduce injuries to passengers and pedestrians from car accidents, and technologies for reducing aggressivity, as well as expand its line-up of products incorporating such technologies. Honda will reinforce and continue to advance its contributions to traffic safety in motorized societies in Japan and overseas. Honda also intends to remain active in a variety of traffic safety programs, including advanced driving and motorcycling training schemes provided by local dealerships.

6. 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. The Company also plans to make further progress with fuel cells and solar cells, and to promote commercialization of solar cells. 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 different stages in their life cycles, from material procurement and energy consumption to waste disposal.

7. 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, we 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 valued by society.

Relating to Honda's Industry

1. Honda may be adversely affected by market conditions

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.

2. 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 increasingly fierce competition, short-term fluctuations in demand from underlying economic conditions, changes in import regulations, 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.

General Risks Relating to Honda's Business

(Currency and Interest Rate Risks)

1. 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 parts, 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, particularly the U.S. dollar.

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

Although it is impossible to hedge against all currency or interest risk, Honda uses derivative financial instruments to reduce the substantial effects of currency fluctuations and interest rate exposure on its 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 also is 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)

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

Regulations regarding vehicle emission levels, fuel economy, noise, 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.

2. 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.

(Risks Relating to Honda's Operations)

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

Honda's financial services business offers customers various financing plans designed to increase the opportunity for sales of its products. However, customers can also obtain financing for the lease or purchase of Honda's products through a variety of other sources that compete with its 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 that are specific to the financing business may affect Honda's results of operations in the future.

2. 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.

3. Honda conducts its operations in various regions of the world

Honda conducts its businesses worldwide and in several countries 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.

4. 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 its 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.

Basic Position

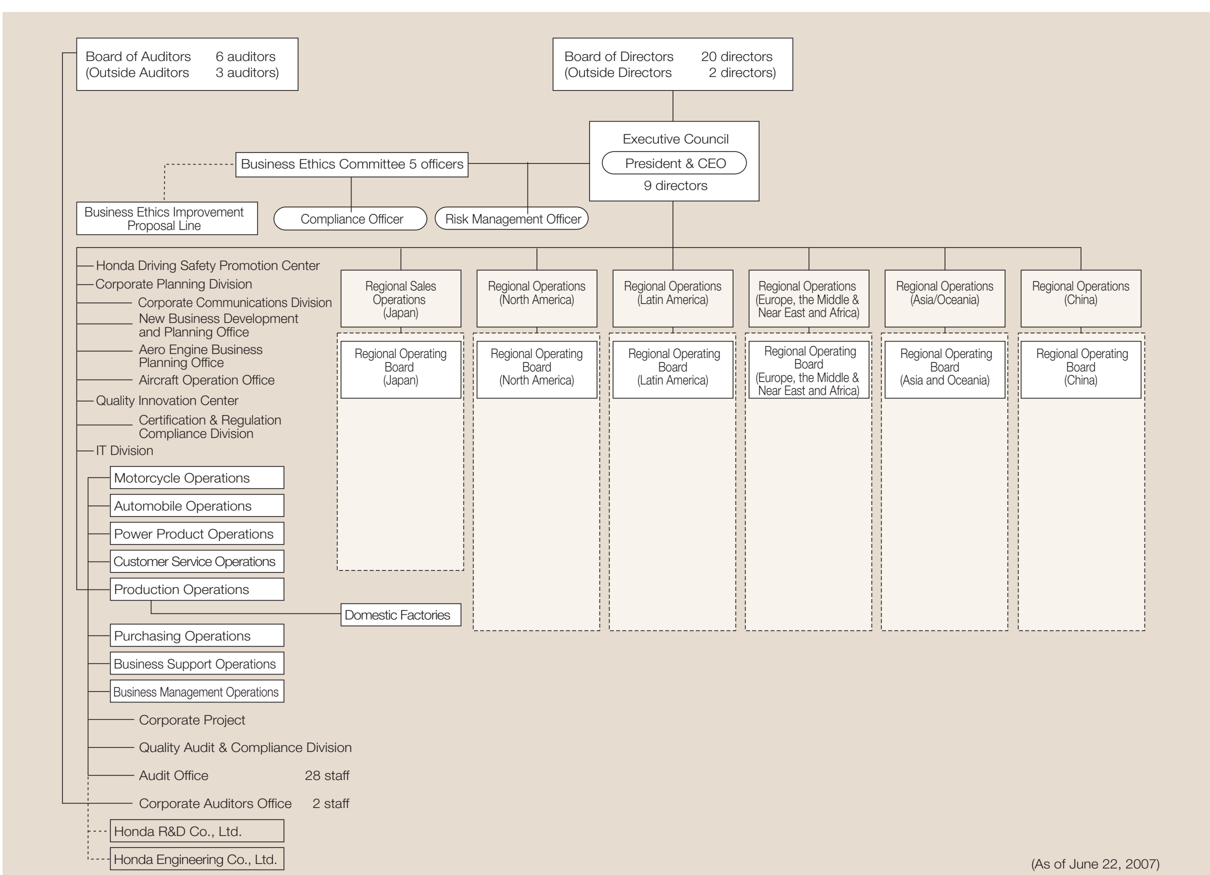
Based on its fundamental corporate philosophy, the Company is working to enhance corporate governance as one of its most important management issues. Our aim is to have our customers and society, as well as our shareholders and investors, place even greater trust in us and to ensure that Honda is "a company that society wants to exist."

To ensure objective control of the Company's management, outside directors and corporate auditors are appointed to the Board of Directors and the Board of Auditors, which are responsible for the supervision and auditing of the Company. Honda has also introduced an operating officer system, aimed at strengthening both the execution of business operations at the regional and local levels and the supervision by the Board of Directors. The term of office of each director is limited to one year, and the amount of remuneration payable to them is determined according to a standard that reflects their performance in the Company. Our goal in doing this is to maximize the flexibility with which our directors respond to changes in the operating environment.

With respect to business execution, Honda has established a system for operating its organizational units that reflects its fundamental corporate philosophy. For example, separate headquarters have been set up for each region, business and function, and a general manager from the Board of Directors or an operating officer has been assigned to each headquarters and main division. In addition, the Executive Council deliberates important matters concerning management, and regional operating councils deliberate important matters concerning management of their respective regions. The result is a system that functions effectively and efficiently, and addresses the needs of customers and societies around the world in a swift and appropriate manner.

With respect to internal control, each division within

Management Organization of the Company's Corporate Governance for Decision-Making, Execution, Supervision and Others



the Company is working autonomously to strengthen legal and ethical compliance and risk management. The task of the Audit Office is to carry out effective audits of the performance of each division's business.

To enhance even further the trust and understanding shareholders and investors have in it, Honda's basic policy emphasizes the appropriate disclosure of company information, such as by disclosing financial results on a quarterly basis and timely and accurately giving public notice of and disclosing its management strategies. Honda will continue raising its level of transparency in the future.

(1) Management Organization

Board of Directors

The Board of Directors consists of 20 directors, including two outside directors, and determines important items that are related to business execution or that are designated by law and supervises business execution.

In the year under review, the Board of Directors met eight times.

Outside Directors

The Company has appointed outside director Satoru Kishi to receive advice on its corporate activities from an objective, broad-ranging and advanced viewpoint based on extensive experience and a high level of insight in corporate management.

The Company has appointed outside director Kensaku Hogen to receive advice on its corporate activities from an objective, broad-ranging and advanced viewpoint based on extensive experience and a high level of insight in diplomacy.

Outside director Satoru Kishi attended nearly all of the Board of Directors' meetings held during the fiscal year and commented as necessary during the deliberation of proposals.

Outside director Kensaku Hogen attended nearly all of the Board of Directors' meetings held during the fiscal year and commented as necessary during the deliberation of proposals.

There is no particular relationship between the Company and outside director Satoru Kishi.

There is no particular relationship between the Company and outside director Kensaku Hogen.

The Board of Directors also provides information on items of business and other topics as necessary to outside directors.

Board of Auditors

The Board of Auditors consists of six corporate auditors, including three outside corporate auditors. In accordance with the Company's auditing standards, auditing policies, apportionment of responsibilities and other such matters as determined by the Board of Auditors, each corporate auditor audits the directors' execution of duties. Corporate auditors accomplish these audits through various means, including attending meetings of the Board of Directors and inspecting the state of the Company's assets and liabilities. In addition, a Corporate Auditors' Office was established to provide direct support to the Board of Auditors.

The Company maintains Standards for Reporting to Corporate Auditors to ensure that relevant matters are reported to corporate auditors in a timely and accurate manner. The standards require regular reports to be submitted to corporate auditors on the business conditions of the Company and its subsidiaries, the maintenance and operation of internal control systems and any other matters that would have a substantial impact on the Company or its subsidiaries. In addition, corporate auditors are required to attend Executive Council and other important meetings.

In the year under review, the Board of Auditors met 13 times.

The Board of Auditors has certified Shinichi Sakamoto, a corporate auditor of the Company, as an "audit committee financial expert," as set out in the rules of the Securities and Exchange Commission pursuant to Section 407 of the U.S. Sarbanes-Oxley Act of 2002. As stipulated in Item 8, Article 121, of the Company Law Enforcement Regulations, Shinichi Sakamoto has substantial knowledge related to finance and accounting.

In the year under review, meetings between the Company's corporate auditors and its independent auditor were held on five occasions. At those meetings, the independent auditor provided the corporate auditors with explanations and reports on accounting audit plans and results, and opinions were exchanged.

The corporate auditors coordinate closely with the Audit Office, which is responsible for internal audits, with respect to audit policies and schedules. In the year under review, corporate auditors and the Audit Office, either independently or in collaboration, conducted business audits of a total of 130 companies among Honda's domestic and overseas subsidiaries and affiliates.

Outside Corporate Auditors

The Company has appointed outside corporate auditor Koukei Higuchi to receive audits of its corporate activities from a broad-ranging and advanced viewpoint based on extensive experience and a high level of insight in corporate management.

The Company has appointed outside corporate auditor Fumihiko Saito to receive audits of its corporate activities from a broad-ranging and advanced viewpoint based on extensive experience and a high level of insight in legal affairs.

The Company has appointed outside corporate auditor Yuji Matsuda to receive audits of its corporate activities from a broad-ranging and advanced viewpoint based on extensive experience and a high level of insight in corporate management.

Outside corporate auditor Koukei Higuchi attended nearly all of the Board of Directors' meetings held during the fiscal year and commented as necessary during the deliberation of proposals.

Outside corporate auditor Kuniyasu Yamada (who stepped down in June 2007) attended nearly all of the Board of Directors' meetings held during the fiscal year and commented as necessary during the deliberation of proposals.

Outside corporate auditor Fumihiko Saito attended nearly all of the Board of Directors' meetings held during the fiscal year and commented as necessary during the deliberation of proposals.

There is no particular relationship between the Company and outside corporate auditor Koukei Higuchi.

There is no particular relationship between the Company and outside corporate auditor Fumihiko Saito.

Fumihiko Saito serves as a partner of Saito Law Office. There is no particular relationship between Saito Law Office and the Company.

There is no particular relationship between the Company and outside corporate auditor Yuji Matsuda.

Yuji Matsuda serves as president and director of Mitsubishi UFJ Trust and Banking Corp. There is no particular relationship between this organization and the Company.

The Board of Directors also provides information on items of business and other topics as necessary to outside directors.

Directors' Remuneration

The total amount of remuneration and bonuses of directors and corporate auditors is determined according to criteria that reflect their performance in the Company.

Remuneration for directors and corporate auditors is paid based on criteria approved by the Board of Directors, and it is paid within the extent of the maximum amount resolved by the Ordinary General Meeting of Shareholders.

Bonuses for directors and corporate auditors are paid based on a decision of the Ordinary General Meeting of Shareholders, taking into consideration the Company's profits during the fiscal year, past bonuses paid and various other factors.

The total remuneration paid to directors and corporate auditors during fiscal 2007 was ¥879 million: ¥772 million to the 21 directors (including one director who retired during the year) and ¥106 million to the six corporate auditors. The remuneration paid to directors includes remuneration paid by subsidiaries of the Company to directors who had business execution responsibilities for the subsidiaries. The remuneration paid to corporate auditors includes amounts paid by subsidiaries of the Company to corporate auditors who also served as corporate auditors for those subsidiaries.

Executive bonuses paid during fiscal 2007 totaled ¥590 million: ¥513 million to the 21 directors who were directors at the end of fiscal 2006 and ¥77 million to the six corporate auditors who were corporate auditors as at the end of fiscal 2006.

In the fiscal year under review, retirement allowances paid to three directors (including two operating officers who previously served as directors) totaled ¥330 million, in accordance with a resolution of the General Meeting of Shareholders.

The total remuneration and other compensation paid to outside directors and outside corporate auditors during the fiscal year under review was ¥67 million to the two outside directors and three outside corporate auditors.

Decisions Regarding Director Candidates

Candidates for directors are decided at meetings of the Board of Directors. Candidates for corporate auditors are decided by resolution of the Board of Directors, subject to agreement of the Board of Corporate Auditors.

Accounting Audits

To ensure proper auditing of the Company's accounts, the Board of Corporate Auditors and the Board of Directors receive auditing reports based on the Company Law, the Securities and Exchange Law and the U.S. Securities Exchange Act. In addition, they supervise the election of independent auditors, their remuneration and their non-audit services.

In the fiscal year under review, the Company elected KPMG AZSA & Co. as its independent auditor under the Company Law, the Securities and Exchange Law and the U.S. Securities Exchange Act.

A total of 48 people from KPMG AZSA & Co. provided auditing services for Honda: three Japanese certified public accountants (Masanori Sato, Kensuke Sodegawa and Shuji Ohtsu) and 45 assistants (eight certified public accountants, 16 assistant accountants, three U.S. certified public accountants and 18 others).

In fiscal 2007, the Company and its consolidated subsidiaries paid a total of ¥2,708 million in fees to KPMG AZSA & Co. and its affiliated accounting firm, KPMG, for audit certification services under the Company Law, the Securities and Exchange Law and the U.S. Securities Exchange Act. In fiscal 2007, the Company's overseas consolidated subsidiaries paid a total of ¥214 million in fees to KPMG AZSA & Co. and its affiliated accounting firm, KPMG, for non-auditing services.

Policy and Procedures for Obtaining Board of Auditors' Prior Consent

To ensure that the independent auditor and its affiliate involved in audit certification services under the U.S. Securities Exchange Act behave in accordance with all applicable laws and regulations and maintain complete independence from the Company, they must obtain the prior consent of the Company's Board of Auditors before they carry out auditing services, auditing related services, tax services and other services for Honda.

The Company's initial policy required that each contractual agreement have a separate prior consent from the Board of Auditors. In order to make the decision-making process more efficient, however, we are enhancing procedural efficiency by establishing categories of matters requiring comprehensive prior consent. These categories are reviewed regularly by the Board of Auditors.

Any matter that does not fall under one of these categories still requires separate consent of the Board of Auditors.

(2) Business Execution System

Organization

As for execution of business, the Company has six regional operations around the world to develop business based on its fundamental corporate philosophy. These operations adopt long-term perspectives and maintain close ties with local communities.

The Company's four business operations—motorcycles, automobiles, power products and service parts—formulate the medium- and long-term plans for their business development, and each operation aims to maximize its business performance on a global basis. Each functional operation—such as Customer Service Operations, Production Operations, Purchasing Operations, Business Management Operations and Business Support Operations—supports the other functional operations, with the aim of increasing Honda's effectiveness and efficiencies.

Research and development activities are conducted principally at the independent subsidiaries of the Company.

Honda R&D Co., Ltd., is responsible for research and development on products, while Honda Engineering Co., Ltd., handles research and development in the area of production technology. The Company actively carries out research and development in advanced technologies with the aim of creating products that are distinctive and internationally competitive.

Business Execution Officer System

The Company has assigned a general manager from the Board of Directors or an operating officer to each regional, business and functional division, as well as to each research and development subsidiary. By ensuring swift, optimal decision-making in each region and workplace, the Company is building a highly effective and efficient business execution system.

Executive Council

The Company has established the Executive Council, consisting of the Company's 10 Representative Directors (nine from June 22, 2007), including the President, the Vice President and the Senior Managing Directors. Along with discussing in advance the items to be resolved at meetings of the Board of Directors, the Executive Council discusses important management issues within the scope of authority conferred upon it by the Board of Directors.

In the year under review, the Executive Council met 27 times.

Regional Operating Boards

To enhance the independence of each regional operation and ensure swift decision-making, regional operating boards have been established at each regional operation to discuss important management issues in the region within the scope of authority conferred upon it by the Executive Council.

Status of Measures Related to Shareholders and Others with Vested Interests

(1) Measures to Invigorate Ordinary General Meetings of Shareholders and Ensure the Smooth Exercise of Voting Rights

To invigorate the annual Ordinary General Meeting of Shareholders, the Company holds the meeting as early as possible. The Company also presents easy-to-understand reports using video and slides, and displays its products at the conference room.

The Company sends convocation notices before the date required by law, and also allows shareholders to exercise their voting rights via the Internet, using personal computers or mobile phones. Convocation notices are sent in English to overseas investors. In these and other ways, the Company strives to make the exercise of rights as smooth as possible.

(2) IR Activities

For analysts and institutional investors, the Company holds meetings to present its results four times a year and meetings with the president twice a year. Company representatives visit and hold information meetings as needed for major Japanese and overseas institutional investors to explain the Honda Group's future business strategies. Representatives based in North America and Europe also hold information meetings for institutional investors as appropriate. In addition, the Company holds information meetings for investors at motor shows and other major events, where presentations on such topics as Honda Group strategies are made by the president or relevant director. Moreover, the Company conducts regular tours of facilities in Japan and overseas for shareholders and other investors.

The latest information for investors is available on the Company's website (http://www.honda.co.jp/investors/ in Japanese; http://world.honda.com/investors/ in English). All new information is uploaded to the site simultaneously in Japanese and English.

The Company issues a regular publication for shareholders, containing information about its businesses, products, financial status and other matters.

(3) Respecting the Perspective of Stakeholders

Seeking to earn the unwavering trust of customers and society, the Honda Group has formulated a set of behavioral guidelines, which is observed by all individual associates (employees).

In addition to supplying products incorporating the most advanced safety and environmental technologies, the Company pursues environmental protection activities, safe driving campaigns and social contribution activities covering all aspects of its operations, including production, logistics and sales. These initiatives reflect the Company's effort to earn the trust and understanding of society via its corporate activities.

The Company provides information about its corporate activities via financial reports and other disclosures according to law. We also publish yearly reports on environmental protection activities, safe driving campaigns and social contribution activities, which are posted on our website. In addition, we publish a corporate social responsibility (CSR) report that comprehensively explains our activities related to the environment, safety and society.

Internal Control System: Fundamental Position and Implementation Status

Basic Position

To earn the trust of customers and society, the Company's divisions, under the guidance of their respective corporate officers, have systems in place to ensure a systematic approach to compliance and risk management, in accordance with the Basic Policy concerning the Maintenance of Internal Control Systems adopted by the Board of Directors. These systems include the formulation of behavioral guidelines and procedures for self-assessment. The Company also has a system to support initiatives of each division.

Moreover, effective audits are carried out to monitor the execution status of each division.

Group Governance System

Behavioral Guidelines

The "Honda Conduct Guideline," formulated to guide the behavior of all associates, is posted on the Company's website (http://www.honda.co.jp/conductguideline/ in Japanese; http://world.honda.com/conductguideline/ in English). In addition, each division produces more detailed behavioral guidelines according to its specific attributes.

Self-Assessment Checklist

Each division of the Company approaches compliance and risk management in a systematic way. For example, each division has a checklist that clarifies specific laws and risks to consider related to its particular business, and conducts regular self-assessments. The results of the self-assessments are reported to the corporate officer in charge of each division, and the overall status of compliance and risk management is evaluated regularly by the Executive Council.

Compliance System

The Company has appointed a Compliance Officer, who is a director in charge of compliance-related initiatives. Other key elements of our compliance system include the Business Ethics Committee and the Business Ethics Improvement Proposal Line.

Business Ethics Committee

Honda's Business Ethics Committee is chaired by the Compliance Officer and consists of directors and operating officers. The Committee deliberates matters related to corporate ethics and compliance.

It met two times in the year under review.

Business Ethics Improvement Proposal Line

Honda places high priority on open communications in its divisions. It has also set up the Business Ethics Improvement Proposal Line to receive suggestions related to corporate ethics issues. By devising appropriate responses to suggestions received, Honda is constantly working to enhance corporate ethics. The system is designed to protect informants, who can either reveal their identity or remain anonymous.

The Business Ethics Committee supervises the operation of the Business Ethics Improvement Proposal Line and submits status reports to the Board of Auditors.

Risk Management System

Each division works to prevent and address its particular set of risks. In addition, the Honda Crisis Response Rules are designed to address Company-wide crises, such as major natural disasters.

The Company has appointed a Risk Management Officer, who is a director in charge of risk management related initiatives. It also established the Company-wide Response Headquarters to address crisis situations.

Retention and Management of Information on Execution of Business by Directors

Documents and other information related to the execution of business by directors are retained and managed appropriately, according to the document management policies of Honda and its major regional subsidiaries.

Business Audits

The Audit Office is an independent supervisory department under the direct control of the president. This office audits the performance of each department and works to improve the internal auditing of subsidiaries and affiliates in each region.

Disclosure Committee

The Disclosure Committee, which consists of relevant directors, deliberates matters related to the accuracy and appropriateness of corporate information to be disclosed in business results announcements and financial reports.

Code of Ethics

The Company has also established a "Code of Ethics" as set forth in the rules of the U.S. Securities and Exchange Commission regulations pursuant to Section 406 of the Sarbanes-Oxley Act of 2002.

Companies listed on 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	Corporate Governance Practices Followed by Honda
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.	For Japanese companies that employ a corporate governance system based on a board of corporate auditors (the "corporate auditor 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 who satisfy the independency requirements under Japan's Company Law. In the case of Japanese companies that 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 50% of Honda's corporate auditors.
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.	Like a majority of Japanese listed companies, Honda employs the corporate auditor 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 that employ a corporate auditor system, including Honda, are required to have at least three corporate auditors. Currently, Honda has six 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.
A NYSE-listed U.S. company must have a nominating/corporate governance committee composed entirely of independent directors.	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 be approved by a resolution of its Board of Auditors. The Board of 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.
A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors.	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 Auditors determines the compensation amount for each member within the respective maximum total amounts
A NYSE-listed U.S. company must generally obtain shareholder approval with respect to any equity compensation plan.	Currently, Honda does not adopt stock option compensation plans. If Honda adopts such plans, 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.

Front row:			Chairman and Representative Director Satoshi Aoki	President and Representative Director Takeo Fukui	Executive Vice President and Representative Director Koichi Kondo		
Back row:	Senior Managing and Representative Director Takanobu Ito	Senior Managing and Representative Director Koki Hirashima	Senior Managing and Representative Director Atsuyoshi Hyogo	Senior Managing and Representative Director Minoru Harada	Senior Managing and Representative Director Satoshi Toshida	Senior Managing and Representative Director Mikio Yoshimi	Senior Managing and Representative Director Masaaki Kato

Directors

	Name	Area of Responsibility or Principal Occupations
Chairman and Representative Director	Satoshi Aoki	
President and Representative Director	Takeo Fukui	
Executive Vice President and Representative Director	Koichi Kondo	Chief Operating Officer for Regional Sales Operations (Japan)
		Chairman and Director of American Honda Motor Co., Inc.
Senior Managing and Representative Director	Minoru Harada	Chief Operating Officer for Motorcycle Operations
		Purchasing Operations Support
Senior Managing and Representative Director	Atsuyoshi Hyogo	Chief Operating Officer for Regional Operations (China)
		President of Honda Motor (China) Investment Corporation, Limited
Senior Managing and Representative Director	Satoshi Toshida	Chief Operating Officer for Power Product Operations
Senior Managing and Representative Director	Koki Hirashima	Chief Operating Officer for Production Operations
		Risk Management Officer
		General Supervisor, Information Systems
Senior Managing and Representative Director	Mikio Yoshimi	Chief Operating Officer for Business Support Operations
		Chief Officer of Driving Safety Promotion Center
		Compliance Officer
		Government & Industrial Affairs
Senior Managing and Representative Director	Takanobu Ito	Chief Operating Officer for Automobile Operations
Senior Managing and Representative Director	Masaaki Kato	General Supervisor, Quality
		President and Director of Honda R&D Co., Ltd.

	Name	Area of Responsibility or Principal Occupations
Managing Director	Toru Onda	Chief Operating Officer for Purchasing Operations
Managing Director	Akira Takano	Chief Operating Officer for Customer Service Operations
Managing Director	Shigeru Takagi	Chief Operating Officer for Regional Operations (Europe, the Middle & Near East and Africa)
		President and Director of Honda Motor Europe Limited
Managing Director	Tetsuo Iwamura	Chief Operating Officer for Regional Operations (North America)
		President and Director of Honda North America, Inc.
		President and Director of American Honda Motor Co., Inc.
Managing Director	Tatsuhiro Oyama	Chief Operating Officer for Regional Operations (Asia & Oceania)
		President and Director of Asian Honda Motor Co., Ltd.
Managing Director	Fumihiko Ike	Chief Operating Officer for Business Management Operations
Director	Satoru Kishi	Advisor of the Board of The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Director	Kensaku Hogen	
Director and Advisor	Hiroyuki Yoshino	
Director	Sho Minekawa	Chief Operating Officer for Regional Operations (Latin America)
		President and Director of Honda South America Ltda.
		President and Director of Moto Honda da Amazonia Ltda.
		President and Director of Honda Automoveis do Brasil Ltda.

(Notes) 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. 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 22, 2007.

Corporate Auditors

	Name	Area of Responsibility or Principal Occupations
Corporate Auditor (Full-time)	Hiroshi Okubo	
Corporate Auditor (Full-time)	Koji Miyajima	
Corporate Auditor (Full-time)	Shinichi Sakamoto	
Corporate Auditor	Koukei Higuchi	Advisor of the Board of Tokio Marine & Nichido Fire Insurance Co., Ltd.
Corporate Auditor	Fumihiko Saito	Representative of Saito Law Office
Corporate Auditor	Yuji Matsuda	President and Director of Mitsubishi UFJ Trust Investment Technology Institute Co., Ltd.

(Notes) 1. 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.
2. The term of Corporate Auditors (full-time) Mr. Hiroshi Okubo, Mr. Koji Miyajima and a Corporate Auditor Mr. Fumihiko Saito is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 23, 2004.
3. The term of a Corporate Auditor (full-time) Mr. Shinichi Sakamoto is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 23, 2005.
4. The term of Corporate Auditors Mr. Koukei Higuchi and Mr. Yuji Matsuda is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 22, 2007.

Operating Officers

	Name	Principal Occupations
Managing Officer	Akio Hamada	President and Director of Honda of America Mfg., Inc.
Managing Officer	Takashi Yamamoto	General Manager of Saitama Factory of Production Operations
Managing Officer	Suguru Kanazawa	Executive Vice President and Director of Honda Motor Europe Limited
		President and Director of Honda of the U.K. Manufacturing Ltd.
Operating Officer	Manabu Nishimae	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)
Operating Officer	Masaya Yamashita	General Manager of Kumamoto Factory of Production Operations
Operating Officer	Hiroshi Kobayashi	President and Director of Honda Canada Inc.
Operating Officer	Hiroshi Oshima	Corporate Communications, Motor Sports
		General Manager of Corporate Communications Division
Operating Officer	Tsutomu Saka	General Manager of Hamamatsu Factory of Production Operations
Operating Officer	Hidenobu Iwata	General Manager of Suzuka Factory of Production Operations
Operating Officer	Gen Tsujii	Production for Production Operations
		General Manager of Automobile Production Planning Office in Production Operations
		President and Director of Honda Engineering Co., Ltd.
Operating Officer	Koichi Fukuo	Quality, Certification & Regulation Compliance
Operating Officer	Hiroshi Soda	Executive Vice President and Director of Honda North America, Inc.
		Executive Vice President and Director of American Honda Motor Co., Inc.
Operating Officer	Takuji Yamada	President and Director of Honda Motor Europe (North) GmbH
Operating Officer	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.
Operating Officer	Masahiro Takedagawa	President and Director of Honda Siel Cars India Ltd.
		President and Director of Honda Motor India Private Ltd.
Operating Officer	Yoichi Hojo	General Manager of Automobile Purchasing Division 2 in Purchasing Operations
Operating Officer	Tsuneo Tanai	Executive Vice President and Director of Honda of America Mfg., Inc.
Operating Officer	Yoshiyuki Matsumoto	Automobile Products for Automobile Operations
Operating Officer	Eiji Okawara	Production in China in Production Operations
		President of Guangzhou Honda Automobile Co., Ltd.
Operating Officer	Ko Katayama	Manufacturing of Honda Canada Inc.
Operating Officer	Masahiro Yoshida	Human Resources and Associate Relations for Business Support Operations
		General Manager of Human Resources Division for Business Support Operations
Operating Officer	Seiji Kuraishi	Vice President of Honda Motor (China) Investment Corporation, Ltd.
Operating Officer	Takashi Nagai	Executive Vice President and Director of Asian Honda Motor Co., Ltd.

(Note) 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.

As of June 23, 2007

Financial Section

Contents

Operating and Financial Review

Net Sales and Other Operating Revenue

Honda's consolidated net sales and other operating revenue (hereafter, "net sales") for fiscal year 2007, ended March 31, 2007, grew 11.9%, compared with fiscal year 2006, to ¥11,087.1 billion. 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 currency effects. Honda estimates that if the exchange rate of the Japanese yen had remained unchanged from the previous fiscal year, consolidated net sales and operating revenue for the period would have increased by approximately 7.4%.

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

Cost of Sales

Despite the cost reduction effects, the cost of sales rose 12.2%, to ¥7,865.1 billion. The cost of sales was affected by increased unit sales, substantially increased raw materials prices, such as steel, aluminum and precious grade metals, as well as the negative impact of currency effects caused by the depreciation of the Japanese yen.

Selling, General and Administrative Expenses/Research and Development Expenses

Selling expenses increased in line with higher unit sales, higher freight costs as the result of substantially increased crude oil prices, higher expenses related to product quality and the impact of currency effects. G&A expenses increased due mainly to the impact of currency effects and the effects from newly consolidated subsidiaries. Total of SG&A expenses rose 9.8% from fiscal year 2006, to ¥1,818.2 billion.

R&D expenses also grew 8.1%, to ¥551.8 billion, as we spent more on safety and environmental technologies and worked to enhance the attractiveness of our products.

Operating Income

Operating income declined 2.0%, compared with the preceding year, to ¥851.8 billion. In addition to the above mentioned factors, changes in model mix due mainly to shift of customers' demands towards more fuel efficient (compact) models especially in U.S. market negatively affected operating income.

Other Income and Expenses

Other income and expenses, net, fell ¥20.0 billion, due to an increase in losses on the valuation of interest rate swaps and other derivatives.

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

Income before income taxes, minority interest and equity in income of affiliates fell 4.5%, to ¥792.8 billion.

Income Tax Expense

Income tax expense decreased by 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. Additional detailed information is described in Note (11) 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 31.6% from the previous year, to ¥20.1 billion, due mainly to the impact of a newly consolidated subsidiary.

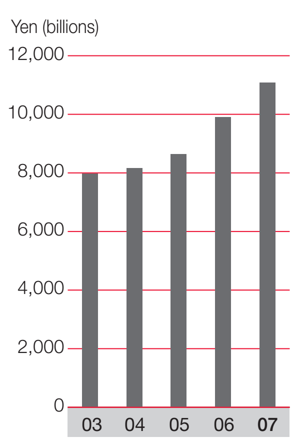
Equity in Income of Affiliates

Equity in income of affiliates grew 3.8%, to ¥103.4 billion.

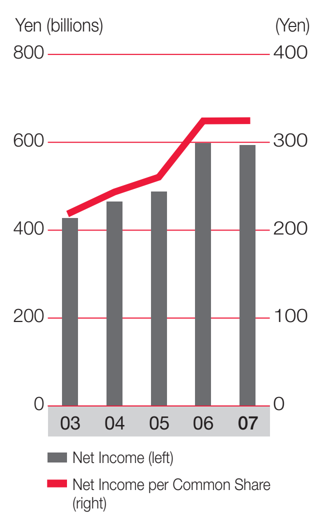
Net Income

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

Net Sales and Other Operating Revenue
Years ended March 31



Net Income and Net Income per Common Share
Years ended March 31



In fiscal year 2006, operating income and income before income taxes, minority interest and equity in income of affiliates were impacted by the posting of a ¥138.0 billion gain on the return of the substitutional portion of the Employees Pension Funds (hereafter, "gain on return") to the Japanese government, which also affected income after tax.

Review of Operations

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 Latin America. Revenue from unaffiliated customers increased 11.8%, to ¥1,370.6 billion, from the previous fiscal year, due mainly to increased unit sales and the positive impact of currency translation effects. Operating income decreased 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 currency effects. The operating margin was 7.3%.

Unit Sales

	Thousands		
Years ended March 31	2006	**2007**	% change
Japan	368	**337**	(8.4)%
North America	615	**503**	(18.2)
Europe	353	**329**	(6.8)
Asia	7,907	**7,895**	(0.2)
Other Regions	1,028	**1,305**	26.9
Total	10,271	**10,369**	1.0%

Net Sales

	Yen (millions)		
Years ended March 31	2006	**2007**	% change
Japan	¥ 99,009	**¥ 101,753**	2.8%
North America	349,741	**308,293**	(11.9)
Europe	208,092	**219,773**	5.6
Asia	324,026	**383,389**	18.3
Other Regions	244,944	**357,409**	45.9
Total	¥1,225,812	**¥1,370,617**	11.8%

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 Bol d'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.

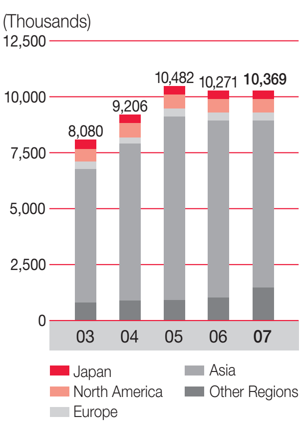
Of this number, Honda motorcycle sales fell 18.2%, to 503,000 units, in fiscal year 2007. Sales of the *CBR1000RR*, a super sports model, and our new off-road model, the *CRF150R*, were strong, but higher interest rates and economic uncertainty impacted demand for leisure products. Particularly affected by this impact were sales of off road-models, mainly Enduro*1 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 *Gold Wing* touring bike, in the United States and Canada.

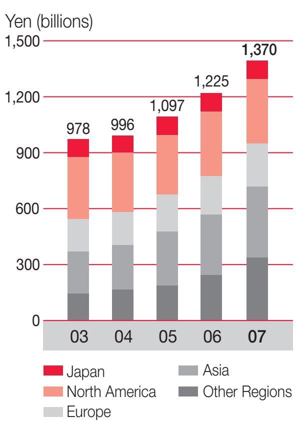
Although sales of the *FourTrax Rancher* series of utility ATVs, which underwent a full model change in December 2006, were strong, total unit sales of ATVs and personal watercraft came to 221,000 units in fiscal year 2007, down 21.9%.

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

Unit Sales
Years ended March 31



Net Sales
Years ended March 31



Europe

In calendar year 2006, total European motorcycle demand*2 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.

*2 Motorcycle registrations in Europe (10 countries)

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.

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*, an 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.

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 Latin 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.

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 unaffiliated customers increased 11.0%, to ¥8,889.0 billion, from the previous fiscal year, due to increased unit sales and the positive impact of the 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 and operating revenue for the period would have increased by approximately 7.0%. Operating income decreased 4.6%, to ¥599.5 billion, from the previous fiscal year, due mainly to the negative impact of changes in the model mix, substantially increased raw material costs, increased SG&A expenses, 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, continuing cost reduction effects and the currency effects caused by the depreciation of the Japanese yen. The operating margin was 6.7%.

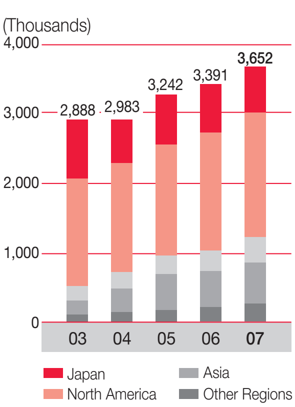
Unit Sales

	Thousands		
Years ended March 31	2006	**2007**	% change
Japan	696	**672**	(3.4)%
North America	1,682	**1,788**	6.3
Europe	291	**324**	11.3
Asia	521	**620**	19.0
Other Regions	201	**248**	23.4
Total	3,391	**3,652**	7.7%

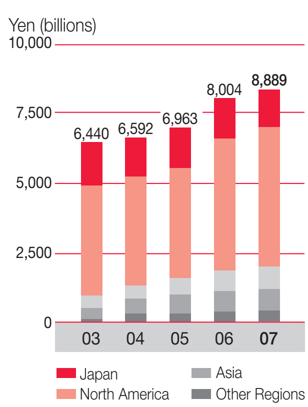
Net Sales

	Yen (millions)		
Years ended March 31	2006	**2007**	% change
Japan	¥1,447,388	**¥1,412,726**	(2.4)%
North America	4,722,354	**5,179,139**	9.7
Europe	717,360	**917,199**	27.9
Asia	731,833	**861,612**	17.7
Other Regions	385,759	**518,404**	34.4
Total	¥8,004,694	**¥8,889,080**	11.0%

Unit Sales
Years ended March 31



Net Sales
Years ended March 31



Japan

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.

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.

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.

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

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.

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 Latin 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.

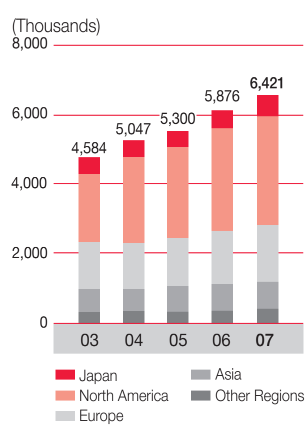
Power Product and Other Businesses

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 in power product and other businesses, including intersegment sales within Honda, increased 14.7%, to ¥438.9 billion, from the previous fiscal year, due mainly to increased unit sales of power products and the positive impact of currency translation effects. Operating income was ¥36.1 billion, an increase of 0.6% from the previous fiscal year, due mainly to the positive impact of increased profit attributable to higher revenue and the 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. The operating margin was 8.2%.

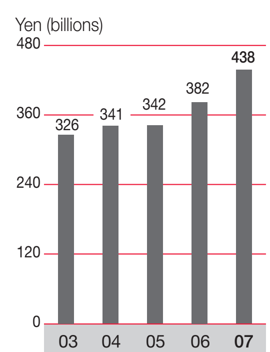
Unit Sales

	Thousands		
Years ended March 31	2006	**2007**	% change
Japan	487	**527**	8.2%
North America	2,827	**3,103**	9.8
Europe	1,477	**1,625**	10.0
Asia	717	**760**	6.0
Other Regions	368	**406**	10.3
Total	5,876	**6,421**	9.3%

Unit Sales
Years ended March 31



Net Sales
Years ended March 31



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*1, the *GX*-series engines supplied to pump and generator manufacturers on an OEM*2 basis applications increased.

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, Honda ranked highest in the electronic fuel-injected (EFI) four-stroke outboard segment for a third consecutive year in the United States according to the customer satisfaction study*3 conducted by J.D. Power and Associates.

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.

*1: Compact, home-use cogeneration system
Honda has combined its original electromagnetic inverter technologies with the world's smallest(i) natural gas engine *(GE160V)* in an efficient layout to create a small, lightweight cogeneration unit. Due to its compactness, the unit can be installed in the home and boasts an overall energy efficiency of 85%. It also emits approximately 30% less carbon dioxide than conventional natural gas-powered generators or hot-water heating units using natural gas.(ii)
(i): A Honda development, the reciprocal gas engine
(ii): Data from Honda test results. Data compares electricity from the grid with hot-water heating units that use natural gas.

*2: OEM (Original equipment manufacturing)
OEM refers to a manufacturing of products and components supplied for sale under a third-party brand.

*3: Disclaimer: J.D. Power and Associates 2005–2007 U.S. Marine Engine Competitive Information Studies℠. 2007 Study is based on responses from 12,140 U.S. owners who registered a new boat between June 2005 and May 2006. www.jdpower.com

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.

Financial Services Business

Honda offers a variety of financial services to its customers and dealers, with the aim of supporting sales of Honda products. These services are provided through finance subsidiaries in Japan, the United States, Canada, the United Kingdom, Germany, Brazil and Thailand.

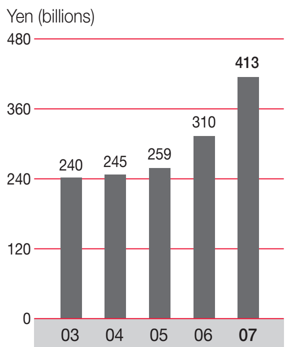
In fiscal year 2007, net sales of our financial services business, including intersegment sales within Honda, rose 32.9%, to ¥413.3 billion from the previous fiscal year, due mainly to a higher loan balance accompanying the expansion of automobile business in North America, increased net sales in operating leases, as well as positive currency translation effects. Operating income also expanded 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 and positive currency translation effects, which offset the negative impact of the increased interest rates. The operating margin came to 28.0%.

Our finance subsidiaries in North America have historically accounted for all leases as direct finance 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 finance 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.

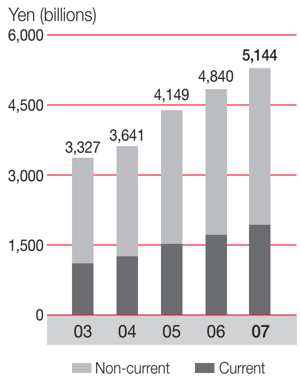
Finance Subsidiaries-Receivables, Net

	Yen (millions)		
Years ended March 31	2006	**2007**	% change
Non-current	¥3,139,591	**¥3,208,778**	2.2%
Current	1,700,914	**1,935,921**	13.8
Total	¥4,840,505	**¥5,144,699**	6.3%

Net Sales
Years ended March 31



Finance Subsidiaries-Receivables, Net
Years ended March 31



The finance subsidiaries-receivables category above includes items that have been reclassified as trade receivables and other assets. For more detailed information, refer to Note (4) to the consolidated financial statements, Finance Subsidiaries-Receivables and Securitizations.

Geographical Information

Japan

In Japan, revenue from domestic and export sales was ¥4,774.1 billion, up 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 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 SG&A expenses, 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 currency effects caused by the depreciation of the Japanese yen. The operating margin was 4.8%.

North America

In North America, which mainly consists of the United States, revenue increased 9.9%, to ¥6,172.6 billion, due mainly to increased unit sales in the automobile business and the positive impact of currency translation effects. Operating income increased 29.1%, to ¥456.8 billion, from the previous fiscal year, due primarily to the positive impacts of increased profit attributable to higher revenue, continuing cost reduction effects, decreased SG&A expenses and the currency effects caused by the depreciation of the Japanese yen, which offset the negative impacts of the change in model mix and substantially increased raw material costs. The operating margin was 7.4%.

Europe

In Europe, revenue increased 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 currency translation effects. Operating income increased 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 and the currency effects caused by the depreciation of the Japanese yen, which offset the negative impacts of the change in model mix and increased SG&A expenses. The operating margin was 2.4%.

Asia

In Asia, revenue increased 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 currency translation effects. Operating income increased 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. The operating margin was 6.1%.

Other Regions

In other regions, revenue increased 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 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 currency effects caused by the depreciation of the Japanese yen, offsetting the negative impact of increased SG&A expenses. The operating margin was 9.1%.

As described in Note (1) (v) and Note (3) to our consolidated financial statements, 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, 2007.

Research and Development

Using the most advanced technologies, Honda Motor Company and its consolidated subsidiaries 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 research and development 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. Research and development on production technologies centers on Honda Engineering Co., Ltd., in Japan and Honda Engineering North America, Inc. All of these entities work in close association with our other entities and business in their respective regions. Total consolidated R&D expenditures for the year ended March 31, 2007 amounted to ¥551.8 billion. Main R&D activities conducted by each business segment are outlined below.

Motorcycle Business

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

Breakthroughs during fiscal 2007 include the development in the United States and Canada of the *Gold Wing* touring bike equipped with the world's first motorcycle airbag system. In North America and Europe, the *CBR600RR* underwent a full model change, achieving lower weight than the previous model through a more compact engine installed in a newly designed Fine Die-Cast aluminum frame. It also employs a newly designed compact, electrically controlled steering damper that facilitates further enhanced riding performance. In Asia, we began production and sales at an equity-method affiliate in India of the *Glamour-FI* 125cc motorcycle, equipped with a PGM-FI electronic fuel-injection system, which meets new demands for low fuel consumption and clean performance through exhaust emissions. In China, we commenced production and sales at an equity-method affiliate of two new models: *CBF150* motorcycle, mounted with a newly developed *Core 2* 150cc engine with low fuel consumption and robust power achieved through substantially reduced friction loss and improved cooling performance; and *SCR110* scooter, which employs PGM-FI low-friction technologies to become the first model in the country to clear Euro3 motorcycle emission gas standards.

Other technological R&D highlights include the announced development of Honda's Variable Cylinder Management (VCM) system, which is based on high-performance Variable Valve Timing and Lift, Electronic Control (VTEC) technologies for three-phase control over the number of active cylinders, facilitating low fuel consumption and high power capacity. We also developed an engine that offers one of the world's lowest levels of friction, achieved by improving fuel efficiency through a two-plug system and reducing mechanical resistance in the engine.

Research and development expenses (which do not include research and development at equity-method affiliates described above) in the Motorcycle Business segment in fiscal 2007 totaled ¥90.1 billion.

Automobile Business

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

Major achievements during the year include a full model change for the *CR-V* in markets around the world. For four-wheel drive models, we introduced a new real-time 4WD system that improves rear-wheel torque transmissibility by bolstering the existing dual-pump system with a one-way cam unit. In Japan, we melded steering maneuver and voice guidance in the Honda Smart Parking Assist System, which is used on the *Life*. Further, we released the *Crossroad*, an automobile that transcends existing categories by combining the design and functionality of an SUV, the convenient size of a compact car, and the three-row, seven-seat configuration of a minivan. In North America, we commenced sales of the *Acura RDX* entry-premium SUV, which features a newly developed 2.3-liter i-VTEC (intelligent VTEC) turbo engine and Super-Handling All Wheel Drive (SH-AWD) to provide good fuel economy, high output and excellent driving performance. Breakthroughs in other regions included sales of flexible fuel vehicle (FFV) versions of the *Civic* and *Fit* in Brazil that can be powered by ethanol or an ethanol-gasoline mixture.

Another technology development milestone was the development of a clean diesel engine on par with a gasoline engine for environmental performance. This is achieved through a newly developed NOx catalyst that efficiently purifies NOx gases to nitrogen through a reduction reaction using ammonia produced within the catalytic converter. In addition, we have developed an evolutionary VTEC engine with high power and low fuel consumption and emissions, attained by combining VTEC and Valve Timing Control (VTC)—which dynamically controls the intake valve lift amount and aperture angle—for continuously variable control.

In the field of automotive fuel cell technologies, Honda announced the operation of its next-generation fuel cell-powered *FCX Concept*, with the compact, high efficiency Honda FC STACK run through the central tunnel, to deliver radically improved performance in terms of driving, as well as environmental performance.

Research and development expenses in the Automobile Business segment in fiscal 2007 totaled ¥447.0 billion.

Power Product and Other Businesses

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

In fiscal 2007, *BF90* four-stroke marine outboard motor underwent a full model change. This motor features such intelligent technologies as a VTEC structure based on a 1.5-liter passenger car engine, PGM-FI, a Lean Burn Control system and the world's first air-fuel timing ignition control for a marine outboard. The *BF90* is lightweight and compact, while achieving excellent drive performance and economizing on fuel consumption. We also carried out a model change for our compact, home-use cogeneration system, scoring improvements in power generation efficiency and reducing the CO_2 emissions ratio. An electronic control variable jet to automatically optimize fuel flow is also employed to enhance cold-start performance.

Other technical development spawned a high-expansion-ratio engine with an original intake/compression stroke and expansion/exhaust stroke structure that was prototyped during fiscal 2007.

In other businesses, ongoing research into jet engines and *HondaJet*, our advanced, compact business jet, has reached fruition with development moving toward commercial production.

Research and development expenses in this segment in fiscal 2007 amounted to ¥14.6 billion.

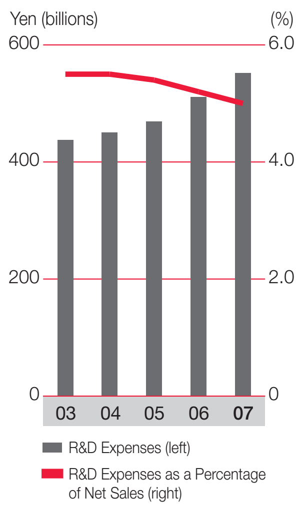
Fundamental Research

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

During the year, we announced a new brain-machine interface creating basic technology for manipulating robots using human brain activity as a result of joint research with Advanced Telecommunications Research Institute International. Honda has also developed a biofabric with excellent levels of durability, aesthetics and smoothness for use as an automobile interior finish. As this fabric is derived from plant materials, the material manufacturing process results in an energy savings of 10% to 15%, compared with such conventional oil-based fabrics as polyester. Further, through joint research with the Research Institute of Innovative Technology for the Earth we have established a technological base for ethanol production from soft-biomass, cellulose from plant stalk and leaf matter, such as cultivated rice byproducts, that are not suitable for human consumption. This step from cellulose to bioethanol production surmounts a problem that had been thwarting progress in this field.

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

R&D Expenses and R&D Expenses as a Percentage of Net Sales
Years ended March 31



Capital Expenditures

Capital expenditures in fiscal 2007 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 ¥993.8 billion, up ¥536.0 billion from the previous year. Also, total capital expenditures excluding property on operating leases for the year amounted to ¥627.0 billion, up ¥169.2 billion from the previous year.

In the motorcycle business, we made capital expenditures of ¥68.8 billion in the fiscal year ended March 31, 2007. 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 ¥540.8 billion in the fiscal year ended March 31, 2007. 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.

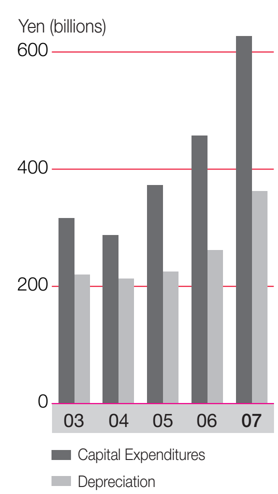
In the financial services segment, capital expenditures excluding property on operating leases amounted to ¥0.9 billion in the fiscal year ended March 31, 2007, while capital expenditures for property on operating leases were ¥366.7 billion. Capital expenditures in power product and other businesses in the fiscal year ended March 31, 2007, totaling ¥16.3 billion, were deployed to upgrade, streamline, and modernize manufacturing facilities for power products, and to improve R&D facilities for power products.

The Company did not sell or dispose of any major facilities in the fiscal year ended March 31, 2007.

Spending by business segment is shown below.

	Yen (millions)	
Years ended March 31	2006	**2007**
Motorcycle Business	¥ 52,246	**¥ 68,880**
Automobile Business	392,934	**540,859**
Financial Services	1,316	**933**
Power Product and Other Businesses	11,345	**16,394**
Total	¥457,841	**¥627,066**
Purchase of operating lease assets	¥ —	**¥366,795**

Capital Expenditures and Depreciation
Years ended March 31



Plans after Fiscal 2007

Honda plans to build a new engine plant in Ogawa-machi Hiki-gun, Saitama with an investment of approximately ¥25,000 million. The annual production capacity of this new plant will be approximately 200,000 units. This new plant should begin operation in 2009. The amount of this capital expenditure is included in the plan of new auto plant in Yorii-machi Oosato-gun, Saitama with an investment of approximately ¥70,000 million, which was announced last fiscal year.

The estimated amount of capital expenditures in fiscal 2008 is shown below.

Year ending March 31	Yen (millions) 2008
Motorcycle Business	¥ 92,800
Automobile Business	588,000
Financial Services	1,300
Power Product and Other Businesses	27,900
Total	¥710,000

The estimated amount of capital expenditures in fiscal 2008 for financial services does not include property on operating leases.

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 control 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 mainly 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 ¥4,470.4 billion as of March 31, 2007.

Cash Flows

Consolidated cash and cash equivalents amounted to ¥945.5 billion as of March 31, 2007, up ¥228.7 billion, or 31.9%, from a year earlier, mainly owing to the increases in net cash provided by operating and financing activities, offset in part by the increase in net cash used in investing activities as described below.

Net cash provided by operating activities amounted to ¥904.5 billion. Factors increasing operating cash flows included continued significant growth in sales and stable operating margins (excluding the effect of the non-cash gain on return in the prior year), accompanied by lower increases in net operating assets and liabilities in the current year.

Net cash used in investing activities totaled ¥1,130.7 billion. Factors increasing net cash used in investing cash flows were mainly due to ¥597.9 billion in capital expenditures associated with introducing new models, upgrading, streamlining and renewing production facilities, and the improvement of Sales and R&D facilities. Other factors were ¥240.2 billion increase in acquisition of finance subsidiaries-receivables and ¥365.5 billion increase of property on operating leases associated with higher sales of automobiles in North America and elsewhere.

Net cash provided by financing activities was ¥423.4 billion. During the year, Honda raised ¥306.0 billion in short-term debt through the issue of commercial paper, and also raised ¥969.4 billion in long-term debt through the issue of bonds and medium-term notes to meet capital requirements associated mainly with an increase in liabilities of finance subsidiaries, as well as to repay ¥677.5 billion in long-term debt. By contrast, Honda also made ¥26.6 billion in payments for purchase of treasury stock and ¥140.4 billion in cash dividends paid.

Liquidity

The ¥945.5 billion in cash and cash equivalents at end of year corresponds to approximately 1.0 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 carry total short-term borrowings of ¥1,842.1 billion in the form of commercial paper issued regularly to replace debt. This serves as alternative liquidity for a back-up credit line equivalent to ¥826.1 billion. Honda believes it currently has sufficient credit limits, extended by prominent international banks.

Honda believes it has adequate liquidity to meet its cash obligations for the near future at least for the year ending March 31, 2008.

Honda's short- and long-term debt securities are rated by credit rating agencies, such as Moody's Investor 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 this 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 uses different standards for calculating Honda's credit rating, and also makes its own assessments. Ratings can be revised or nullified by agencies at any time. These ratings are not meant to serve as a recommendation for trading in or holding debt.

Off-Balance Sheet Arrangements

Special Purpose Entity

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

Guarantee

At March 31, 2007, we guaranteed ¥41.1 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 ¥41.1 billion. As of March 31, 2007, 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.

Tabular Disclosure of Contractual Obligations

The following table shows our contractual obligations at March 31, 2007:

	Yen (millions)				
	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	¥2,681,152	¥775,409	¥1,374,355	¥504,705	¥26,683
Operating leases	128,978	25,354	34,703	23,543	45,378
Purchase commitments(*)	78,027	78,027	—	—	—

(*) Honda had commitments for purchases of property, plant and equipment at March 31, 2007.

Honda expects to contribute ¥33,953 million to its domestic pension plans and ¥37,187 million to its foreign pension plans in the year ending March 31, 2008.

At March 31, 2007, 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.

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 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.

Additional detailed information about the changes in provisions for the product warranties for each of the years in the two-year period ended March 31, 2007 is described in Note (18) to the accompanying consolidated financial statements.

(Credit Losses)

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

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.

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 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 2007 in our North America portfolio, the provision for fiscal 2007 and the allowance balance at the end of fiscal 2007 would have increased by approximately ¥5.5 billion and ¥2.8 billion, respectively. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2007.

Additional Narrative of the Change in Credit Loss as Below

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

	Yen (billions)		
Fiscal years ended March 31	2005	2006	**2007**
Charge-offs (net of recoveries)	¥ 23.1	¥ 22.8	**¥ 26.2**
Provision for credit losses	31.7	27.4	**25.5**
Allowance for credit losses	29.2	30.1	**28.7**
Ending receivable balance	3,613.6	4,166.5	**4,351.8**
Average receivable balance, net	3,333.5	3,938.2	**4,330.8**
Charge-offs as a % of average receivable balance	0.70%	0.58%	**0.61%**
Allowance as a % of ending receivable balance	0.81%	0.72%	**0.66%**

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 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 finance 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, 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, 2007, 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 about ¥0.8 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 about ¥0.1 billion. For operating lease portfolio as of March 31 with the same prerequisite shown above, the impacts would be immaterial. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2007.

(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 and expected long-term rate of return on plan assets are determined based on our evaluation of current market conditions, including changes in interest rates. The salary increase assumptions reflect our actual experience as well as near-term outlook. Our assumed discount rate and rate of salary increase as of March 31, 2007 were 2.0% and 2.3%, respectively, and our assumed expected long-term rate of return for the year ended March 31, 2007 was 4.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2007 were 5.2–6.0% and 2.9–6.4%, respectively, and our assumed expected long-term rate of return for fiscal 2007 was 6.8-8.0% 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 — Yen (billions)

Assumptions	Percentage point change (%)	Funded status	Equity	Pension expense
Discount rate	+0.5/–0.5	–88.1/+99.3	+47.9/–59.8	–5.2/+6.3
Expected long-term rate of return	+0.5/–0.5	—	—	–3.3/+3.3

Foreign Plans — Yen (billions)

Assumptions	Percentage point change (%)	Funded status	Equity	Pension expense
Discount rate	+0.5/–0.5	–43.4/+49.8	+30.7/–35.8	–6.3/+7.3
Expected long-term rate of return	+0.5/–0.5	—	—	–1.8/+1.8

(*1) Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions at March 31, 2007.
(*2) Funded status for fiscal 2007 is affected by March 31, 2007 assumptions. Pension expense for fiscal 2007 is affected by March 31, 2006 assumptions.

Quantitative and Qualitative Disclosure About Market Risk

Honda is exposed to market risks, which are changes in foreign currency exchanges rates, in interest rates and in prices of marketable equity securities. Honda is 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 on the next page provide information about our derivatives related to foreign currency exchange rate risk as of March 31, 2006 and 2007. For forward exchange contracts and currency options, the table presents the contract amounts and fair value. All forward exchange contracts and currency options to which we are a party have original maturities of less than one year.

Foreign Exchange Risk

	2006			2007		
	Yen (millions)		Average contractual rate (Yen)	Yen (millions)		Average contractual rate (Yen)
	Contract amounts	Fair value		Contract amounts	Fair value	
Forward Exchange Contract						
To sell US$	¥270,070	(1,771)	115.88	¥336,005	1,299	117.84
To sell EUR	132,694	(3,333)	138.57	60,305	(963)	154.35
To sell CA$	19,225	(1)	100.59	16,548	(67)	100.88
To sell GBP	82,546	(984)	201.67	173,894	(1,352)	228.48
To sell other foreign currencies	82,985	310	—	36,344	(670)	—
To buy US$	5,535	45	115.78	9,864	(122)	114.93
To buy other foreign currencies	992	22	—	11,358	(85)	—
Cross-currencies	304,078	2,228	—	334,676	(1,533)	—
Total	¥898,125	(3,484)		¥978,994	(3,493)	
Currency Option						
Option purchased to sell US$	¥ 58,446	520	—	¥ —	—	—
Option written to sell US$	104,576	(323)	—	—	—	—
Option purchased to sell other currencies	4,982	19	—	2,317	24	—
Option written to sell other currencies	8,544	(85)	—	3,476	(42)	—
Total	¥176,548	131		¥5,793	(18)	

(Interest Rate Risks)

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, 2006 and 2007. 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 & interest rate swaps, the table presents notional amounts, fair value and weighted average interest rates. Variable interest rates are determined using formulas such as LIBOR+α and an index.

Finance Subsidiaries-Receivables

	2006		2007								
	Yen (millions)		Yen (millions)								Average interest rate
				Expected maturity date							
	Total	Fair value	Total	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	Thereafter	Fair value	
Direct Finance Leases*1:											
JP¥	¥ 24,450	—	¥ 26,894	15,811	5,571	3,247	1,465	800	—	—	4.82%
US$	1,846,959	—	1,426,173	558,263	531,211	309,651	27,039	9	—	—	4.75%
Other	348,691	—	439,499	127,160	97,709	108,119	102,209	4,285	17	—	4.52%
Total—Direct Finance Leases	¥2,220,100	—	¥1,892,566	701,234	634,491	421,017	130,713	5,094	17	—	
Other Finance Receivables:											
JP¥	¥ 412,415	377,036	¥ 402,970	135,176	103,753	75,794	48,250	25,086	14,911	398,869	4.82%
US$	1,982,413	1,935,956	2,485,210	876,988	525,019	466,471	350,458	210,906	55,368	2,545,210	7.03%
Other	428,934	405,397	487,922	265,085	94,556	67,451	40,621	17,573	2,636	411,955	7.48%
Total—Other Finance Receivables	¥2,823,762	2,718,389	¥3,376,102	1,277,249	723,328	609,716	439,329	253,565	72,915	3,356,034	
Retained interest in the sold pools of finance receivables*2	94,634	94,634	88,110							88,110	
Total*3	¥5,138,496		¥5,356,778								

*1 : Under U.S. generally accepted accounting principles, disclosure of fair values of direct finance leases is not required.
*2 : The retained interest in the sold pools of finance receivables is accounted for as "trading" securities and is reported at fair value.
*3 : 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 (4) to the accompanying consolidated financial statements.

Long-Term Debt (including current maturities)

	2006		2007								
	Yen (millions)		Yen (millions)								
				Expected maturity date							Average interest
	Total	Fair value	Total	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	Thereafter	Fair value	rate
Japanese yen bonds	¥ 231,200	228,555	¥ 230,129	50,050	30,048	60,049	59,992	29,990	—	229,379	0.89%
Japanese yen medium-term notes (Fixed rate)	374,624	374,887	367,900	114,000	103,400	70,500	62,000	18,000	—	368,425	0.80%
Japanese yen medium-term notes (Floating rate)	100,696	101,328	85,200	24,500	38,000	19,700	—	3,000	—	85,525	0.77%
U.S. dollar medium-term notes (Fixed rate)	336,512	334,377	354,500	35,409	107,539	88,147	58,764	41,135	23,506	357,121	4.52%
U.S. dollar medium-term notes (Floating rate)	986,010	995,905	1,171,527	444,023	480,341	153,140	35,259	58,764	—	1,183,041	5.38%
U.S. dollar commercial paper	204,893	204,893	—	—	—	—	—	—	—	—	—
Loans and others—primarily fixed rate	302,710	303,969	471,896	107,427	129,322	94,169	101,964	35,837	3,177	471,384	4.14%
Total	¥2,536,645	2,543,914	¥2,681,152	775,409	888,650	485,705	317,979	186,726	26,683	2,694,875	

Interest Rate Swaps

		2006		2007									
		Yen (millions)		Yen (millions)									
					Expected maturity date								
Notional principal currency	Receive/Pay	Contract amounts	Fair value	Contract amounts	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	Thereafter	Fair value	Average receive rate	Average pay rate
JP¥	Float/Fix	¥ 1,455	(3)	¥ 5,858	150	4,582	326	800	—	—	—	1.01%	1.45%
US$	Float/Fix	2,712,564	39,965	2,933,563	1,195,922	964,636	633,560	120,409	19,036	—	8,661	5.35%	4.65%
	Fix/Float	337,726	(6,426)	355,921	35,414	108,016	88,538	59,025	41,318	23,610	(1,878)	4.52%	5.50%
	Float/Float	52,274	(311)	90,899	32,464	49,581	8,854	—	—	—	(205)	5.20%	5.36%
CA$	Float/Fix	433,089	4,445	490,691	126,528	134,859	116,808	89,792	22,704	—	2,186	4.09%	3.94%
	Fix/Float	71,663	(1,067)	75,961	6,817	18,832	18,677	6,373	25,196	66	(346)	3.95%	4.44%
	Float/Float	185,057	(303)	195,325	74,134	64,383	37,207	14,701	4,834	66	(302)	4.04%	4.13%
GBP	Float/Fix	54,927	32	48,314	16,408	10,321	11,377	10,208	—	—	333	4.81%	4.90%
	Fix/Float	8,993	—	1,931	1,563	368	—	—	—	—	—	5.11%	5.62%
Total		¥3,857,748	36,332	¥4,198,463	1,489,400	1,355,578	915,347	301,308	113,088	23,742	8,449		

Currency & Interest Rate Swaps

			2006		2007									
			Yen (millions)		Yen (millions)									
						Expected maturity date								
Receiving side currency	Paying side currency	Receive/Pay	Contract amounts	Fair value	Contract amounts	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	Thereafter	Fair value	Average receive rate	Average pay rate
JP¥	US$	Fix/Float	¥393,389	(22,996)	¥386,064	117,555	109,379	76,071	64,740	18,319	—	(21,728)	0.80%	5.61%
		Float/Float	103,823	(5,520)	87,414	25,374	40,496	18,516	3,028	—	—	(4,940)	0.77%	5.58%
JP¥	CA$	Fix/Float	2,772	(610)	2,790	—	—	2,790	—	—	—	(628)	0.95%	4.75%
Other	Other	Fix/Float	70,041	736	70,387	—	—	—	70,387	—	—	6,425	3.75%	5.50%
		Float/Float	14,333	241	61,879	—	22,471	39,408	—	—	—	3,334	3.99%	5.42%
Total			¥584,358	(28,149)	¥608,534	142,929	172,346	136,785	138,155	18,319	—	(17,537)		

(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, 2006 and 2007, the estimated fair value of marketable equity securities was ¥141.8 billion and ¥169.2 billion, respectively.

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 reserves. Punitive damages are claimed in certain of these lawsuits. We are also subject to potential liability by other various lawsuits and claims.

75 purported class actions on behalf of all purchasers of new motor vehicles in the United States since January 1, 2001, have been filed in various state and federal courts against American Honda Motor Co., Inc., Honda Canada, Inc., General Motors, Ford, Daimler Chrysler, Toyota, Nissan, and Volkswagen and their Canadian affiliates, the National Automobile Dealers Association and the Canadian Automobile Dealers Association. Several of the state court actions also name Honda Motor Co., Ltd. as a defendant, as well as other Japanese and German parent companies of United States based subsidiaries. The federal court actions have been consolidated for coordinated pretrial proceedings in federal court in Maine and 37 California cases have been consolidated in the state court in San Francisco. Additionally, there are pending cases in seven other states.

The nearly identical complaints allege that the manufacturer defendants, aided by the association defendants, conspired among themselves and with their dealers to prevent United States citizens from purchasing vehicles produced for the Canadian market and sold by dealers in Canada. The complaints allege that new vehicle prices in Canada are 10 to 30% lower than those in the United States and that preventing the sale of these vehicles to United States citizens resulted in the payment of supracompetitive prices by United States consumers. The complaints seek treble damages under the antitrust laws, but do not specify damages. The federal court has certified a class for injunctive relief and damages. We believe our actions have been lawful and are vigorously defending these cases.

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

Consolidated Balance Sheets

Honda Motor Co., Ltd. and Subsidiaries March 31, 2006 and 2007	Yen (millions)		U.S. dollars (millions) (note 2)
Assets	2006*	**2007**	**2007**
Current assets:			
Cash and cash equivalents	¥ 716,788	**¥ 945,546**	**$ 8,010**
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥10,689 million in 2006 and ¥8,199 million ($69 million) in 2007 (notes 4 and 20)	963,320	**1,055,470**	**8,941**
Finance subsidiaries–receivables, net (notes 4, 9 and 20)	1,230,912	**1,426,224**	**12,082**
Inventories (note 5)	1,036,304	**1,183,116**	**10,022**
Deferred income taxes (note 11)	221,294	**215,172**	**1,823**
Other current assets (notes 7, 9 and 16)	406,985	**426,863**	**3,615**
Total current assets	4,575,603	**5,252,391**	**44,493**
Finance subsidiaries–receivables, net (notes 4, 9 and 20)	2,982,425	**3,039,826**	**25,750**
Investments and advances:			
Investments in and advances to affiliates (note 6)	408,993	**487,538**	**4,130**
Other, including marketable equity securities (note 7)	298,460	**254,610**	**2,157**
Total investments and advances	707,453	**742,148**	**6,287**
Property on operating leases (note 8)**:**			
Vehicles	—	**345,909**	**2,930**
Less accumulated depreciation	—	**9,700**	**82**
Net property on operating leases	—	**336,209**	**2,848**
Property, plant and equipment, at cost (note 9)**:**			
Land	384,447	**429,373**	**3,637**
Buildings	1,149,517	**1,322,394**	**11,202**
Machinery and equipment	2,562,507	**2,988,064**	**25,312**
Construction in progress	115,818	**204,318**	**1,731**
	4,212,289	**4,944,149**	**41,882**
Less accumulated depreciation and amortization	2,397,022	**2,865,421**	**24,273**
Net property, plant and equipment	1,815,267	**2,078,728**	**17,609**
Other assets (notes 4, 9, 11 and 16)	550,652	**587,198**	**4,974**
Total assets	¥10,631,400	**¥12,036,500**	**$101,961**

See accompanying notes to consolidated financial statements.

* See note 3.

Liabilities, Minority Interests and Stockholders' Equity	Yen (millions) 2006*	Yen (millions) 2007	U.S. dollars (millions) (note 2) 2007
Current liabilities:			
Short-term debt (note 9)	¥ 693,557	**¥ 1,265,868**	**$ 10,723**
Current portion of long-term debt (note 9)	657,645	**775,409**	**6,568**
Trade payables:			
Notes	31,698	**33,276**	**282**
Accounts	1,015,409	**1,133,280**	**9,600**
Accrued expenses	786,972	**807,341**	**6,839**
Income taxes payable (note 11)	110,160	**76,031**	**644**
Other current liabilities (notes 9, 11 and 16)	198,226	**196,322**	**1,664**
Total current liabilities	3,493,667	**4,287,527**	**36,320**
Long-term debt, excluding current portion (note 9)	1,879,000	**1,905,743**	**16,144**
Other liabilities (notes 9, 10, 11, 13 and 16)	1,045,523	**1,237,712**	**10,484**
Total liabilities	6,418,190	**7,430,982**	**62,948**
Minority interests in consolidated subsidiaries	87,460	**122,907**	**1,041**
Stockholders' equity:			
Common stock, authorized 7,086,000,000 shares in 2006 and in 2007; issued 1,834,828,430 shares in 2006 and in 2007	86,067	**86,067**	**729**
Capital surplus	172,529	**172,529**	**1,461**
Legal reserves (note 12)	35,811	**37,730**	**320**
Retained earnings (note 12)	4,267,886	**4,654,890**	**39,432**
Accumulated other comprehensive income (loss), net (notes 7, 11, 13, 15 and 17)	(407,187)	**(427,166)**	**(3,619)**
Treasury stock, at cost 8,680,000 shares in 2006 and 12,835,522 shares in 2007	(29,356)	**(41,439)**	**(351)**
Total stockholders' equity	4,125,750	**4,482,611**	**37,972**
Commitments and contingent liabilities (notes 18 and 19)			
Total liabilities, minority interests and stockholders' equity	¥10,631,400	**¥12,036,500**	**$101,961**

Consolidated Statements of Income

Honda Motor Co., Ltd. and Subsidiaries Years ended March 31, 2005, 2006 and 2007	Yen (millions)			U.S. dollars (millions) (note 2)
	2005*	2006*	**2007**	**2007**
Net sales and other operating revenue (note 4)	¥8,650,105	¥9,907,996	**¥11,087,140**	**$93,919**
Operating costs and expenses:				
Cost of sales (note 4)	6,038,172	7,010,357	**7,865,142**	**66,626**
Selling, general and administrative	1,513,259	1,656,365	**1,818,272**	**15,402**
Research and development	467,754	510,385	**551,847**	**4,675**
	8,019,185	9,177,107	**10,235,261**	**86,703**
Gain on transfer of the substitutional portion of the Employees' Pension Funds (note 13)	—	138,016	**—**	**—**
Operating income	630,920	868,905	**851,879**	**7,216**
Other income (notes 1 (q) and 7)**:**				
Interest	10,696	27,363	**42,364**	**359**
Other	60,541	2,214	**13,243**	**112**
	71,237	29,577	**55,607**	**471**
Other expenses (notes 1 (q) and 7)**:**				
Interest	11,655	11,902	**12,912**	**109**
Other	22,138	56,676	**101,706**	**862**
	33,793	68,578	**114,618**	**971**
Income before income taxes, minority interest and equity in income of affiliates	668,364	829,904	**792,868**	**6,716**
Income tax (benefit) expense (note 11)**:**				
Current	151,146	319,945	**300,294**	**2,544**
Deferred	115,519	(2,756)	**(16,448)**	**(140)**
	266,665	317,189	**283,846**	**2,404**
Income before minority interest and equity in income of affiliates	401,699	512,715	**509,022**	**4,312**
Minority interest in income of consolidated subsidiaries	(11,559)	(15,287)	**(20,117)**	**(170)**
Equity in income of affiliates (note 6)	96,057	99,605	**103,417**	**876**
Net income	¥ 486,197	¥ 597,033	**¥ 592,322**	**$ 5,018**

	Yen			U.S. dollars (note 2)
	2005	2006	**2007**	**2007**
Basic net income per common share (note 1 (o))	¥ 260.34	¥ 324.33	**¥ 324.62**	**$ 2.75**

See accompanying notes to consolidated financial statements.

* See note 3.

Consolidated Statements of Stockholders' Equity and Comprehensive Income

Honda Motor Co., Ltd. and Subsidiaries
Years ended March 31, 2005, 2006 and 2007

	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, 2004	¥86,067	¥172,719	¥32,418	¥3,589,434	¥(854,573)	¥(151,665)	¥2,874,400
Transfer to legal reserves			2,270	(2,270)			—
Cash dividends				(47,797)			(47,797)
Comprehensive income (loss):							
Net income				486,197			486,197
Other comprehensive income (loss), net of tax (note 15)							
Adjustments from foreign currency translation					40,476		40,476
Unrealized gains (losses) on marketable securities:							
Unrealized holding gains (losses)					(3,668)		(3,668)
Reclassification adjustments for losses (gains) realized in net income					1,346		1,346
Unrealized gains (losses) on derivative instruments:							
Unrealized holding gains (losses)							—
Reclassification adjustments for losses (gains) realized in net income							—
Minimum pension liabilities adjustment					22,485		22,485
Total comprehensive income							546,836
Purchase of treasury stock						(84,160)	(84,160)
Reissuance of treasury stock		2		—		13	15
Retirement of treasury stock		(190)		(216,181)		216,371	—
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 15)							
Adjustments from foreign currency translation					249,160		249,160
Unrealized gains (losses) on marketable securities:							
Unrealized holding gains (losses)					29,807		29,807
Reclassification adjustments for losses (gains) realized in net income					(841)		(841)
Unrealized gains (losses) on derivative instruments:							
Unrealized holding gains (losses)					(26)		(26)
Reclassification adjustments for losses (gains) realized in net income					(38)		(38)
Minimum pension liabilities adjustment					108,685		108,685
Total comprehensive income							983,780
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

Consolidated Statements of Stockholders' Equity and Comprehensive Income

	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, 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 15)							
Adjustments from foreign currency translation					96,775		96,775
Unrealized gains (losses) on marketable securities:							
Unrealized holding gains (losses)					1,004		1,004
Reclassification adjustments for losses (gains) realized in net income					(5,575)		(5,575)
Unrealized gains (losses) on derivative instruments:							
Unrealized holding gains (losses)					(337)		(337)
Reclassification adjustments for losses (gains) realized in net income					421		421
Minimum pension liabilities adjustment					8,908		8,908
Total comprehensive income							693,518
Adjustment for initially applying SFAS No. 158, net of tax (note 13)					(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**

	U.S. dollars (millions) (note2)						
	Common stock	Capital surplus	Legal reserves	Retained earnings	Accumulated other comprehensive income (loss), net	Treasury stock	Total stockholders' equity
Balance at March 31, 2006	$729	$1,461	$303	$36,153	$(3,449)	$(249)	$34,948
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax (note 1(u))	—	—	—	(530)	153	—	(377)
Adjusted balances as of March 31, 2006	729	1,461	303	35,623	(3,296)	(249)	34,571
Transfer to legal reserves			17	(17)			—
Cash dividends				(1,190)			(1,190)
Comprehensive income (loss):							
Net income				5,018			5,018
Other comprehensive income (loss), net of tax (note 15)							
Adjustments from foreign currency translation					820		820
Unrealized gains (losses) on marketable securities:							
Unrealized holding gains (losses)					8		8
Reclassification adjustments for losses (gains) realized in net income					(47)		(47)
Unrealized gains (losses) on derivative instruments:							
Unrealized holding gains (losses)					(3)		(3)
Reclassification adjustments for losses (gains) realized in net income					4		4
Minimum pension liabilities adjustment					75		75
Total comprehensive income							5,875
Adjustment for initially applying SFAS No. 158, net of tax (note 13)					(1,180)		(1,180)
Purchase of treasury stock						(262)	(262)
Reissuance of treasury stock				(2)		160	158
Retirement of treasury stock							—
Balance at March 31, 2007	**$729**	**$1,461**	**$320**	**$39,432**	**$(3,619)**	**$(351)**	**$37,972**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Honda Motor Co., Ltd. and Subsidiaries
Years ended March 31, 2005, 2006 and 2007

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005*	2006*	**2007**	**2007**
Cash flows from operating activities (note 14)**:**				
Net income	¥ 486,197	¥ 597,033	**¥ 592,322**	**$ 5,018**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation excluding property on operating leases	225,752	262,225	**361,747**	**3,064**
Depreciation of property on operating leases	—	—	**9,741**	**83**
Deferred income taxes	115,519	(2,756)	**(16,448)**	**(139)**
Minority interest in income	11,559	15,287	**20,117**	**170**
Equity in income of affiliates	(96,057)	(99,605)	**(103,417)**	**(876)**
Dividends from affiliates	35,824	64,055	**54,849**	**465**
Provision for credit and lease residual losses on finance subsidiaries–receivables	50,638	36,153	**44,128**	**374**
Loss (gain) on derivative instruments, net	(60,432)	10,351	**56,836**	**481**
Gain on transfer of the substitutional portion of the Employees' Pension Funds (note 13)	—	(138,016)	**—**	**—**
Decrease (increase) in assets:				
Trade accounts and notes receivable	(70,145)	(113,259)	**(49,529)**	**(420)**
Inventories	(79,483)	(109,661)	**(96,839)**	**(820)**
Other current assets	10,280	(59,484)	**(15,206)**	**(129)**
Other assets	(78,130)	(81,796)	**(5,523)**	**(47)**
Increase (decrease) in liabilities:				
Trade accounts and notes payable	66,488	21,420	**38,186**	**323**
Accrued expenses	41,101	51,653	**41,898**	**355**
Income taxes payable	33,704	39,900	**(37,282)**	**(316)**
Other current liabilities	19,973	6,126	**1,103**	**9**
Other liabilities	66,621	80,410	**14,274**	**121**
Other, net	5,761	604	**(6,432)**	**(54)**
Net cash provided by operating activities	785,170	580,640	**904,525**	**7,662**
Cash flows from investing activities:				
Increase in investments and advances	(25,661)	(17,314)	**(9,874)**	**(84)**
Decrease in investments and advances	15,985	3,711	**3,829**	**32**
Payment for purchase of available-for-sale securities	(96,829)	(158,011)	**(141,902)**	**(1,202)**
Proceeds from sales of available-for-sale securities	154,253	129,496	**172,806**	**1,464**
Payment for purchase of held-to-maturity securities	(20,856)	(63,395)	**(13,614)**	**(115)**
Proceeds from redemption of held-to-maturity securities	—	55,990	**41,109**	**348**
Capital expenditures	(373,980)	(460,021)	**(597,958)**	**(5,065)**
Proceeds from sales of property, plant and equipment	14,216	39,951	**20,641**	**175**
Acquisitions of finance subsidiaries–receivables	(2,710,520)	(3,031,644)	**(2,857,024)**	**(24,202)**
Collections of finance subsidiaries–receivables	1,561,299	1,870,675	**2,138,875**	**18,118**
Proceeds from sales of finance subsidiaries–receivables	684,308	930,595	**477,927**	**4,049**
Purchase of operating lease assets	—	—	**(366,795)**	**(3,107)**
Proceeds from sales of operating lease assets	—	—	**1,276**	**11**
Net cash used in investing activities	(797,785)	(699,967)	**(1,130,704)**	**(9,578)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt, net	20,244	(124,941)	**306,063**	**2,593**
Proceeds from long-term debt	704,433	865,677	**969,491**	**8,213**
Repayment of long-term debt	(495,238)	(568,605)	**(677,539)**	**(5,740)**
Cash dividends paid (note 12)	(47,797)	(71,061)	**(140,482)**	**(1,190)**
Cash dividends paid to minority interests	(2,722)	(4,083)	**(7,434)**	**(63)**
Payment for purchase of treasury stock, net	(84,147)	(77,064)	**(26,689)**	**(226)**
Net cash provided by financing activities	94,773	19,923	**423,410**	**3,587**
Effect of exchange rate changes on cash and cash equivalents	12,394	43,406	**31,527**	**267**
Net change in cash and cash equivalents	94,552	(55,998)	**228,758**	**1,938**
Cash and cash equivalents at beginning of year*	678,234	772,786	**716,788**	**6,072**
Cash and cash equivalents at end of year	¥ 772,786	¥ 716,788	**¥ 945,546**	**$ 8,010**

See accompanying notes to consolidated financial statements.

* See note 3.

Honda Motor Co., Ltd. and Subsidiaries

1. General and Summary of Significant Accounting Policies

(a) Description of Business

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

(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 the Company is the primary beneficiary under the Financial Accounting Standard Boards (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 the Company has the ability to exercise significant influence over their operating and financial policies, but where the Company does not have a controlling financial interest are accounted for using the equity method.

(d) Use of Estimates

Management of Honda has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with 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, realizable values of inventories, realization of deferred tax assets, impairment of long-lived assets, product warranty obligations, and the fair values of assets and obligations related to employee benefits. Actual results could differ from those estimates.

(e) Revenue Recognition

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

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

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. A servicing asset or liability is amortized in proportion to and over the period of estimated net servicing income. Servicing assets and servicing liabilities at March 31, 2006 and 2007 were not significant.

(f) Cash Equivalents

Honda considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market funds and commercial paper, and amount to ¥96,325 million and ¥117,182 million ($993 million) as of March 31, 2006 and 2007, 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

Honda classifies its debt and equity securities in the following categories: available-for-sale, trading, or held-to-maturity. Debt securities that are classified as "held-to-maturity" securities are reported at amortized cost. Debt and 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. Honda did not hold any "trading" securities at March 31, 2006 and 2007, 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

Honda accounts for goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". Goodwill, all of which is allocated to Honda's reporting units, is not amortized but instead is tested for impairment at least annually. Honda completed its annual tests for March 31, 2005, 2006, and 2007 and concluded no impairment needed to be recognized. The carrying amount of goodwill at March 31, 2006 and 2007 was ¥27,951 million and ¥30,590 million ($259 million), respectively.

(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 at inception by using our estimate of future used vehicle values, taking into consideration data obtained from third parties.

(k) Depreciation

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

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

Asset	Life
Buildings	3 to 50 years
Machinery and equipment	2 to 20 years

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

Honda's long-lived assets and identifiable intangibles 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.

(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, 2007 were ¥246,997 million, ¥287,901 million and ¥308,409 million ($2,613 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, 2005, 2006 and 2007 was 1,867,535,957, 1,840,799,671 and 1,824,675,228 respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2005, 2006 or 2007.

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.

(p) Foreign Currency Translation

Foreign currency financial statement amounts are translated into Japanese yen on the basis of the year-end rate for all assets and liabilities and the weighted average rate for the year for all income and expense amounts. 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, 2007 are as follows:

Yen (millions)			U.S. dollars (millions) (note 2)
2005	2006	**2007**	**2007**
¥(17,146)	¥(38,880)	**¥(48,261)**	**$(409)**

(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 of all derivative financial instruments in its consolidated balance sheet.

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

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

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, 2005, 2006 and 2007 are ¥44,905 million gain, ¥55,516 million loss and ¥48,485 million ($411 million) loss, respectively. In relation to this, the Company included gains and losses on translation of debts of finance subsidiaries denominated in foreign currencies intended to be hedged of ¥10,667 million gain, ¥45,046 million gain and ¥8,351 million ($71 million) loss in other income (expenses)—other during the years ended March 31, 2005, 2006 and 2007, respectively. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by mainly finance subsidiaries of ¥28,000 million loss, ¥827 million gain and ¥3,309 million ($28 million) gain are included in other income (expenses)—other during the years ended March 31, 2005, 2006 and 2007, 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, 2007 are as follows:

Yen (millions)			U.S. dollars (millions) (note 2)
2005	2006	**2007**	**2007**
¥159,472	¥181,675	**¥219,361**	**$1,858**

(s) Asset Retirement Liability

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

(t) New Accounting Pronouncements

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

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

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

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)". This statement amends SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension and for Termination Benefits", SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", and SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits". This statement requires an employer to recognize the overfunded or underfunded status as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. This statement replaces SFAS No. 87's requirement to report at least minimum pension liability measured as excess at the accumulated benefit obligation over the fair value at the plan assets. The Company and its consolidated subsidiaries adopted SFAS No.158 on March 31, 2007. Detailed information about the impact of the adoption of SFAS No. 158 is provided in note 13 to the accompanying consolidated financial statements.

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. The measurement provisions of this statement are effective for fiscal years ending after December 15, 2008.

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, with early adoption being permitted. Management is currently in process of determining whether to early adopt this statement and quantifying the financial impact of adoption.

(u) Cumulative Effect of Prior Year Adjustments

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 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 the Company's beginning retained earnings and beginning accumulated other comprehensive loss for 2007 by ¥62,640 million ($530 million), net of tax effect of ¥31,235 million ($265 million), and ¥18,149 million ($153 million), respectively, for the items described below and incremental effects on the consolidated balance sheet are shown in the table 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 properly, 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 occured.
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.

The impact of the affected line items in the consolidated balance sheet at the beginning of fiscal year ended March 31, 2007 is as follows.

Consolidated Balance Sheet

	Yen (millions)			
Assets	1	2	3	Cumulative Effect of Prior Year Adjustment as of April 1, 2006
Investments and advances:				
Investments in and advances to affiliates	(4,546)	36,274	—	31,728
Total investments and advances	(4,546)	36,274	—	31,728
Property, plant and equipment, at cost:				
Less accumulated depreciation and amortization	109,308	—	—	109,308
Net property, plant and equipment	(109,308)	—	—	(109,308)
Other assets	43,722	—	—	43,722
Total assets	(70,132)	36,274	—	(33,858)

	Yen (millions)			
Liabilities, Minority Interests and Stockholders' Equity	1	2	3	Cumulative Effect of Prior Year Adjustment as of April 1, 2006
Other liabilities	(1,818)	14,305	—	12,487
Total liabilities	(1,818)	14,305	—	12,487
Minority interests in consolidated subsidiaries	(1,854)	—	—	(1,854)
Stockholders' equity:				
Retained earnings	(66,460)	21,969	(18,149)	(62,640)
Accumulated other comprehensive income (loss), net	—	—	18,149	18,149
Total stockholders' equity	(66,460)	21,969	—	(44,491)
Total liabilities, minority interests and stockholders' equity	(70,132)	36,274	—	(33,858)

(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, 2007. Detailed information is provided in note 3.

2. Basis of Translating Financial Statements

The consolidated financial statements are expressed in Japanese yen. However, the consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars at the rate of ¥118.05 = U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2007. Those U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the reader. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

3. Revisions of Classifications

Certain revisions for misclassifications have been made to the prior years' consolidated financial statements.

(a) Minority interest and minority interest in income, which were included in other liabilities and other expenses-other, respectively, have been revised to be disclosed independently in consolidated balance sheets and consolidated statements of income. Minority interest in income and cash dividends paid to minority interests, which were included in other liabilities and other, net, in cash flows from operating activities, have been revised to be disclosed independently in cash flows from operating activities and cash flows from financing activities, respectively, in the consolidated statements of cash flows.

(b) Auction rate securities, which were classified as cash equivalents, have been revised to be classified as available-for-sale securities due within one year, which are included in other current assets in the consolidated balance sheets. Payment for purchase of auction rate securities and proceeds from sales of auction rate securities have been revised to be classified in payment for purchase of available-for-sale securities and proceeds from sales of available-for-sale securities in the consolidated statements of cash flows, respectively.

(c) The long-term portion of deferred tax liabilities and deferred tax assets related to the lease transactions of finance subsidiaries, which were classified in other current liabilities and deferred income taxes, have been revised to be classified in other liabilities and other assets, respectively.

(d) The long-term portion of accrued expenses and prepaid expenses related to pension benefit plans, which were included in accrued expenses and other current assets have been revised to be classified in other liabilities and other assets, respectively. The long-term portion of deferred tax liabilities, which were included in other current liabilities, and deferred tax assets, have also been revised to classified in other liabilities and other assets.

(e) The long-term portion of prepaid expenses, deferred income and accrued expenses related to extended vehicle service contracts of the subsidiaries in the United States, which were included in other current assets, trade payables accounts and accrued expenses, respectively, have been revised to be classified in other liabilities and other assets. The long-term portion of related deferred tax liabilities, which were included in other current liabilities, and deferred income taxes have also been revised to be classified in other liabilities and other assets.

(f) Certain consolidated subsidiaries' assets, which were classified in investment and advances—other, have been revised to be classified in other assets.

The impact of the affected line items in the consolidated balance sheet at March 31, 2006 and in the consolidated statements of income and the consolidated statements of cash flows for the years ended March 31, 2005 and 2006 are as follows:

Consolidated Balance Sheet

	Yen (millions)								
Assets	2006 Previously reported	(a)	(b)	(c)	(d)	(e)	(f)	Total	2006 After revised
Cash and cash equivalents	747,327		(30,539)					(30,539)	716,788
Deferred income taxes	198,033			80,859	(33,845)	(23,753)		23,261	221,294
Other current assets	450,002		30,539		(22,097)	(51,459)		(43,017)	406,985
Total current assets	4,625,898	—	—	80,859	(55,942)	(75,212)	—	(50,295)	4,575,603
Investments and advances:									
Other, including marketable equity securities	286,092						12,368	12,368	298,460
Total investments and advances	695,085	—	—	—	—	—	12,368	12,368	707,453
Other assets	453,006				22,097	87,917	(12,368)	97,646	550,652
Total assets	10,571,681	—	—	80,859	(33,845)	12,705	—	59,719	10,631,400

	Yen (millions)								
Liailities, Minority Interests and Stockholders' Equity	2006 Previously reported	(a)	(b)	(c)	(d)	(e)	(f)	Total	2006 After revised
Trade payables:									
Accounts	1,099,902					(84,493)		(84,493)	1,015,409
Accrued expenses	930,115				(105,605)	(37,538)		(143,143)	786,972
Other current liabilities	466,332			(268,106)				(268,106)	198,226
Total current liabilities	3,989,409	—	—	(268,106)	(105,605)	(122,031)	—	(495,742)	3,493,667
Other liabilities	577,522	(87,460)		348,965	71,760	134,736		468,001	1,045,523
Total liabilities	6,445,931	(87,460)	—	80,859	(33,845)	12,705	—	(27,741)	6,418,190
Minority interests in consolidated subsidiaries	—	87,460						87,460	87,460
Total liabilities, minority interests and stockholders' equity	10,571,681	—	—	80,859	(33,845)	12,705	—	59,719	10,631,400

Consolidated Statements of Income

	Yen (millions)		
	2006 Previously reported	(a)	2006 After revised
Income before income taxes, minority interest and equity in income of affiliates	814,617	15,287	829,904
Income before minority interest and equity in income of affiliates	497,428	15,287	512,715
Minority interest in income of consolidated subsidiaries	—	(15,287)	(15,287)
Net income	597,033	—	597,033

	Yen (millions)		
	2005 Previously reported	(a)	2005 After revised
Income before income taxes, minority interest and equity in income of affiliates	656,805	11,559	668,364
Income before minority interest and equity in income of affiliates	390,140	11,559	401,699
Minority interest in income of consolidated subsidiaries	—	(11,559)	(11,559)
Net income	486,197	—	486,197

Consolidated Statements of Cash Flows

	Yen (millions)						
	2006 Previously reported	(a)	(b)	(d)	(e)	Total	2006 After revised
Cash flows from operating activities							
Adjustments to reconcile net income to net cash provided by operating activities:							
Minority interest in income	—	15,287				15,287	15,287
Decrease (increase) in assets:							
Other current assets	(75,771)			7,765	8,522	16,287	(59,484)
Other assets	(61,482)			(7,765)	(12,549)	(20,314)	(81,796)
Increase (decrease) in liabilities:							
Trade accounts and notes payable	41,360				(19,940)	(19,940)	21,420
Accrued expenses	98,273			(36,426)	(10,194)	(46,620)	51,653
Other liabilities	5,740	4,083		36,426	34,161	74,670	80,410
Other, net	15,891	(15,287)				(15,287)	604
Net cash provided by operating activities	576,557	4,083	—	—	—	4,083	580,640
Cash flows from investing activities:							
Payment for purchase of available-for-sale securities	(6,915)		(151,096)			(151,096)	(158,011)
Proceeds from sales of available-for-sale securities	5,666		123,830			123,830	129,496
Net cash used in investing activities	(672,701)	—	(27,266)	—	—	(27,266)	(699,967)
Cash flows from financing activities:							
Cash dividends paid to minority interests	—	(4,083)				(4,083)	(4,083)
Net cash provided by financing activities	24,006	(4,083)	—	—	—	(4,083)	19,923
Effect of exchange rate changes on cash and cash equivalents	45,927		(2,521)			(2,521)	43,406
Net change in cash and cash equivalents	(26,211)	—	(29,787)	—	—	(29,787)	(55,998)
Cash and cash equivalents at beginning of year	773,538		(752)			(752)	772,786
Cash and cash equivalents at end of year	747,327	—	(30,539)	—	—	(30,539)	716,788

	Yen (millions)						
	2005 Previously reported	(a)	(b)	(d)	(e)	Total	2005 After revised
Cash flows from operating activities							
Adjustments to reconcile net income to net cash provided by operating activities:							
Minority interest in income	—	11,559				11,559	11,559
Decrease (increase) in assets:							
Other current assets	(11,797)			14,332	7,745	22,077	10,280
Other assets	(52,198)			(14,332)	(11,600)	(25,932)	(78,130)
Increase (decrease) in liabilities:							
Trade accounts and notes payable	76,338				(9,850)	(9,850)	66,488
Accrued expenses	71,469			(26,239)	(4,129)	(30,368)	41,101
Other liabilities	19,826	2,722		26,239	17,834	46,795	66,621
Other, net	17,320	(11,559)				(11,559)	5,761
Net cash provided by operating activities	782,448	2,722	—	—	—	2,722	785,170
Cash flows from investing activities:							
Payment for purchase of available-for-sale securities	(1,608)		(95,221)			(95,221)	(96,829)
Proceeds from sales of available-for-sale securities	13,140		141,113			141,113	154,253
Net cash used in investing activities	(843,677)	—	45,892	—	—	45,892	(797,785)
Cash flows from financing activities:							
Cash dividends paid to minority interests	—	(2,722)				(2,722)	(2,722)
Net cash provided by financing activities	97,495	(2,722)	—	—	—	(2,722)	94,773
Effect of exchange rate changes on cash and cash equivalents	12,851		(457)			(457)	12,394
Net change in cash and cash equivalents	49,117	—	45,435	—	—	45,435	94,552
Cash and cash equivalents at beginning of year	724,421		(46,187)			(46,187)	678,234
Cash and cash equivalents at end of year	773,538	—	(752)	—	—	(752)	772,786

4. 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 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, 2006 and 2007:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Direct financing leases	¥2,220,100	**¥1,892,566**	**$16,032**
Retail	2,405,926	**2,923,944**	**24,769**
Wholesale	403,499	**437,242**	**3,704**
Term loans to dealers	14,337	**14,916**	**126**
Total finance receivables	5,043,862	**5,268,668**	**44,631**
Retained interests in the sold pools of finance receivables	94,634	**88,110**	**746**
	5,138,496	**5,356,778**	**45,377**
Less:			
Allowance for credit losses	35,316	**35,020**	**297**
Allowance for losses on lease residual values	37,774	**33,928**	**287**
Unearned interest income and fees	224,901	**143,131**	**1,212**
	4,840,505	**5,144,699**	**43,581**
Less:			
Finance receivables included in trade receivables, net	470,002	**509,697**	**4,318**
Finance receivables included in other assets, net	157,166	**168,952**	**1,431**
Finance subsidiaries-receivables, net	4,213,337	**4,466,050**	**37,832**
Less current portion	1,230,912	**1,426,224**	**12,082**
Noncurrent finance subsidiaries-receivables, net	¥2,982,425	**¥3,039,826**	**$25,750**

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2007 and thereafter:

Years ending March 31	Yen (millions)
2008	**¥1,978,483**
2009	**1,357,819**
2010	**1,030,733**
2011	**570,042**
2012	**258,659**
After five years	**72,932**
	3,290,185
Total	**¥5,268,668**

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, 2007 as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
Finance income	¥259,188	¥310,937	**¥413,334**	**$3,501**
Finance cost	54,815	115,636	**188,844**	**1,600**

Finance subsidiaries of the Company periodically sell finance receivables. Finance subsidiaries sold retail finance receivables subject to limited recourse provisions totaling approximately ¥731,508 million, ¥930,629 million and ¥562,488 million ($4,765 million) to investors in fiscal years 2005, 2006 and 2007, respectively. Pre-tax net gains or losses on such sales resulted in losses of ¥4,291 million, ¥11,849 million and a gain of ¥1,175 million ($10 million) in fiscal years 2005, 2006 and 2007, respectively, which are included in 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 gains or losses on such sales resulted in a net gain of ¥483 million is included in loss 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.

Retained interests in securitizations were comprised of the following at March 31 2006 and 2007:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Subordinated certificates	¥52,572	**¥44,198**	**$374**
Residual interests	42,062	**43,912**	**372**
Total	¥94,634	**¥88,110**	**$746**

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, 2007 are as follows:

	2005	2006	**2007**
Weighted average life (years)	1.64 to 1.77	1.60 to 1.75	**1.66 to 1.77**
Prepayment speed	1.25% to 1.30%	1.00% to 1.30%	**1.25% to 1.30%**
Expected credit losses	0.30% to 0.70%	0.35% to 0.55%	**0.23% to 0.27%**
Residual cash flows discount rate	6.55% to 12.00%	6.53% to 12.00%	**5.43% to 12.00%**

At March 31, 2007, 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	0.24%
Residual cash flows discount rate	8.80%

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, 2006 and 2007.

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Securitized receivables			
Retail	¥1,402,552	**¥1,208,409**	**$10,236**
Direct finance leases	97,711	**67,758**	**574**
Total securitized receivables	¥1,500,263	**¥1,276,167**	**$10,810**

5. Inventories

Inventories at March 31, 2006 and 2007 are summarized as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Finished goods	¥ 687,230	**¥ 772,917**	**$ 6,547**
Work in process	28,218	**34,970**	**296**
Raw materials	320,856	**375,229**	**3,179**
	¥1,036,304	**¥1,183,116**	**$10,022**

6. Investments and Advances-Affiliates

Investments in affiliates 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.

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 considered any such decline to be other than temporary based on various factors, then a write-down would be recorded to estimated fair value.

Significant investments in affiliates accounted for under the equity method at March 31, 2006 and 2007 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%).

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, 2006 and 2007.

Investments in affiliates include equity securities which have quoted market values at March 31, 2006 and 2007 compared with related carrying amounts as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Carrying amount	¥130,802	**¥184,879**	**$1,566**
Market value	444,250	**412,892**	**3,498**

Certain combined financial information in respect of affiliates accounted for under the equity method at March 31, 2006 and 2007, and for each of the years in the three-year period ended March 31, 2007 is shown below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Current assets	¥1,056,428	**¥1,434,855**	**$12,155**
Other assets, principally property, plant and equipment	1,063,235	**1,317,057**	**11,157**
Total assets	2,119,663	**2,751,912**	**23,312**
Current liabilities	762,660	**1,038,968**	**8,801**
Other liabilities	182,503	**306,418**	**2,596**
Total liabilities	945,163	**1,345,386**	**11,397**
Stockholders' equity	¥1,174,500	**¥1,406,526**	**$11,915**

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
Net sales	¥3,039,751	¥3,426,348	**¥4,598,573**	**$38,954**
Net income	220,596	229,640	**268,577**	**2,275**
Cash dividends received by Honda during the year	35,824	64,055	**54,849**	**465**

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, 2006 and 2007 included in retained earnings was ¥275,874 million and ¥354,552 million ($3,003 million), respectively.

Trade receivables and trade payables include the following balances with affiliates at March 31, 2006 and 2007, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2007. Honda mainly purchases materials, supplies and services from affiliates, and sells parts used in its products, equipment and services to affiliates.

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Trade receivables from	¥ 59,292	**¥ 77,317**	**$ 655**
Trade payables to	112,547	**155,603**	**1,318**

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
Purchases from	¥595,589	¥611,711	**¥1,083,686**	**$9,180**
Sales to	148,352	155,195	**329,398**	**2,790**

Mr. Minekawa, a Director of the Company, served as the President of Guangzhou Honda Automobile Co., Ltd., one of our affiliates in China until June 23, 2005. In fiscal year 2006 from April to June, Honda sold automobile parts, equipment and services to the affiliated company in the amount of ¥10,008 million. In fiscal year 2005, Honda sold automobile parts, equipment and services to the affiliated company in the amount of ¥37,023 million.

7. Investments and Advances

Investments and advances at March 31, 2006 and 2007 consisted of the following:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006*	**2007**	**2007**
Current			
Auction rate securities	¥30,539	**¥41,318**	**$350**
Corporate debt securities	13,100	**311**	**3**
U.S. government and agency debt securities	18,733	**2,993**	**25**
Commercial paper	5,998	**—**	**—**
Advances	829	**581**	**5**
	¥69,199	**¥45,203**	**$383**

** See note 3.*

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

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006*	**2007**	**2007**
Noncurrent			
Marketable equity securities	¥141,846	**¥169,280**	**$1,434**
Convertible preferred stocks	22,934	**—**	**—**
Convertible notes	56,635	**—**	**—**
Government bonds	2,999	**2,999**	**25**
U.S. government and agency debt securities	2,937	**10,034**	**85**
Non-marketable equity securities accounted for under the cost method			
Non-marketable preferred stocks	6,000	**2,000**	**17**
Other	13,357	**11,639**	**99**
Guaranty deposits	30,110	**30,847**	**261**
Advances	2,209	**2,481**	**21**
Other	19,433	**25,330**	**215**
	¥298,460	**¥254,610**	**$2,157**

** See note 3.*

Certain information with respect to marketable securities at March 31, 2006 and 2007, is summarized below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Available-for-sale			
Cost	¥ 60,905	**¥107,573**	**$ 911**
Fair value	172,385	**210,598**	**1,784**
Gross unrealized gains	111,540	**103,113**	**874**
Gross unrealized losses	60	**88**	**1**
Held-to-maturity			
Amortized cost	¥ 43,767	**¥ 16,337**	**$138**
Fair value	43,428	**16,348**	**138**
Gross unrealized gains	1	**26**	**0**
Gross unrealized losses	340	**15**	**0**

Maturities of debt securities classified as held-to-maturity at March 31, 2007 were as follows:

	Yen (millions)	U.S. dollars (millions) (note 2)
Due within one year	¥ 3,304	$ 28
Due after one year through five years	11,035	93
Due after five years through ten years	1,998	17
Total	¥16,337	$138

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, 2007, were, ¥2,206 million net gains, ¥462 million net losses and ¥10,463 million ($89 million) net gains, 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, 2007 were as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale				
Less than 12 months	¥329	¥(88)	$ 3	$ (1)
12 months or longer	—	—	—	—
	¥329	¥(88)	$ 3	$ (1)
Held-to-maturity				
Less than 12 months	¥3,540	¥ (1)	$30	$(0)
12 months or longer	3,938	(14)	33	(0)
	¥7,478	¥(15)	$63	$(0)

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.

8. Property on Operating Leases

Future minimum lease rentals expected to be received from property on operating leases at March 31, 2007 are as follows:

Years ending March 31	Yen (millions)
2008	¥ 61,045
2009	60,168
2010	46,470
2011	6,885
2012	112
Total future minimum lease rentals	¥174,680

Future minimum rentals as shown above should not necessarily be considered indicative of future cash collections.

9. Short-term and Long-term Debt

Short-term debt at March 31, 2006 and 2007 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Short-term bank loans	¥314,124	**¥ 311,117**	**$ 2,635**
Medium-term notes	152,246	**182,355**	**1,545**
Commercial paper	227,187	**772,396**	**6,543**
	¥693,557	**¥1,265,868**	**$10,723**

The weighted average interest rates on short-term debt outstanding at March 31, 2006 and 2007 were 3.21% and 4.00%, respectively.

Long-term debt at March 31, 2006 and 2007 is as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Honda Motor Co., Ltd.:			
Loans, maturing through 2031:			
Unsecured, principally from banks	¥ 603	**¥ 516**	**$ 4**
	603	**516**	**4**
Subsidiaries:			
Commercial paper	205,573	**—**	**—**
Loans, maturing through 2030			
Secured, principally from banks	19,765	**18,581**	**157**
Unsecured, principally from banks	94,509	**134,949**	**1,143**
0.69% Japanese yen unsecured bond due 2006	60,000	**—**	**—**
0.81% Japanese yen unsecured bond due 2006	1,000	**—**	**—**
0.47% Japanese yen unsecured bond due 2007	50,000	**50,000**	**424**
0.79% Japanese yen unsecured bond due 2008	30,000	**30,000**	**254**
0.99% Japanese yen unsecured bond due 2009	30,000	**30,000**	**254**
1.14% Japanese yen unsecured bond due 2009	—	**30,000**	**254**
0.31% Japanese yen unsecured bond due 2010	200	**150**	**1**
0.66% Japanese yen unsecured bond due 2010	30,000	**30,000**	**254**
0.94% Japanese yen unsecured bond due 2010	30,000	**30,000**	**254**
1.51% Japanese yen unsecured bond due 2011	—	**30,000**	**254**
3.65% Thai baht unsecured bond due 2007	6,040	**7,340**	**62**
5.32% Thai baht unsecured bond due 2008	—	**3,670**	**31**
5.46% Thai baht unsecured bond due 2009	—	**5,505**	**47**
Medium-term notes, maturing through 2019	1,981,201	**2,282,138**	**19,332**
Less unamortized discount, net	2,246	**1,697**	**13**
	2,536,042	**2,680,636**	**22,708**
Total long-term debt	2,536,645	**2,681,152**	**22,712**
Less current portion	657,645	**775,409**	**6,568**
	¥1,879,000	**¥1,905,743**	**$16,144**

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 16.17% per annum at March 31, 2007 and weighted average interest rate on total outstanding long-term debt at March 31, 2006 and 2007 is 4.35% and 3.96%, respectively. Property, plant and equipment with a net book value of approximately ¥22,592 million and ¥23,654 million ($200 million) at March 31, 2006 and 2007, respectively, were subject to specific mortgages securing indebtedness. Furthermore, finance subsidiaries-receivables of approximately ¥8,993 million and ¥1,931 million ($16 million) at March 31, 2006 and 2007 respectively, were pledged as collateral by a financial subsidiary for certain loans.

At March 31, 2006, ¥205,573 million of commercial paper borrowings were classified as long-term, as it is the respective finance subsidiary's intention to refinance them on a long-term basis and it has established the necessary credit facilities to do so. During fiscal year 2007, management decided not to classify the commercial paper as long term since management has no intention of refinancing them on a long-term basis. The weighted average interest rate on commercial paper at March 31, 2006 was approximately 4.32%.

Medium-term notes are unsecured, and their interest rates range from 0.63% to 4.66% at March 31, 2006 and from 0.77% to 5.38% at March 31, 2007.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2007 and thereafter:

Years ending March 31:	Yen (millions)
2008	¥ 775,409
2009	888,650
2010	485,705
2011	317,979
2012	186,726
After five years	26,683
	1,905,743
Total	¥2,681,152

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/liabilities and/or other current assets/liabilities in the consolidated balance sheets, as appropriate (see note 16). Unless a right of setoff exists, the offsetting of assets and liabilities is not made in the consolidated balance sheets.

At March 31, 2007, Honda had unused line of credit facilities amounting to ¥1,127,722 million ($9,553 million), of which ¥390,278 million ($3,306 million) related to commercial paper programs and ¥737,444 million ($6,247 million) related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2007, Honda also had committed lines of credit amounting to ¥840,889 million ($7,123 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.

10. Other Liabilities

Other liabilities at March 31, 2006 and 2007 are summarized as follows:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006*	**2007**	**2007**
Accrued liabilities for product warranty, excluding current portion	¥ 137,503	**¥ 153,409**	**$ 1,300**
Additional minimum pension liabilities (note 13)	171,773	**—**	**—**
Pension and other postretirement benefits (note 13)	117,286	**524,457**	**4,443**
Deferred income taxes	406,727	**316,048**	**2,677**
Other	212,234	**243,798**	**2,064**
	¥1,045,523	**¥1,237,712**	**$10,484**

** See note 3.*

11. Income Taxes

Total income taxes for each of the years in the three-year period ended March 31, 2007 were allocated as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
Income from continuing operations	¥266,665	¥317,189	**¥283,846**	**$2,404**
Other comprehensive income (note 15)	12,718	154,370	**935**	**8**
	¥279,383	¥471,559	**¥284,781**	**$2,412**

Income before income taxes and equity in income of affiliates by domestic and foreign source and income tax expense (benefit) for each of the years in the three-year period ended March 31, 2007 consisted of the following:

	Yen (millions)			
		Income taxes		
	Income before income taxes	Current	Deferred	Total
2005*:				
Japanese	¥148,860	¥ 57,066	¥ 24,134	¥ 81,200
Foreign	519,504	94,080	91,385	185,465
	¥668,364	¥151,146	¥115,519	¥266,665
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**

	U.S. dollars (millions) (note 2)			
	Income before income taxes	Income taxes		
		Current	Deferred	Total
2007:				
Japanese	**$1,545**	**$ 755**	**$(117)**	**$ 638**
Foreign	**5,171**	**1,789**	**(23)**	**1,766**
	$6,716	**$2,544**	**$(140)**	**$2,404**

** See note 3.*

The statutory income tax rate is approximately 40% for each of the years in the three-year period ended March 31, 2007. The foreign subsidiaries are subject to taxes based on income at rates ranging from 16% to 40%.

The effective tax rate for Honda for each of the years in the three-year period ended March 31, 2007 differs from the Japanese statutory income tax rate for the following reasons:

	2005	2006	**2007**
Statutory income tax rate	40.0%	40.0%	**40.0%**
Valuation allowance provided for current year operating losses of subsidiaries	0.5	0.3	**0.4**
Difference in statutory tax rates of foreign subsidiaries	(1.9)	(2.3)	**(3.7)**
Reversal of valuation allowance due to utilization of operating loss carryforwards	(1.1)	(0.8)	**(0.2)**
Research and development credit	(2.3)	(3.0)	**(3.3)**
Tax authority assessment relating to prior years*	1.8	—	**—**
Other adjustments relating to prior years	—	3.1	**—**
Other	2.9	0.9	**2.6**
Effective tax rate	39.9%	38.2%	**35.8%**

* The prior year income taxes in 2005 are due to assessment by the Japanese tax authorities as a result of their transfer pricing audit relating to the Company's motorcycle business in Brazil.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2006 and 2007 are presented below:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Deferred tax assets:			
Inventories	¥ 30,012	**¥ 35,114**	**$ 297**
Allowance for dealers and customers	141,141	**153,328**	**1,299**
Accrued bonus	35,968	**40,628**	**344**
Property, plant and equipment	17,817	**61,409**	**520**
Foreign tax credit	9,267	**10,427**	**88**
Operating loss carryforwards	75,131	**39,781**	**337**
Minimum pension liabilities adjustment	68,566	**—**	**—**
Pension and other postretirement benefits	62,829	**210,378**	**1,782**
Other	121,951	**141,104**	**1,196**
Total gross deferred tax assets	562,682	**692,169**	**5,863**
Less valuation allowance	70,239	**35,447**	**300**
Net deferred tax assets	492,443	**656,722**	**5,563**

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Deferred tax liabilities:			
Inventories	(11,018)	**(13,650)**	**(116)**
Prepaid pension expenses	(29,019)	**(34,422)**	**(292)**
Property, plant and equipment, excluding lease transactions	(67,263)	**(59,680)**	**(506)**
Lease transactions	(357,578)	**(405,516)**	**(3,435)**
Undistributed earnings of subsidiaries and affiliates	(81,675)	**(106,273)**	**(900)**
Net unrealized gains on marketable securities	(44,580)	**(41,039)**	**(347)**
Other	(52,059)	**(27,262)**	**(230)**
Total gross deferred tax liabilities	(643,192)	**(687,842)**	**(5,826)**
Net deferred tax (liability) asset	¥(150,749)	**¥ (31,120)**	**$ (263)**

Deferred income tax assets and liabilities at March 31, 2006 and 2007 are reflected in the consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006*	**2007**	**2007**
Current assets—Deferred income taxes	¥ 221,294	**¥ 215,172**	**$ 1,823**
Other assets	37,686	**71,583**	**606**
Other current liabilities	(3,002)	**(1,827)**	**(15)**
Other liabilities	(406,727)	**(316,048)**	**(2,677)**
Net deferred tax (liability) asset	¥(150,749)	**¥ (31,120)**	**$ (263)**

** See note 3.*

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 considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that Honda will realize the benefits of these deductible differences and operating loss carryforwards, net of the existing valuation allowances at March 31, 2006 and 2007.

The net change in the total valuation allowance for the years ended March 31, 2005 was decrease of ¥11,989 million, for the year ended March 31, 2006 was increase of ¥10,502 million, and for the year ended March 31, 2007 was decrease of ¥34,792 million ($295 million). The valuation allowance primarily relates to deferred tax assets associated with net operating loss carryforwards incurred by certain foreign subsidiaries.

At March 31, 2007, certain of the Company's subsidiaries have operating loss carryforwards for income tax purposes of ¥128,162 million ($1,086 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)	U.S. dollars (millions) (note 2)
Within 1 year	¥ 528	$ 5
1 to 5 years	10,599	90
5 to 15 years	11,947	101
Indefinite periods	105,088	890
	¥128,162	$1,086

At March 31, 2006 and 2007, Honda did not recognize deferred tax liabilities of ¥60,703 million and ¥78,252 million ($663million), respectively, for certain portions of the undistributed earnings of the Company's foreign subsidiaries because such portions were considered permanently reinvested. At March 31, 2006 and 2007, the undistributed earnings not subject to deferred tax liabilities were ¥2,676,892 million and ¥2,995,170 million ($25,372 million), respectively.

12. Dividends and Legal Reserves

The Company law of Japan enforced on May 1, 2006 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. The Japanese Commercial Code, effective until the enforcement of the Company law of Japan, provided that earnings in an amount equal to at least 10% of appropriations of retained earnings that were paid in cash shall be appropriated as a legal reserve until an aggregated amount of capital surplus and the legal reserve equaled 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, 2007 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, 2007 were ¥25.5, ¥38.5 and ¥77 ($0.65), respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥20 ($0.17) per share aggregating ¥36,456 million ($309 million) proposed and resolved in the general stockholders' meeting held in June 2007.

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 all periods presented to reflect this stock split.

13. 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 ¥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 derecognition 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 SFAS 158	Adjustments	After Application of SFAS 158
Other assets	¥ 575,851	¥ 11,347	¥ 587,198
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 stockholders' equity	4,621,935	(139,324)	4,482,611

	U.S. dollars (millions) (note 2)		
	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Other assets	$ 4,878	$ 96	$ 4,974
Total assets	101,865	96	101,961
Accrued expenses	7,175	(336)	6,839
Total current liabilities	36,656	(336)	36,320
Other liabilities	8,873	1,612	10,485
Total liabilities	61,672	1,276	62,948
Accumulated other comprehensive loss, net*	(2,439)	(1,180)	(3,619)
Total stockholders' equity	39,152	(1,180)	37,972

* The incremental effect of applying SFAS No. 158 on accumulated other comprehensive loss, net, includes tax effect of ¥72,881 million ($617 million).

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	
	2006	**2007**	2006	**2007**
Change in benefit obligations:				
Benefit obligations at beginning of year	¥(1,641,593)	**¥(1,133,325)**	¥(301,379)	**¥(395,416)**
Service cost	(41,271)	**(42,115)**	(25,121)	**(30,492)**
Interest cost	(31,788)	**(23,809)**	(18,838)	**(22,373)**
Plan participants' contributions	(94)	**—**	(111)	**(129)**
Actuarial gain (loss)	9,198	**(4,165)**	(22,421)	**21,746**
Benefits paid	33,957	**31,638**	2,949	**3,731**
Amendment	20,652	**—**	(1,584)	**(10)**
Transfer of the substitutional portion	517,614	**—**	—	**—**
Business combination	—	**(34,643)**	—	**(906)**
Foreign exchange translation	—	**—**	(28,911)	**(10,908)**
Benefit obligations at end of year	(1,133,325)	**(1,206,419)**	(395,416)	**(434,757)**
Change in plan assets:				
Fair value of plan assets at beginning of year	842,542	**712,331**	257,165	**358,075**
Actual return on plan assets	98,450	**36,223**	27,240	**46,161**
Employer contributions	37,687	**33,649**	49,912	**40,163**
Plan participants' contributions	94	**—**	111	**129**
Benefits paid	(33,957)	**(31,638)**	(2,949)	**(3,731)**
Transfer of the substitutional portion	(232,485)	**—**	—	**—**
Business combination	—	**32,270**	—	**875**
Foreign exchange translation	—	**—**	26,596	**7,795**
Fair value of plan assets at end of year	712,331	**782,835**	358,075	**449,467**
Funded status	(420,994)	**(423,584)**	(37,341)	**14,710**
Unrecognized actuarial loss (gain)	354,172	**—**	100,047	**—**
Unrecognized net transition obligations	3,733	**—**	317	**—**
Unrecognized prior service cost (benefit)	(75,797)	**—**	8,345	**—**
Net amount recognized	(138,886)	**—**	71,368	**—**
Adjustments to recognize additional minimum liabilities (notes 10 and 15):				
Intangible assets	—	**—**	(316)	**—**
Amount included in accumulated other comprehensive income (loss)	(171,158)	**—**	(299)	**—**

Amounts recognized in the consolidated balance sheets are as follows:

	Yen (millions)			
	Japanese plans		Foreign plans	
	2006	**2007**	2006	**2007**
Noncurrent assets	¥ —	**¥ 3,283**	¥ 75,367	**¥ 51,000**
Current liabilities	(33,281)	**(5,272)**	(3,999)	**(6)**
Noncurrent liabilities	(276,763)	**(421,595)**	(615)	**(36,284)**
Total	(310,044)	**(423,584)**	70,753	**14,710**

Amounts recognized in accumulated other comprehensive income are as follows:

	Yen (millions)			
	Japanese plans		Foreign plans	
	2006	**2007**	2006	**2007**
Actuarial loss (gain)	¥ —	**¥ 331,485**	¥ —	**¥ 57,578**
Net transition obligation	—	**1,741**	—	**279**
Prior service cost (benefit)	—	**(68,507)**	—	**8,064**
Total	—	**264,719**	—	**65,921**

Pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	Yen (millions)			
	Japanese plans		Foreign plans	
	2006	**2007**	2006	**2007**
Projected benefit obligations	¥(1,117,157)	**¥(1,164,971)**	¥ (70,415)	**¥ (4,403)**
Accumulated benefit obligations	(1,007,022)	**(1,054,331)**	(45,686)	**(3,888)**
Fair value of plan assets	696,128	**740,407**	40,114	**2,476**

Reconciliations of beginning and ending balances of the pension benefits obligations and the fair value of the plan assets are as follows:

	U.S. dollars (millions) (note2)	
	Japanese plans	Foreign plans
	2007	**2007**
Change in benefit obligations:		
Benefit obligations at beginning of year	**$ (9,600)**	**$(3,350)**
Service cost	**(357)**	**(258)**
Interest cost	**(202)**	**(190)**
Plan participants' contributions	**—**	**(1)**
Actuarial gain (loss)	**(36)**	**184**
Benefits paid	**268**	**32**
Amendment	**—**	**(0)**
Business combination	**(293)**	**(8)**
Foreign exchange translation	**—**	**(92)**
Benefit obligations at end of year	**(10,220)**	**(3,683)**
Change in plan assets:		
Fair value of plan assets at beginning of year	**6,034**	**3,033**
Actual return on plan assets	**307**	**392**
Employer contributions	**285**	**340**
Plan participants' contributions	**—**	**1**
Benefits paid	**(268)**	**(32)**
Business combination	**273**	**7**
Foreign exchange translation	**—**	**66**
Fair value of plan assets at end of year	**6,631**	**3,807**
Funded status	**(3,589)**	**124**

Amounts recognized in the consolidated balance sheets are as follows:

	U.S. dollars (millions) (note2)	
	Japanese plans	Foreign plans
	2007	2007
Noncurrent assets	$ 28	$ 432
Current liabilities	(45)	(0)
Noncurrent liabilities	(3,572)	(308)
Total	(3,589)	124

Amounts recognized in accumulated other comprehensive income are as follows:

	U.S. dollars (millions) (note2)	
	Japanese plans	Foreign plans
	2007	2007
Actuarial loss (gain)	$ 2,807	$ 488
Net transition obligation	15	2
Prior service cost (benefit)	(580)	68
Total	2,242	558

Pension plans with accumulated benefit obligations in excess of plan assets:

	U.S. dollars (millions) (note2)	
	Japanese plans	Foreign plans
	2007	2007
Projected benefit obligations	$ (9,868)	$ (37)
Accumulated benefit obligations	(8,931)	(33)
Fair value of plan assets	6,272	21

Pension expense for each of the years in the three-year period ended March 31, 2007 included the following:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	2007	2007
Japanese plans:				
Service cost-benefits earned during the year	¥ 40,963	¥ 41,271	¥ 42,115	$ 357
Interest cost on projected benefit obligations	32,368	31,788	23,809	202
Expected return on plan assets	(33,589)	(33,102)	(27,580)	(234)
Amortization of actuarial loss (gain)	32,799	28,394	16,326	138
Amortization of net transition obligation	1,035	1,992	1,992	17
Amortization of prior service cost (benefit)	(5,913)	(6,945)	(7,289)	(62)
	¥ 67,663	¥ 63,398	¥ 49,373	$ 418
Foreign plans:				
Service cost-benefits earned during the year	¥ 17,560	¥ 25,121	¥ 30,492	$ 258
Interest cost on projected benefit obligations	14,445	18,838	22,373	190
Expected return on plan assets	(17,418)	(21,013)	(27,597)	(234)
Amortization of actuarial loss (gain)	1,948	4,192	5,041	43
Amortization of net transition obligation	76	62	41	0
Amortization of prior service cost (benefit)	552	577	752	6
	¥ 17,163	¥ 27,777	¥ 31,102	$ 263

The estimated actuarial loss (gain), net transition obligation 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 ¥14,290 million, ¥1,741 million and ¥7,289 million, respectively. And the estimated actuarial loss (gain), 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 ¥4,341 million, ¥41 million and ¥772 million, respectively.

Weighted-average assumptions used to determine benefit obligation at March 31, 2006 and 2007 were as follows:

	2006	**2007**
Japanese plans:		
Discount rate	2.0%	**2.0%**
Rate of salary increase	2.2%	**2.3%**
Foreign plans:		
Discount rate	4.9–5.8%	**5.2–6.0%**
Rate of salary increase	3.5–5.2%	**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, 2007 were as follows:

	2005	2006	**2007**
Japanese plans:			
Discount rate	2.0%	2.0%	**2.0%**
Rate of salary increase	2.3%	2.3%	**2.2%**
Expected long-term rate of return	4.0%	4.0%	**4.0%**
Foreign plans:			
Discount rate	5.8–6.8%	5.4–6.3%	**4.9–5.8%**
Rate of salary increase	3.5–6.7%	3.5–6.7%	**3.5–5.2%**
Expected long-term rate of return	6.8–8.5%	6.8–8.0%	**6.8–8.0%**

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

Honda's domestic and foreign pension plan weighted-average asset allocations at March 31, 2006 and 2007, by asset category are as follows:

	2006	**2007**
Japanese plans:		
Equity securities	48%	**43%**
Debt securities	37%	**36%**
Other	15%	**21%**
	100%	**100%**
Foreign plans:		
Equity securities	65%	**70%**
Debt securities	24%	**27%**
Other	11%	**3%**
	100%	**100%**

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, 2006 and 2007 were ¥1,019,764 million and ¥1,088,890 million ($9,224 million), respectively. The accumulated benefit obligations for all foreign defined benefit plans at March 31, 2006 and 2007 were ¥303,509 million and ¥340,527 million ($2,885 million), respectively.

Cash flows

Honda expects to contribute ¥33,953 million to its domestic pension plans and ¥37,187 million to its foreign pension plans in the year ending March 31, 2008.

Estimated future benefit Payment

The following table presents estimated future gross benefit payments:

	Yen (millions)	
	Japanese plans	Foreign plans
2008	**¥ 40,130**	**¥ 4,540**
2009	**42,885**	**5,138**
2010	**45,546**	**6,144**
2011	**43,660**	**7,178**
2012	**45,339**	**8,582**
2013–2017	**250,746**	**74,946**

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.

14. Supplemental Disclosures of Cash Flow Information

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
Cash paid during the year for:				
Interest	¥ 99,475	¥134,609	**¥187,268**	**$1,586**
Income taxes	159,041	282,986	**351,225**	**2,975**

During the fiscal year ended March 31, 2005, the Company retired shares totaling 46,000,000 shares at a cost of ¥216,371 million by offsetting with capital surplus of ¥190 million and unappropriated retained earnings of ¥ 216,181 million based on the resolution of board of directors.

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

During the year ended March 31, 2007, the Company reissued certain of its treasury stock at fair value of ¥18,521 million ($155 million) to the outside shareholder of affiliates to obtain 100% share of these companies.

15. 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, 2007 are as follows:

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
Adjustments from foreign currency translation:				
Balance at beginning of year	¥(665,413)	¥(624,937)	**¥(375,777)**	**$(3,183)**
Adjustments for the year	40,476	249,160	**96,775**	**820**
Balance at end of year	(624,937)	(375,777)	**(279,002)**	**(2,363)**
Net unrealized gains on marketable securities:				
Balance at beginning of year	36,066	33,744	**62,710**	**531**
Reclassification adjustments for realized (gain) loss on marketable securities	1,346	(841)	**(5,575)**	**(47)**
Increase (decrease) in net unrealized gains on marketable securities	(3,668)	29,807	**1,004**	**8**
Balance at end of year	33,744	62,710	**58,139**	**492**
Net unrealized gains (losses) on derivative instruments:				
Balance at beginning of year	—	—	**(64)**	**(1)**
Reclassification adjustments for realized (gain) loss on derivative instruments	—	(38)	**421**	**4**
Increase (decrease) in net unrealized gains on derivative instruments	—	(26)	**(337)**	**(3)**
Balance at end of year	—	(64)	**20**	**0**
Minimum pension liabilities adjustment:				
Balance at beginning of year	(225,226)	(202,741)	**(94,056)**	**(796)**
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax (note 1(u))	—	—	**18,149**	**153**
Adjusted balances at beginning of year	(225,226)	(202,741)	**(75,907)**	**(643)**
Adjustments for the year	22,485	108,685	**8,908**	**75**
Adjustment for initially applying SFAS No. 158, net of tax (note 13)	—	—	**66,999**	**568**
Balance at end of year	(202,741)	(94,056)	**—**	**—**
Pension and other postretirement benefits adjustment				
Adjustment for initially applying SFAS No. 158, net of tax (note 13)	—	—	**(206,323)**	**(1,748)**
Balance at end of year	—	—	**(206,323)**	**(1,748)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(854,573)	(793,934)	**(407,187)**	**(3,449)**
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax (note 1(u))	—	—	**18,149**	**153**
Adjusted balances at beginning of year	(854,573)	(793,934)	**(389,038)**	**(3,296)**
Adjustments for the year	60,639	386,747	**101,196**	**857**
Adjustment for initially applying SFAS No. 158, net of tax (note 13)	—	—	**(139,324)**	**(1,180)**
Balance at end of year	¥(793,934)	¥(407,187)	**¥(427,166)**	**$(3,619)**

The tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments are as follows:

	Yen (millions)		
	Before-tax amount	Tax (expense) or benefit (note 11)	Net-of-tax amount
2005:			
Adjustments from foreign currency translation	¥ 39,469	¥ 1,007	¥ 40,476
Unrealized gains (losses) on marketable securities:			
Unrealized holding gains (losses) arising during the year	(6,104)	2,436	(3,668)
Reclassification adjustments for losses (gains) realized in net income	2,114	(768)	1,346
Net unrealized gains (losses)	(3,990)	1,668	(2,322)
Minimum pension liabilities adjustment	37,878	(15,393)	22,485
Other comprehensive income (loss)	¥ 73,357	¥ (12,718)	¥ 60,639
2006:			
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
2007:			
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**

	U.S. dollars (millions) (note 2)		
	Before-tax amount	Tax (expense) or benefit (note 11)	Net-of-tax amount
2007:			
Adjustments from foreign currency translation	**$807**	**$ 13**	**$820**
Unrealized gains (losses) on marketable securities:			
Unrealized holding gains (losses) arising during the year	**12**	**(3)**	**8**
Reclassification adjustments for losses (gains) realized in net income	**(81)**	**33**	**(47)**
Net unrealized gains (losses)	**(69)**	**30**	**(39)**
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	**(5)**	**2**	**(3)**
Reclassification adjustments for losses (gains) realized in net income	**6**	**(2)**	**4**
Net unrealized gains (losses)	**1**	**0**	**1**
Minimum pension liabilities adjustment	**126**	**(51)**	**75**
Other comprehensive income (loss)	**$865**	**$ (8)**	**$857**

16. Fair Value of Financial Instruments

The estimated fair values of significant financial instruments at March 31, 2006 and 2007 are as follows:

	Yen (millions)				U.S. dollars (millions) (note 2)	
	2006		**2007**		**2007**	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Finance subsidiaries–receivables (a)	¥2,843,819	¥2,813,023	**¥3,434,721**	**¥3,444,144**	**$29,095**	**$29,175**
Marketable securities	172,385	172,385	**210,598**	**210,598**	**1,784**	**1,784**
Held-to-maturity securities	43,767	43,428	**16,337**	**16,348**	**138**	**138**
Convertible preferred stocks						
Host contracts	8,943	8,943	**—**	**—**	**—**	**—**
Embedded derivatives	13,991	13,991	**—**	**—**	**—**	**—**
	22,934	22,934	**—**	**—**	**—**	**—**
Convertible notes (b)						
Host contracts	8,156	8,156	**—**	**—**	**—**	**—**
Embedded derivatives	48,479	48,479	**—**	**—**	**—**	**—**
	56,635	56,635	**—**	**—**	**—**	**—**
Debt	(3,230,202)	(3,237,471)	**(3,947,020)**	**(3,960,743)**	**(33,435)**	**(33,551)**
Foreign exchange instruments (c)						
Asset position	¥ 4,477	¥ 4,477	**¥ 3,735**	**¥ 3,735**	**$ 32**	**$ 32**
Liability position	(35,979)	(35,979)	**(24,783)**	**(24,783)**	**(210)**	**(210)**
Net	¥ (31,502)	¥ (31,502)	**¥ (21,048)**	**¥ (21,048)**	**$ (178)**	**$ (178)**
Interest rate instruments (d)						
Asset position	¥ 36,334	¥ 36,334	**¥ 10,866**	**¥ 10,866**	**$ 92**	**$ 92**
Liability position	(2)	(2)	**(2,417)**	**(2,417)**	**(20)**	**(20)**
Net	¥ 36,332	¥ 36,332	**¥ 8,449**	**¥ 8,449**	**$ 72**	**$ 72**

(a) The carrying amounts of finance subsidiaries-receivables at March 31, 2006 and 2007 in the table exclude ¥1,996,686 million and ¥1,709,978 million ($14,486 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, 2006 and 2007 in the table also include ¥627,168 million and ¥678,649 million ($5,749 million) of finance receivables classified as trade receivables and other assets in the consolidated balance sheets.

(b) A subsidiary had a forward sale contract in relation to a portion of the above convertible notes. The carrying amount and estimated fair value of the derivative financial instrument as of March 31, 2006 is ¥5,462 million, asset position.

In the year ended March 31, 2007, the subsidiary exercised the forward sale contract, and there was no balance of the derivative financial instrument as of March 31, 2007.

(c) The fair values of foreign currency forward exchange contracts, foreign currency option contracts and foreign currency swap agreements are included in other liabilities and other current assets/liabilities in the consolidated balance sheets as follows (see note 9):

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Other current assets	¥ 4,477	**¥ 3,735**	**$ 32**
Other current liabilities	(35,113)	**(24,783)**	**(210)**
Other liabilities	(866)	**—**	**—**
	¥(31,502)	**¥(21,048)**	**$(178)**

(d) The fair values of interest rate swap agreements are included in other assets/liabilities and other current assets/liabilities in the consolidated balance sheets as follows (see note 9):

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Other current assets	¥ 3,101	**¥ 3,890**	**$ 33**
Other assets	33,233	**6,976**	**59**
Other current liabilities	—	**(2,417)**	**(20)**
Other liabilities	(2)	**—**	**—**
	¥36,332	**¥ 8,449**	**$ 72**

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 such 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 security was estimated using quoted market prices.

Convertible notes and convertible preferred stock investment

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

Debt

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

Foreign exchange and interest rate instruments

The fair values of foreign currency forward 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.

17. 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 with income from finance receivables. These instruments involve, to varying degrees, elements of credit, exchange rate and interest rate risks in excess of the amount recognized in the consolidated balance sheets.

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

Foreign currency forward contracts and currency swap agreements are agreements to exchange different currencies at a specified rate on a specific future date. Foreign currency option contracts are contracts that allow the holder of the option the right but not the obligation to exchange different currencies at a specified rate on a specific future date. Foreign currency forward exchange contracts, foreign currency option contracts and currency swap agreements outstanding at March 31, 2006 were ¥898,125 million, ¥176,548 million and ¥584,358 million, respectively and totaled ¥1,659,031 million. At March 31, 2007, foreign currency forward exchange contracts, foreign currency option contracts and currency swap agreements outstanding were ¥978,994 million ($8,293 million), ¥5,793 million ($49 million) and ¥608,534 million ($5,155 million), respectively and totaled ¥1,593,321 million ($13,497 million).

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 ¥64 million loss in the fiscal year ended March 31, 2006 and ¥20 million ($0 million) gain in the fiscal year ended March 31, 2007, 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.

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 ¥421 million loss for the year ended March 31, 2006, and ¥1,187 million ($10 million) loss for the year ended March 31, 2007, respectively. There are no derivative financial instruments that have been assessed as being ineffectiveness.

Derivative financial instruments not designated as accounting hedges

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

Interest rate swap agreements generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amount. At March 31, 2006 and 2007, the notional principal amounts of interest rate swap agreements were ¥3,857,748 million and ¥4,198,463 million ($35,565 million), respectively.

18. Commitments and Contingent Liabilities

At March 31, 2007, Honda had commitments for purchases of property, plant and equipment of approximately ¥78,027 million ($661 million).

Honda has entered into various guarantee and indemnification agreements. At March 31, 2006 and 2007, Honda has guaranteed ¥46,737 million and ¥41,151 million ($349 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 ¥46,737 million and ¥41,151 million ($349 million), respectively, at March 31, 2006 and 2007. At March 31, 2007, no amount has been accrued for any estimated losses under the obligations, as it is probable that the employees will be able to make all scheduled payments.

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

The changes in provisions for those product warranties for each of the years in the two-year period ended March 31, 2007 are as follow:

	Yen (millions)		U.S. dollars (millions) (note 2)
	2006	**2007**	**2007**
Balance at beginning of year	¥268,429	**¥283,947**	**$2,405**
Warranty claims paid during the period	(126,834)	**(113,454)**	**(961)**
Liabilities accrued for warranties issued during the period	125,732	**143,280**	**1,214**
Changes in liabilities for pre-existing warranties during the period	332	**605**	**5**
Foreign currency translation	16,288	**2,725**	**23**
	¥283,947	**¥317,103**	**$2,686**

With respect to product liability, personal injury claims or lawsuits, Honda believes that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by Honda's insurance and reserves. Punitive damages are claimed in certain of these lawsuits. Honda is also subject to potential liability under other various lawsuits and claims. 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 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.

19. 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, 2007 are as follows:

Years ending March 31	Yen (millions)
2008	**¥ 25,354**
2009	**19,349**
2010	**15,354**
2011	**12,752**
2012	**10,791**
After five years	**45,378**
Total minimum lease payments	**¥128,978**

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2007 were ¥44,619 million, ¥46,102 million and ¥46,910 million ($397 million), respectively.

20. Allowances for Trade Receivable and Finance Subsidiaries-receivables

The allowances for trade receivable and finance subsidiaries-receivables for the years ended March 31, 2005, 2006 and 2007 are set forth in the following table:

	Yen (millions)				
		Additions	Deductions		
	Balance at beginning of period	Charged to costs and expenses	Bad debts written off	Translation difference	Balance at end of period
March 31, 2005:					
Trade accounts and notes receivable					
Allowance for doubtful accounts	¥10,919	¥ 693	¥ 2,121	¥ 219	¥ 9,710
Finance subsidiaries-receivables					
Allowance for credit losses	¥24,411	¥33,365	¥27,575	¥725	¥30,926
Allowance for losses on lease residual values	26,124	17,273	10,156	784	34,025
	¥50,535	¥50,638	¥37,731	¥1,509	¥64,951
March 31, 2006:					
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

	Yen (millions)				
		Additions	Deductions		
	Balance at beginning of period	Charged to costs and expenses	Bad debts written off	Translation difference	Balance at end of period
March 31, 2007:					
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

	U.S. dollars (millions) (note 2)				
		Additions	Deductions		
	Balance at beginning of period	Charged to costs and expenses	Bad debts written off	Translation difference	Balance at end of period
March 31, 2007:					
Trade accounts and notes receivable					
Allowance for doubtful accounts	$ 90	$ 25	$ 50	$4	$ 69
Finance subsidiaries-receivables					
Allowance for credit losses	$279	$231	$231	$5	$284
Allowance for losses on lease residual values	320	143	177	1	287
	$599	$374	$408	$6	$571

21. 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.

Principal products 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	Research & Development Manufacturing Sales and related services
Automobile business	Automobiles and relevant parts	Research & Development Manufacturing Sales and related services
Financial services business	Financial, insurance services	Retail loan and lease related to Honda products Others
Power product and other businesses	Power products and relevant parts, and others	Research & Development Manufacturing Sales and related services Others

Segment Information

As of and for the year ended March 31, 2005

	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	¥1,097,754	¥6,963,635	¥ 255,741	¥332,975	¥8,650,105	¥ —	¥8,650,105
Intersegment	—	—	3,447	9,869	13,316	(13,316)	—
Total	1,097,754	6,963,635	259,188	342,844	8,663,421	(13,316)	8,650,105
Cost of sales, SG&A and R&D expenses	1,028,422	6,511,253	169,287	323,539	8,032,501	(13,316)	8,019,185
Gain on transfer of the substitutional portion of the Employee's Pension Funds	—	—	—	—	—	—	—
Segment income	69,332	452,382	89,901	19,305	630,920	—	630,920
Equity in income of affiliates	29,921	65,183	—	953	96,057	—	96,057
Assets	848,671	4,265,636	4,333,605	261,843	9,709,755	(341,519)	9,368,236
Investments in affiliates	79,143	249,876	—	17,279	346,298	—	346,298
Depreciation and amortization	28,606	189,150	419	7,577	225,752	—	225,752
Capital expenditures	41,845	317,271	1,941	12,923	373,980	—	373,980
Provision for credit and lease residual losses on finance subsidiaries-receivables	¥ —	¥ —	¥ 50,638	¥ —	¥ 50,638	¥ —	¥ 50,638

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	87,041	304,477	—	13,194	404,712	—	404,712
Depreciation and amortization	30,232	222,165	771	9,057	262,225	—	262,225
Capital expenditures	52,246	392,934	1,316	11,345	457,841	—	457,841
Provision for credit and lease residual losses on finance subsidiaries-receivables	¥ —	¥ —	¥ 36,153	¥ —	¥ 36,153	¥ —	¥ 36,153

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	109,538	359,811	—	15,065	484,414	—	484,414
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

As of and for the year ended March 31, 2007

	U.S. dollars (millions) (note2)						
	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	$11,611	$75,300	$ 3,471	$3,537	$ 93,919	$ —	$ 93,919
Intersegment	—	—	30	180	210	(210)	—
Total	11,611	75,300	3,501	3,717	94,129	(210)	93,919
Cost of sales, SG&A and R&D expenses	10,759	70,221	2,522	3,411	86,913	(210)	86,703
Gain on transfer of the substitutional portion of the Employee's Pension Funds	—	—	—	—	—	—	—
Segment income	852	5,079	979	306	7,216	—	7,216
Equity in income of affiliates	198	665	—	13	876	—	876
Assets	9,841	46,063	48,235	2,869	107,008	(5,047)	101,961
Investments in affiliates	928	3,048	—	127	4,103	—	4,103
Depreciation and amortization	344	2,625	90	88	3,147	—	3,147
Capital expenditures	583	4,582	3,115	139	8,419	—	8,419
Provision for credit and lease residual losses on finance subsidiaries-receivables	$ —	$ —	$ 374	—	$ 374	$ —	$ 374

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 ¥464,504 million as of March 31, 2005, ¥354,903 million as of March 31, 2006, and

¥377,873 million ($3,201 million) as of March 31, 2007 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 Financial Services Business include ¥ 9,741 million ($83 million) of depreciation of property on operating leases for the year ended March 31, 2007.
6. Capital expenditure of Financial Services Business includes ¥ 366,795 million ($3,107 million) of purchase of operating lease assets for the year ended March 31, 2007.

External Sales and Other Operating Revenue by Product or Service Groups

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
Motorcycles and relevant parts	¥ 933,740	¥1,051,855	**¥ 1,221,638**	**$10,349**
All-terrain vehicles (ATVs), personal watercraft and relevant parts	164,014	173,957	**148,979**	**1,262**
Automobiles and relevant parts	6,963,635	8,004,694	**8,889,080**	**75,300**
Financial, insurance services	255,741	306,869	**409,701**	**3,471**
Power products and relevant parts	229,760	263,651	**287,302**	**2,433**
Others	103,215	106,970	**130,440**	**1,104**
Total	¥8,650,105	¥9,907,996	**¥11,087,140**	**$93,919**

Geographical Information

As of and for the year ended March 31, 2005

	Yen (millions)			
	Japan	United States	Other Countries	Total
Sales to external customers	¥1,983,182	¥ 4,138,049	¥2,528,874	¥8,650,105
Long-lived assets	894,065	428,467	360,680	1,683,212

As of and for the year ended March 31, 2006

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

As of and for the year ended March 31, 2007

	Yen (millions)			
	Japan	United States	Other Countries	Total
Sales to external customers	**¥2,061,720**	**¥5,291,683**	**¥3,733,737**	**¥11,087,140**
Long-lived assets	**993,078**	**929,107**	**619,544**	**2,541,729**

As of and for the year ended March 31, 2007

	U.S. dollars (millions) (note 2)			
	Japan	United States	Other Countries	Total
Sales to external customers	**$17,465**	**$44,826**	**$31,628**	**$93,919**
Long-lived assets	**8,412**	**7,871**	**5,248**	**21,531**

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

Supplemental Geographical Information

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

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

	Yen (millions)			U.S. dollars (millions) (note 2)
	2005	2006	**2007**	**2007**
North America	¥4,575,076	¥5,463,359	**¥5,980,876**	**$50,664**
Europe	870,795	1,009,421	**1,236,757**	**10,477**
Asia	977,011	1,085,451	**1,283,154**	**10,870**
Other regions	528,018	655,721	**905,163**	**7,668**

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, 2005

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Net sales and other operating revenue:								
External customers	¥1,983,182	¥4,585,650	¥ 858,936	¥773,753	¥448,584	¥ 8,650,105	¥ —	¥8,650,105
Transfers between geographic areas	2,155,756	119,904	184,136	86,810	17,373	2,563,979	(2,563,979)	—
Total	4,138,938	4,705,554	1,043,072	860,563	465,957	11,214,084	(2,563,979)	8,650,105
Cost of sales, SG&A and R&D expenses	3,954,039	4,384,400	1,001,829	799,871	432,764	10,572,903	(2,553,718)	8,019,185
Gain on transfer of the substitutional portion of the Employees' Pension Funds	—	—	—	—	—	—	—	—
Operating income	184,899	321,154	41,243	60,692	33,193	641,181	(10,261)	630,920
Assets	2,480,052	5,254,246	649,547	541,331	203,605	9,128,781	239,455	9,368,236
Long-lived assets	¥ 894,065	¥ 502,284	¥ 118,339	¥121,095	¥ 47,429	¥ 1,683,212	¥ —	¥1,683,212

As of and for the year ended March 31, 2006

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
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	¥ 949,713	¥ 589,596	¥ 157,819	¥167,148	¥ 72,244	¥ 1,936,520	¥ —	¥ 1,936,520

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	**¥ 993,078**	**¥1,028,132**	**¥ 198,232**	**¥ 228,802**	**¥ 93,485**	**¥ 2,541,729**	**¥ —**	**¥ 2,541,729**

As of and for the year ended March 31, 2007

	U.S. dollars (millions) (note2)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Net sales and other operating revenue:								
External customers	$17,465	$50,849	$10,408	$ 8,680	$6,517	$ 93,919	$ —	$ 93,919
Transfers between geographic areas	22,977	1,438	1,009	2,090	240	27,754	(27,754)	—
Total	40,442	52,287	11,417	10,770	6,757	121,673	(27,754)	93,919
Cost of sales, SG&A and R&D expenses	38,509	48,418	11,146	10,116	6,145	114,334	(27,631)	86,703
Gain on transfer of the substitutional portion of the Employees' Pension Funds	—	—	—	—	—	—	—	—
Operating income	1,933	3,869	271	654	612	7,339	(123)	7,216
Assets	25,287	57,894	8,038	7,929	3,508	102,656	(695)	101,961
Long-lived assets	$ 8,412	$ 8,709	$1,679	$ 1,938	$ 793	$ 21,531	$ —	$ 21,531

Explanatory notes:

1. Major countries or regions in each geographic area:

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

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 ¥464,504 million as of March 31, 2005 , ¥354,903 million as of March 31, 2006, and ¥377,873 million ($3,201 million) as of March 31, 2007 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.

22. Subsequent Event

The Board of Directors, at its meeting held on May 15, 2007, resolved that the Company will purchase its own shares pursuant to Article 156 of the Company Law, which applies pursuant to Article 165, Paragraph 3, of that law. The main purpose for the acquisition are enhancing its capital efficiency and enabling greater flexibility in its capital policies.

(1) Type of shares and maximum number of shares to be acquired:
Shares of Common Stock 10,000,000 shares

(2) Maximum amount of acquisition:
38 billion yen

(3) Period of acquisition:
Starting on May 16, 2007 and ending on June 12, 2007

(4) Method of acquisition:
Purchase through ToSTNet-2 (as a closing-price transaction) over the Tokyo Stock Exchange

Total number and amount of shares the Company acquired during the period were 8,204,000 shares and ¥34,128,640,000.

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. Securities 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, 2007 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, 2007.

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

Takeo Fukui
Chief Executive Officer

Fumihiko Ike
Chief Operating Officer for Business Management Operations

July 17, 2007

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 as of March 31, 2006 and 2007, 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, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company'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, 2006 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007 in conformity with U.S. generally accepted accounting principles.

As described in Note 13 to the consolidated financial statements, the Company 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, the Company changed its method of quantifying errors as of March 31, 2007. Also as further described in Note 3, the Company made certain classification adjustments to its consolidated financial statements as of and for the years ended March 31, 2006 and 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission , and our report dated July 17, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth note 2 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
July 17, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Honda Motor Co., Ltd.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Honda Motor Co., Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company'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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company'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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that Honda Motor Co., Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, Honda Motor Co., Ltd. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, 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, 2006 and 2007, 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, 2007, expressed in Japanese yen, and our report dated July 17, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
July 17, 2007

Selected Quarterly Financial Data (Unaudited and Not Reviewed)

	Yen (millions except per share amounts)							
	Year ended March 31, 2006				**Year ended March 31, 2007**			
	I	II	III	IV	**I**	**II**	**III**	**IV**
Net sales and other operating revenue	¥2,264,579	¥2,337,670	¥2,472,006	¥2,833,741	**¥2,599,724**	**¥2,630,874**	**¥2,768,652**	**¥3,087,890**
Operating income	170,393	162,694	194,986	340,832	**203,521**	**193,024**	**205,110**	**250,224**
Income before income taxes	148,042	173,245	170,000	338,617	**191,365**	**163,643**	**198,785**	**239,075**
Net income	110,666	133,708	133,146	219,513	**143,402**	**127,909**	**144,827**	**176,184**
Basic net income per American depositary share	¥59.87	¥72.45	¥72.41	¥119.89	**¥78.46**	**¥70.05**	**¥79.45**	**¥96.70**
Tokyo Stock Exchange:								
(TSE) (in yen)								
High	¥2,835	¥3,310	¥3,570	¥3,750	**¥4,285**	**¥4,030**	**¥4,740**	**¥4,940**
Low	2,510	2,690	3,070	3,050	**3,270**	**3,410**	**3,910**	**4,050**
New York Stock Exchange:								
(NYSE) (in U.S. dollars)								
High	$26.00	$29.08	$29.70	$31.74	**$37.95**	**$35.00**	**$39.87**	**$40.82**
Low	23.75	24.06	26.50	27.10	**29.13**	**29.43**	**33.49**	**34.64**

*1 All quarterly financial data is unaudited and has not been reviewed by the independent registered public accounting firm (KPMG AZSA & Co.).

*2 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, 2007. Detailed information is described in note 3.

*3 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. The prices of shares on the Tokyo Stock Exchange prior to the split have been retroactively for consistency. Consequently, the prices shown here are not the actual prices of shares on the Tokyo Stock Exchange.

Consolidated Balance Sheets Divided into Non-Financial Services Businesses and Finance Subsidiaries (Unaudited)

	Yen (millions)	
At March 31, 2006 and 2007	2006	**2007**
Assets		
Non-financial services businesses		
Current Assets:	¥ 3,686,503	**¥ 4,109,667**
Cash and cash equivalents	697,196	**921,309**
Trade accounts and notes receivable	504,101	**546,790**
Inventories	1,036,304	**1,183,116**
Other current assets	1,448,902	**1,458,452**
Investments and advances	955,338	**1,013,215**
Property, plant and equipment, at cost	1,795,173	**2,059,514**
Other assets	337,800	**367,342**
Total assets	6,774,814	**7,549,738**
Finance subsidiaries		
Cash and cash equivalents	19,592	**24,237**
Finance subsidiaries—short-term receivables, net	1,240,581	**1,451,606**
Finance subsidiaries—long-term receivables, net	2,982,832	**3,040,572**
Property on operating leases	—	**336,209**
Other assets	765,713	**841,580**
Total assets	5,008,718	**5,694,204**
Eliminations	(1,152,132)	**(1,207,442)**
Total assets	¥10,631,400	**¥12,036,500**
Liabilities, Minority Interests and Stockholders' Equity		
Non-financial services businesses		
Current liabilities:	¥ 2,165,901	**¥ 2,359,648**
Short-term debt	171,122	**243,487**
Current portion of long-term debt	9,138	**19,713**
Trade payables	1,059,666	**1,182,894**
Accrued expenses	658,274	**671,467**
Other current liabilities	267,701	**242,087**
Long-term debt	34,396	**55,468**
Other liabilities	688,240	**910,966**
Total liabilities	2,888,537	**3,326,082**
Finance subsidiaries		
Short-term debt	1,369,177	**1,842,119**
Current portion of long-term debt	653,276	**758,855**
Accrued expenses	175,286	**178,236**
Long-term debt	1,858,362	**1,869,470**
Other liabilities	398,806	**421,673**
Total liabilities	4,454,907	**5,070,353**
Eliminations	(925,254)	**(965,453)**
Total liabilities	6,418,190	**7,430,982**
Minority interests in consolidated subsidiaries	87,460	**122,907**
Common stock	86,067	**86,067**
Capital surplus	172,529	**172,529**
Legal reserves	35,811	**37,730**
Retained earnings	4,267,886	**4,654,890**
Accumulated other comprehensive income (loss)	(407,187)	**(427,166)**
Treasury stock	(29,356)	**(41,439)**
Total stockholders' equity	4,125,750	**4,482,611**
Total liabilities, minority interests and stockholders' equity	¥10,631,400	**¥12,036,500**

Notes:
1. The Company and its subsidiaries engaged in financial services are referred to as finance subsidiaries. Other subsidiaries are referred to as non-financial services businesses.
2. See note 3 to the consolidated financial statements.

Consolidated Statements of Cash Flows Divided into Non-Financial Services Businesses and Finance Subsidiaries (Unaudited)

	Yen (millions)							
	2006				**2007**			
Years ended March 31, 2006 and 2007	Non-financial services businesses	Finance subsidiaries	Reconciling items	Consolidated	Non-financial services businesses	Finance subsidiaries	Reconciling items	Consolidated
Cash flows from operating activities:								
Net income	¥ 543,200	¥ 53,847	¥ (14)	¥597,033	**¥ 537,186**	**¥ 55,149**	**¥ (13)**	**¥ 592,322**
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation	261,454	771	—	262,225	**360,812**	**10,676**	**—**	**371,488**
Deferred income taxes	22,037	(24,793)	—	(2,756)	**(35,483)**	**19,035**	**—**	**(16,448)**
Minority interests in income	15,277	10	—	15,287	**20,102**	**15**	**—**	**20,117**
Equity in income of affiliates	(99,605)	—	—	(99,605)	**(103,417)**	**—**	**—**	**(103,417)**
Dividends from affiliates	64,055	—	—	64,055	**54,849**	**—**	**—**	**54,849**
Loss (gain) on derivative instruments, net	11,683	(1,332)	—	10,351	**28,370**	**28,466**	**—**	**56,836**
Gain on transfer of the substitutional portion of the Employees' Pension Funds	(138,016)	—	—	(138,016)	**—**	**—**	**—**	**—**
Decrease (increase) in trade accounts and notes receivable	(44,881)	(72,695)	4,317	(113,259)	**(5,445)**	**(34,318)**	**(9,766)**	**(49,529)**
Decrease (increase) in inventories	(109,661)	—	—	(109,661)	**(96,839)**	**—**	**—**	**(96,839)**
Increase (decrease) in trade payables	25,357	—	(3,937)	21,420	**41,965**	**—**	**(3,779)**	**38,186**
Other, net	33,892	47,664	(7,990)	73,566	**8,613**	**14,185**	**14,162**	**36,960**
Net cash provided by operating activities	584,792	3,472	(7,624)	580,640	**810,713**	**93,208**	**604**	**904,525**
Cash flows from investing activities:								
Decrease (increase) in investments and advances	(64,220)	—	14,697	(49,523)	**93,311**	**—**	**(40,957)**	**52,354**
Capital expenditures	(458,705)	(1,316)	—	(460,021)	**(597,025)**	**(933)**	**—**	**(597,958)**
Proceeds from sales of property, plant and equipment	39,645	306	—	39,951	**20,364**	**277**	**—**	**20,641**
Decrease (increase) in finance subsidiaries–receivables	—	(231,909)	1,535	(230,374)	**—**	**(256,274)**	**16,052**	**(240,222)**
Purchase of operating lease assets	—	—	—	—	**—**	**(366,795)**	**—**	**(366,795)**
Proceeds from sales of operating lease assets	—	—	—	—	**—**	**1,276**	**—**	**1,276**
Net cash used in investing activities	(483,280)	(232,919)	16,232	(699,967)	**(483,350)**	**(622,449)**	**(24,905)**	**(1,130,704)**
Cash flows from financing activities:								
Increase (decrease) in short-term debt, net	(66,144)	(54,391)	(4,406)	(124,941)	**32,964**	**241,349**	**31,750**	**306,063**
Proceeds from long-term debt	25,995	851,710	(12,028)	865,677	**25,424**	**949,360**	**(5,293)**	**969,491**
Repayment of long-term debt	(11,485)	(566,422)	9,302	(568,605)	**(18,077)**	**(664,906)**	**5,444**	**(677,539)**
Proceeds from issuance of common stock	—	1,490	(1,490)	—	**—**	**7,613**	**(7,613)**	**—**
Cash dividends paid	(71,075)	—	14	(71,061)	**(140,495)**	**—**	**13**	**(140,482)**
Cash dividends paid to minority interests	(4,083)	—	—	(4,083)	**(7,434)**	**—**	**—**	**(7,434)**
Payment for purchase of treasury stock, net	(77,064)	—	—	(77,064)	**(26,689)**	**—**	**—**	**(26,689)**
Net cash provided by (used in) financing activities	(203,856)	232,387	(8,608)	19,923	**(134,307)**	**533,416**	**24,301**	**423,410**
Effect of exchange rate changes on cash and cash equivalents	42,398	1,008	—	43,406	**31,057**	**470**	**—**	**31,527**
Net change in cash and cash equivalents	(59,946)	3,948	—	(55,998)	**224,113**	**4,645**	**—**	**228,758**
Cash and cash equivalents at beginning of year	757,142	15,644	—	772,786	**697,196**	**19,592**	**—**	**716,788**
Cash and cash equivalents at end of year	¥ 697,196	¥ 19,592	¥ —	¥716,788	**¥ 921,309**	**¥ 24,237**	**¥ —**	**¥ 945,546**

Notes:

1. Non-financial services businesses lend to finance subsidiaries. These cash flows are included in the decrease (increase) in investments and advances, increase (decrease) in short-term debt, proceeds from long-term debt, and repayment of longterm debt. The amount of the loans to finance subsidiaries is a ¥13,242 million increase for the year ended March 31, 2006, and a ¥48,570 million decrease for the year ended March 31, 2007, respectively.
2. Decrease (increase) in trade accounts and notes receivable for finance subsidiaries is due to the reclassification of finance subsidiaries-receivables which relate to sales of inventory in the unaudited consolidated statements of cash flows presented above.
3. See note 3 to the consolidated financial statements.

Financial Summary

Honda Motor Co., Ltd. and Subsidiaries
Years ended or at March 31

	1997	1998	1999	2000
Sales, income, and dividends				
Net sales and other operating revenue	¥5,293,302	¥5,999,738	¥6,231,041	¥6,098,840
Operating income	397,328	456,852	540,978	418,639
Income before income taxes, minority interest and equity in income of affiliates	395,333	445,583	523,168	419,658
Income taxes	189,044	201,278	229,624	170,434
Minority interest in income	(4,611)	(2,232)	(2,657)	(3,595)
Equity in income of affiliates	19,490	18,552	14,158	16,786
Net income	221,168	260,625	305,045	262,415
As percentage of sales	4.2%	4.3%	4.9%	4.3%
Cash dividends paid during the period	13,640	16,563	20,463	20,463
Research and development	251,128	285,863	311,632	334,036
Interest expense	27,514	27,655	27,890	18,920
Assets, long-term debt, and stockholders' equity				
Total assets	¥4,239,794	¥4,870,128	¥5,073,660	¥4,935,976
Long-term debt	734,255	677,750	673,084	574,566
Total stockholders' equity	1,388,430	1,607,914	1,763,855	1,930,373
Capital expenditures (excluding purchase of operating lease assets)	217,782	309,517	237,080	222,891
Purchase of operating lease assets				
Depreciation (excluding property on operating leases)	141,351	153,337	177,666	172,139
Depreciation of property on operating leases				

	1997	1998	1999	2000
Per common share				
Net income:				
Basic	¥ 113.50	¥ 133.74	¥ 156.52	¥ 134.65
Diluted	113.48	133.72	156.52	134.65
Cash dividends paid during the period	7.0	8.5	10.5	10.5
Stockholders' equity	712.52	825.07	905.10	990.53

	1997	1998	1999	2000
Sales progress				
Sales amounts:*				
Japan	¥1,826,284	¥1,710,813	¥1,556,333	¥1,612,191
	35%	29%	25%	26%
Overseas	3,467,018	4,288,925	4,674,708	4,486,649
	65%	71%	75%	74%
Total	¥5,293,302	¥5,999,738	¥6,231,041	¥6,098,840
	100%	100%	100%	100%
Unit sales:				
Motorcycles	5,325	5,257	4,295	4,436
Automobiles	2,184	2,343	2,333	2,473
Power Products	2,521	2,857	3,412	4,057
Number of employees	101,100	109,400	112,200	112,400
Exchange rate (yen amounts per U.S. dollar)				
Rates for the period-end	¥ 124	¥ 132	¥ 121	¥ 106
Average rates for the period	113	123	128	112

* The geographic breakdown of sales amounts is based on the location of customers.

	2001	2002	2003	2004	2005	2006	Yen (millions) 2007	U.S. dollars (millions) 2007
	¥6,463,830	¥7,362,438	¥7,971,499	¥8,162,600	¥8,650,105	¥ 9,907,996	**¥11,087,140**	**$ 93,919**
	401,438	661,202	724,527	600,144	630,920	868,905	**851,879**	**7,216**
	388,419	555,854	619,413	653,680	668,364	829,904	**792,868**	**6,716**
	178,439	231,150	245,065	252,740	266,665	317,189	**283,846**	**2,404**
	(3,443)	(4,512)	(9,658)	(11,753)	(11,559)	(15,287)	**(20,117)**	**(170)**
	25,704	42,515	61,972	75,151	96,057	99,605	**103,417**	**876**
	232,241	362,707	426,662	464,338	486,197	597,033	**592,322**	**5,018**
	3.6%	4.9%	5.4%	5.7%	5.6%	6.0%	**5.3%**	
	22,412	24,360	30,176	33,541	47,797	71,061	**140,482**	**1,190**
	352,829	395,176	436,863	448,967	467,754	510,385	**551,847**	**4,675**
	21,400	16,769	12,207	10,194	11,655	11,902	**12,912**	**109**
	¥5,719,020	¥7,064,787	¥7,821,403	¥8,380,549	¥9,368,236	¥10,631,400	**¥12,036,500**	**$101,961**
	368,173	716,614	1,140,182	1,394,612	1,559,500	1,879,000	**1,905,743**	**16,144**
	2,230,291	2,573,941	2,629,720	2,874,400	3,289,294	4,125,750	**4,482,611**	**37,972**
	285,687	303,424	316,991	287,741	373,980	457,841	**627,066**	**5,312**
							366,795	**3,107**
	170,342	194,944	220,874	213,445	225,752	262,225	**361,747**	**3,064**
							9,741	**83**

							Yen	U.S. dollars
	¥ 119.17	¥ 186.11	¥ 219.71	¥ 243.45	¥ 260.34	¥ 324.33	**¥ 324.62**	**$ 2.75**
	119.17	186.11	219.71	243.45	260.34	324.33	**324.62**	**2.75**
	11.5	12.5	15.5	17.5	25.5	38.5	**77**	**0.65**
	1,144.43	1,320.77	1,367.34	1,527.45	1,778.24	2,259.26	**2,460.28**	**20.84**

							Yen (millions)	U.S. dollars (millions)
	¥1,740,340	¥1,868,746	¥1,748,706	¥1,628,493	¥1,699,205	¥ 1,694,044	**¥ 1,681,190**	**$14,241**
	27%	25%	22%	20%	20%	17%	**15%**	
	4,723,490	5,493,692	6,222,793	6,534,107	6,950,900	8,213,952	**9,405,950**	**79,678**
	73%	75%	78%	80%	80%	83%	**85%**	
	¥6,463,830	¥7,362,438	¥7,971,499	¥8,162,600	¥8,650,105	¥ 9,907,996	**¥11,087,140**	**$93,919**
	100%	100%	100%	100%	100%	100%		

							Thousands
	5,118	6,095	8,080	9,206	10,482	10,271	**10,369**
	2,580	2,666	2,888	2,983	3,242	3,391	**3,652**
	3,884	3,926	4,584	5,047	5,300	5,876	**6,421**
	114,300	120,600	126,900	131,600	137,827	144,785	**167,231**
	¥ 124	¥ 133	¥ 120	¥ 106	¥ 107	¥ 117	**¥ 118**
	111	125	122	113	108	113	**117**

Notes:

(1) The consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars at the rate of ¥118.05 = U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2007. Those U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the reader. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

(2) Net income per common (or American depositary) share amounts are computed based on Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." All net income per common (or American depositary) share data presented prior to fiscal 1998 has been restated to conform with the provisions of SFAS No. 128.

(3) Effective fiscal 2000, due to the change in method of business segment categorization, all prior years' unit sales under Sales progress have been restated to reflect the change: i.e., unit sales of all-terrain vehicles (ATVs) are now included in Motorcycles, but were previously included in Power Products.

(4) Previously, revenue from domestic sales of general-purpose engines to customers who install them in products that are subsequently exported were recorded as overseas sales. However, owing to various factors including changes in transaction formats and contract terms, as of fiscal 2002, such sales are now recorded as domestic sales. The sales amount from such sales for fiscal 2002 amounted to ¥5,468 million.

(5) Certain gains and losses on sale and disposal of property, plant and equipment, which were previously recorded in other income (expenses), have been reclassified to selling, general and administrative expenses in the year ended March 31, 2004. In addition, net realized gains and losses on interest rate swap contracts not designated as accounting hedges by finance subsidiaries, which were previously recorded in cost of sales, have been reclassified to and included in other income (expenses)–other. Operating income prior to fiscal 2003 has been presented to conform with the reclassifications mentioned above.

(6) On April 26, 2006, the Board of Directors declared a two-for-one stock split of the Company's common stock. All shareholders of record on June 30, 2006 will receive one additional share of common stock for each share on July 1, 2006. Information pertaining to shares and earnings per share has been restated in the accompanying consolidated financial statements and notes to the consolidated financial statements to reflect this split.

(7) 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.

(8) 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, 2007.

(a) Minority interest in income, which were included in other expenses-other, has been revised to be disclosed independently in consolidated statements of income.

(b) The long-term portion of deferred tax liabilities and deferred tax assets related to the lease transactions of finance subsidiaries, which were classified in other current liabilities and deferred income taxes, have been revised to be classified in other liabilities and other assets, respectively.

(c) The long-term portion of accrued expenses and prepaid expenses related to pension benefit plans, which were included in accrued expenses and other current assets have been revised to be classified in other liabilities and other assets, respectively. The long-term portion of deferred tax liabilities, which were included in other current liabilities, and deferred tax assets, have also been revised to classified in other liabilities and other assets.

(d) The long-term portion of prepaid expenses, deferred income and accrued expenses related to extended vehicle service contracts of the subsidiaries in the United States, which were included in other current assets, trade payables accounts and accrued expenses, respectively, have been revised to be classified in other liabilities and other assets. The long-term portion of related deferred tax liabilities, which were included in other current liabilities, and deferred income taxes have also been revised to be classified in other liabilities and other assets.

Principal Manufacturing Facilities

Region			Location	Start of Operations	Number of Employees	Principal Products Manufactured
Japan			Sayama, Saitama	Nov. 1964	5,286	Automobiles
			Hamamatsu, Shizuoka	Apr. 1954	3,376	Motorcycles, power products and transmissions
			Suzuka, Mie	May 1960	7,102	Automobiles
			Ohzu-machi, Kikuchi-gun, Kumamoto	Mar. 1976	2,923	Motorcycles, all-terrain vehicles, power products and engines
North America	U.S.A.	①	Marysville, Ohio	Sep. 1979	6,895	Motorcycles and automobiles
			Anna, Ohio	Jul. 1985	2,850	Engines
			East Liberty, Ohio	Dec. 1989	2,596	Automobiles
		②	Lincoln, Alabama	Nov. 2001	4,563	Automobiles
		③	Swepsonville, North Carolina	Aug. 1984	566	Power products
		④	Timmonsville, South Carolina	Jul. 1998	1,603	All-terrain vehicles
	Canada	⑤	Alliston, Ontario	Nov. 1986	4,585	Automobiles
	Mexico	⑥	El Salto	Mar. 1988	1,487	Motorcycles and automobiles
Europe	U.K.	⑦	Swindon, Wiltshire	Jul. 1989	4,046	Automobiles and engines
	France	⑧	Ormes	Jan. 1985	171	Power products
	Italy	⑨	Atessa	Apr. 1977	760	Motorcycles, power products and engines
	Spain	⑩	Barcelona	May 1980	293	Motorcycles
Asia	China	⑪	Guangzhou	Apr. 2005	1,096	Automobiles
		⑫	Chongqing	Oct. 1994	881	Power products
	India	⑬	Greater Noida	Dec. 1997	1,331	Automobiles
		⑭	Gurgaon	May 2001	2,598	Motorcycles
	Indonesia	⑮	Karawang	Feb. 2003	1,218	Automobiles
	Malaysia	⑯	Alor Gajah	Jan. 2003	1,204	Automobiles
	Pakistan	⑰	Lahore	Oct. 1993	587	Automobiles
	Philippines	⑱	Manila	May 1973	646	Motorcycles and power products
		⑲	Laguna	Mar. 1992	687	Automobiles
	Taiwan	⑳	Pingtung	Jan. 2003	661	Automobiles
	Thailand	㉑	Ayutthaya	Jan. 1993	2,546	Automobiles
		㉒	Bangkok	Apr. 1965	2,697	Motorcycles and power products
	Vietnam	㉓	Vinhphuc	Dec. 1997	1,108	Motorcycles and automobiles
Others	Brazil	㉔	Sumare	Sep. 1997	1,947	Automobiles
		㉕	Manaus	Jan. 1977	6,462	Motorcycles and power products
	Turkey	㉖	Gebze	Dec. 1997	539	Automobiles

Corporate Information

Company Name	Honda Motor Co., Ltd.
Established	September 24, 1948
Lines of Business	Motorcycles, Automobiles, Financial Services and Power Products and Others
Head Office	1-1, 2-chome, Minami-Aoyama, Minato-ku, Tokyo, Japan

Principal Subsidiaries

Region	Country of Incorporation	Company	Percentage Ownership and Voting Interest	Main Lines of Business				Function
				Motorcycle Business	Automobile Business	Financial Services Business	Power Product & Other Businesses	
Japan	Saitama	Honda R&D Co., Ltd.	100.0	○	○		○	Research & development
	Tochigi	Honda Engineering Co., Ltd.	100.0	○	○		○	Manufacturing and sales of equipment and development of production technology
	Saitama	Yachiyo Industry Co., Ltd.	50.5	○	○			Manufacturing
	Miyazaki	Honda Lock Mfg. Co., Ltd.	100.0	○	○		○	Manufacturing
	Shizuoka	Yutaka Giken Co., Ltd.	69.7	○	○		○	Manufacturing
	Nagano	Asama Giken Co., Ltd.	81.7	○	○		○	Manufacturing
	Saitama	Honda Foundry Co., Ltd.	82.1	○	○		○	Manufacturing
	Tokyo	Honda Motorcycle Japan Co., Ltd.	100.0	○				Sales
	Tokyo	Honda Finance Co., Ltd.	100.0			○		Finance
	Mie	Mobilityland Corporation	100.0				○	Others (Leisure)
	Tokyo	Honda Trading Corporation	100.0	○	○		○	Others (Trading)
	Mie	Honda Logistics Inc.	100.0	○	○		○	Others (Physical distribution)
North America	U.S.A.	American Honda Motor Co., Inc.	100.0	○	○		○	Sales
		Honda North America, Inc.	100.0	○	○	○	○	Coordination of subsidiaries' operation
		Honda of America Mfg., Inc.	100.0	○	○			Manufacturing
		American Honda Finance Corporation	100.0			○		Finance
		Honda Manufacturing of Alabama, LLC	100.0		○			Manufacturing
		Honda of South Carolina Mfg., Inc.	100.0	○				Manufacturing
		Honda Transmission Mfg. of America, Inc.	100.0		○			Manufacturing
		Honda Precision Parts of Georgia, LLC	100.0		○			Manufacturing
		Honda Power Equipment Mfg., Inc.	100.0		○		○	Manufacturing
		Honda R&D Americas, Inc.	100.0	○	○		○	Research & development
		Cardington Yutaka Technologies Inc.	100.0	○	○			Manufacturing
		Celina Aluminum Precision Technology Inc.	100.0		○			Manufacturing
		Honda Trading America Corporation	100.0	○	○		○	Others (Trading)
		Honda Engineering North America, Inc.	100.0	○	○		○	Manufacturing and sales of equipment and development of production technology
	Canada	Honda Canada Inc.	100.0	○	○		○	Manufacturing and sales
		Honda Canada Finance Inc.	100.0			○		Finance
	Mexico	Honda de Mexico, S.A. de C.V.	100.0	○	○		○	Manufacturing and sales
Europe	Belgium	Honda Europe NV	100.0	○	○		○	Sales
	U.K.	Honda Motor Europe Limited	100.0	○	○	○	○	Coordination of subsidiaries' operation and sales
		Honda of the U.K. Manufacturing Ltd.	100.0		○			Manufacturing
		Honda Finance Europe plc	100.0			○		Finance
	France	Honda Motor Europe (South) S.A.	100.0	○	○			Sales
		Honda Europe Power Equipment, S.A.	100.0				○	Manufacturing and sales
	Germany	Honda Motor Europe (North) GmbH	100.0	○	○		○	Sales
		Honda Bank GmbH	100.0			○		Finance
		Honda R&D Europe (Deutschland) GmbH	100.0	○	○			Research & development
	Italy	Honda Italia Industriale S.p.A.	100.0	○			○	Manufacturing and sales
	Spain	Montesa Honda S.A.	100.0	○				Manufacturing and sales

Region	Country of Incorporation	Company	Percentage Ownership and Voting Interest	Main Lines of Business				
				Motorcycle Business	Automobile Business	Financial Services Business	Power Product & Other Businesses	Function
Asia	China	Honda Motor (China) Investment Corporation, Limited	100.0	○	○		○	Holding company and sales
		Jialing-Honda Motors Co., Ltd.	70.0				○	Manufacturing and sales
		Honda Automobile (China) Co., Ltd.	65.0		○			Manufacturing
	India	Honda Motorcycle and Scooter India Private Limited	100.0	○				Manufacturing and sales
		Honda Siel Cars India Limited	97.4		○			Manufacturing and sales
	Indonesia	P.T. Honda Precision Parts Manufacturing	100.0		○			Manufacturing
		P.T. Honda Prospect Motor	51.0		○			Manufacturing and sales
	Malaysia	Honda Malaysia SDN. BHD.	51.0		○			Manufacturing and sales
	Pakistan	Honda Atlas Cars (Pakistan) Limited	51.0		○			Manufacturing and sales
	Philippines	Honda Philippines, Inc.	99.6	○			○	Manufacturing and sales
		Honda Cars Philippines, Inc.	74.2		○			Manufacturing and sales
	Taiwan	Honda Taiwan Co., Ltd.	100.0		○			Sales
	Thailand	Asian Honda Motor Co., Ltd.	100.0	○	○	○	○	Coordination of subsidiaries' operation and sales
		Honda Leasing (Thailand) Company Limited	100.0			○		Finance
		Honda Automobile (Thailand) Co., Ltd.	89.0		○			Manufacturing and sales
		Thai Honda Manufacturing Co., Ltd.	60.0	○			○	Manufacturing
	Vietnam	Honda Vietnam Co., Ltd.	70.0	○	○			Manufacturing and sales
Others	Brazil	Honda South America Ltda.	100.0	○	○	○	○	Coordination of subsidiaries' operation and holding company
		Honda Automoveis do Brasil Ltda.	100.0		○			Manufacturing and sales
		Moto Honda da Amazonia Ltda.	100.0	○			○	Manufacturing and sales
		Honda Componentes da Amazonia Ltda.	100.0	○				Manufacturing
	Turkey	Honda Turkiye A.S.	100.0	○	○			Manufacturing and sales
	Australia	Honda Australia Pty. Ltd.	100.0		○			Sales
	New Zealand	Honda New Zealand Limited	100.0		○			Sales

Note: Percentage Ownership and Voting Interest include ownership through consolidated subsidiaries.

Major Affiliated Companies Accounted for Under the Equity Method

Region	Country of Incorporation	Company	Percentage Ownership and Voting Interest	Main Lines of Business				
				Motorcycle Business	Automobile Business	Financial Services Business	Power Product & Other Businesses	Function
Japan	Saitama	Showa Corporation	33.5	○	○		○	Manufacturing
	Tokyo	Keihin Corporation	42.2	○	○		○	Manufacturing
	Saitama	TS Tech Co., Ltd.	22.7	○	○			Manufacturing
	Shizuoka	F.C.C. Co., Ltd.	20.7	○	○		○	Manufacturing
	Nagano	Nissin Kogyo Co., Ltd.	34.7	○	○			Manufacturing
	Saitama	H-one Co., Ltd.	23.5	○	○		○	Manufacturing
	Aichi	Musashi Seimitsu Industry Co., Ltd.	26.2	○	○		○	Manufacturing
	Saitama	F-Tech Inc.	20.6		○			Manufacturing
	Toyama	Tanaka Seimitsu Kogyo Co., Ltd.	24.3	○	○		○	Manufacturing
North America	U.S.A.	KTH Parts Industries, Inc.	39.3		○			Manufacturing
		Jefferson Industries Corp.	29.4		○			Manufacturing
		Kehin Indiana Precision Technology, Inc.	25.9		○			Manufacturing
		Findlex Corporation	25.9	○	○			Manufacturing
	Canada	F&P Mfg., Inc.	35.0		○			Manufacturing
Asia	China	Sundiro Honda Motorcycle Co., Ltd.	50.0	○				Manufacturing and sales
		Wuyang-Honda Motors (Guangzhou) Co., Ltd.	50.0	○				Manufacturing and sales
		Dongfeng Honda Automobile Co., Ltd.	50.0		○			Manufacturing and sales
		Guangzhou Honda Automobile Co., Ltd.	50.0		○			Manufacturing and sales
		Dongfeng Honda Engine Co., Ltd.	50.0		○			Manufacturing
	India	Hero Honda Motors Ltd.	26.0	○				Manufacturing and sales
	Indonesia	P.T. Astra Honda Motor	50.0	○				Manufacturing and sales
	Malaysia	Armstrong Auto Parts SDN. BHD.	23.4	○	○			Manufacturing
Other	Brazil	Musashi do Brasil Ltda.	25.1	○	○			Manufacturing

Note: Percentage Ownership and Voting Interest include ownership through consolidated subsidiaries.

Honda’s History

Year	Noteworthy Events	Major Products and Technologies
1946	Soichiro Honda establishes Honda Technical Research Institute	
1947	Honda’s first product, the A-type bicycle engine, produced	
1948	Honda Motor Co., Ltd. incorporated (capital: ¥1 million, employees: 34)	
1949	*Dream D-type*, Honda’s first motorcycle, produced	
1953	H-type engine, Honda’s first power product, produced	
1957	Listed on the Tokyo Stock Exchange	
1958	*Super Cub* motorcycle released	
1959	American Honda Motor Co., Inc. established (Honda’s first overseas subsidiary)	
1960	Motorcycle production begins at Suzuka Factory	
	Honda R&D Co., Ltd. established	
1961	Honda racing team sweeps first 5 places in Isle of Man TT Race (125cc, 250cc)	
1962	American Depositary Receipts (ADRs) issued at market price. Adopts consolidated accounting using U.S. Securities and Exchange Commission (SEC) standards	
	Construction of Suzuka Circuit completed	
1963	Honda Benelux N.V. (Belgium) begins production of motorcycles (Honda’s first overseas production. The first Japanese company to open a manufacturing facility in the EEC)	
	Honda’s first sports car (*S500*) and light truck (*T360*) released	
1964	Asian Honda Motor Co., Ltd. (Thailand) established	
	Automobile production begins at Sayama Factory (presently Saitama Factory)	
1965	Thai Honda Manufacturing Co., Ltd. (Bangkok) established	
	Honda (U.K.) Limited established in London	
	Honda wins its first F1 victory, in Mexico	
1967	Automobile production begins at Suzuka Factory	
	Motorcycle production begins in Thailand	
1969	Canadian Honda Motor Ltd. established in Toronto (presently Honda Canada Inc.)	
	Automobile and motorcycle production begins in Malaysia (*N360*)	
1971	Honda Motor do Brazil Ltda. established in Sao Paulo (presently Honda South America Ltda.)	
	Knockdown motorcycle production begins in Mexico	
1972	CVCC engine, world’s first to comply with the U.S. Clean Air Act of 1975, released	
1973	Motorcycle production begins in the Philippines	
	Civic CVCC introduced	
1974	Motorcycle production begins in Indonesia	
1975	Automobile production begins in Indonesia (*TN Truck, Life, Civic*)	
1976	Kumamoto Factory begins operation	
	Motorcycle production begins at Honda Italia Industriale S.p.A.	
	Accord introduced	
1977	ADRs listed on the New York Stock Exchange (NYSE)	
	Consolidated financial disclosure begins	
1979	Quarterly financial disclosure begins	
	Honda of America Mfg., Inc. begins motorcycle production (The first Japanese automaker to open a manufacturing facility in the U.S.)	
1981	Listed on the London Stock Exchange	
1982	Honda of America Mfg., Inc. begins automobile production	
1983	Listed on the Zurich, Geneva and Basel stock exchanges	
1984	Automobile production begins in Thailand (*Accord*)	
1985	Listed on the Paris Stock Exchange	
	Motorcycle engine production begins in the U.S.	
	Motorcycle production begins in India	
	Motorcycle engine production begins in Malaysia	
1986	Automobile production begins at Honda Canada Inc. (*Accord*)	
	Motorcycle production begins in Spain	
	Power product production begins in France	
1987	Cumulative motorcycle production reaches 50 million units, a world first	
1988	Automobile production begins in Mexico	
	High-performance VTEC engine announced	


Dream D-type (1949)


Super Cub (1958)


T360 (1963)


S500 (1963)


Dream CB750FOUR (1969)


Civic CVCC (1973)


Accord (1976)

Year	Noteworthy Events	Major Products and Technologies
1989	Common stock-to-ADR exchange ratio changed from 10 shares of common stock to 1 ADR, to 2 shares of common stock to 1 ADR.	 *NSX* (1990)
	Second automobile plant in the U.S. begins production in East Liberty, Ohio	
	Honda Motor Europe Ltd. (U.K.) established	
1991	Honda posts its 60th Grand Prix victory in the Brazil GP	
1992	Automobile production in the U.K. begins (*Accord*)	
	Automobile production begins in the Philippines	
1994	Automobile production begins in Pakistan	
1995	Honda introduced first gasoline-powered vehicle to meet ULEV (Ultra Low Emission Vehicle) standards in California, the U.S.	 *Odyssey* (1994)
	Cumulative automobile production reaches 30 million units	
1996	Motorcycle production begins in Turkey	
1997	Construction of Twin Ring Motegi completed (Tochigi Prefecture)	
	Automobile production begins in Brazil (*Civic*)	
	Automobile production begins in Turkey (*Civic*)	
	Cumulative motorcycle production reaches 100 million units	
	Motorcycle production begins in Vietnam	 *CR-V* (1995)
	Automobile production begins in India (*City*)	
1998	The 50th anniversary of the founding of Honda	
1999	Automobile production begins at Guangzhou Honda Automobile Co., Ltd. in China (*Accord*)	
	Fuel cell vehicle *FCX-V1* and *FCX-V2* announced	
2000	ASIMO humanoid robot announced	
2001	Motorcycle production begins at new production company in India	
	Second automobile plant in the U.K. begins operations	
	Minimum investment unit lowered to 100 shares, from 1,000	 *Fit* (2001)
	Honda Manufacturing of Alabama, LLC in the U.S. begins operations	
2002	Common stock-to-ADR exchange ratio changed from 2 shares of common stock to 1 ADR, to 1 share of common stock to 2 ADRs	
	New automobile plant in Taiwan begins operations	
	Honda *FCX* fuel cell vehicle first to receive certification for the commercial use in the U.S. Lease marketing started in Japan and the U.S.	
2003	New automobile plant in Malaysia begins operations	
	New automobile plant in Indonesia begins operations	 *FCX* (2002)
	Cumulative automobile production reaches 50 million units	
	Honda FC STACK, a next-generation fuel cell stack capable of starting in sub-zero temperatures, announced	
2004	Honda Motor (China) Investment Co., Ltd. established	
	Honda Motor RUS LLC (Russia) established	
	Dongfeng Honda Automobile Co. Ltd. in China begins automobile production (*CR-V*)	
	Honda enter cooperative agreement with General Electric to jointly market our independently developed HF118 jet engine	 *Gold Wing Airbag* (2006)
2005	Cumulative motorcycle production reaches 150 million units	
	Cumulative worldwide production of the *Super Cub* series reaches 50 million units	
2006	Honda Philippines begins mass production at new motorcycle plant	
	Integrated three dealer channels into one Honda brand	
	Cumulative production of power products reaches 70 million units	
	Honda establishes subsidiary in Ukraine	
	Implementation of two-for-one stock split for common shares	 *HondaJet*
	Common stock-to-ADR exchange ratio changed from 0.5 share of common stock to one ADR, to one share of common stock to one ADR	
	New automobile plant in Vietnam begins operations (*Civic*)	
	Launched the *Gold Wing Airbag*, the first mass-market motorcycle with an airbag system	
	Commercialized HondaJet operations and began accepting orders	
	Resolved to implement quarterly dividends	
	New company to conduct solar cell business established	
	Flexible fuel vehicle introduced in Brazil (*Civic FFV, Fit FFV*)	
2007	New plant of powertrain components in China begins operations	

Investor Information

Honda Motor Co., Ltd.

Company Information

■ **Established**	September 24, 1948
■ **Lines of Business**	Motorcycles, Automobiles, Financial Services and Power Products and Others
■ **Fiscal year-end**	March 31
■ **Independent Registered Public Accounting Firm**	KPMG AZSA & Co.

■ **Web Site**
•Corporate Web Site
http://www.honda.co.jp
•IR Web Sites
[Japanese] http://www.honda.co.jp/investors/
[English] http://world.honda.com/investors/

Stock Information

■ **Securities Code**
7267

■ **Number of Shares Authorized**
7,086,000,000 shares

■ **Total Number of Shares Issued**
1,834,828,430 shares

■ **Number of Shareholders**
179,366

■ **Number of Shares per Trading Unit**
100 shares

■ **Stock Exchange Listings**
[Japan]
Tokyo, Osaka, Nagoya, Fukuoka and Sapporo stock exchanges
[Overseas]
New York, London, Swiss and Paris stock exchanges
Note: Honda has submitted requests for delisting from the Swiss and Paris stock exchange.

■ **General Meeting of Shareholders**
June

■ **Record Dates for Dividends**
June 30
September 30
December 31
March 31

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TEL: 1-212-355-9191

[U.K.]
Honda Motor Europe Limited
Public Relations Division
470 London Road, Slough,
Berkshire SL3 8QY, U.K.
TEL: 44 (0) 1753-590-590

■ Shareholders' Register Manager for Common Stock

The Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Contact Address:

The Chuo Mitsui Trust and Banking Co., Ltd.
Stock Transfer Agency Dept. Operation Center
8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan
TEL: 81-(0)3-3323-7111
TEL: 0120-78-2031 (toll free within Japan)

■ Depositary and Transfer Agent for American Depositary Receipts

JPMorgan Chase Bank, N.A.
4 New York Plaza,
New York, NY 10004, U.S.A.

Contact Address:

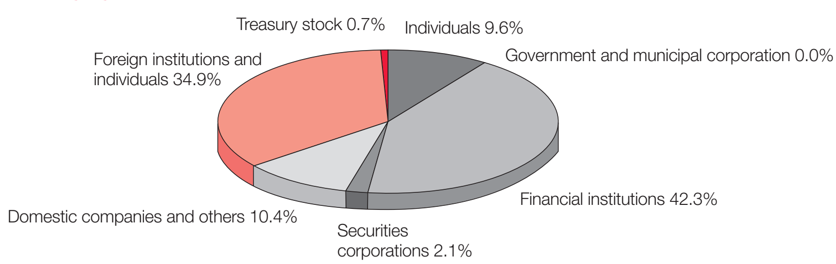
JPMorgan Service Center
P.O. Box 3408
South Hackensack, NJ 0706-3408
TEL: 1-800-990-1135
E-mail: adr@jpmorgan.com
Ratio: 1 ADR = 1 share of underlying stock
Ticker symbol: HMC

With respect to taxation and other matters relating to the acquisition, holding and disposition of the Company's common stock or ADRs by non-residents of Japan, please also refer to "Item 10E. Taxation" of Form 20-F included in the "Investor Relations" section on our website.

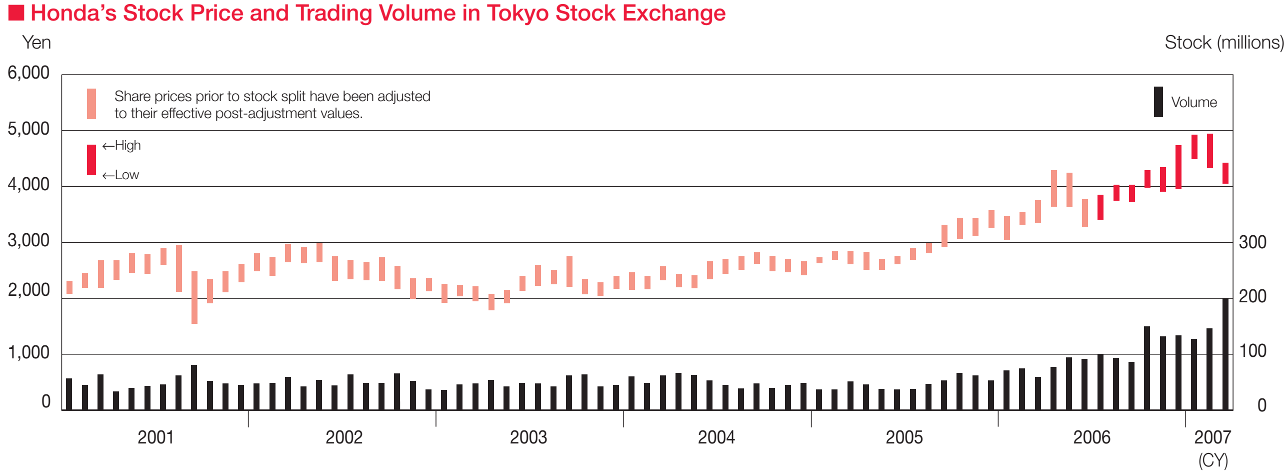
■ Major Shareholders

Individual or Organization	Number of shares held (thousands)	Percentage of total shares outstanding (%)
Moxley & Co.	120,253	6.55
The Master Trust Bank of Japan, Ltd. (Trust Account)	85,893	4.68
Tokio Marine & Nichido Fire Insurance Co., Ltd.	70,922	3.87
Japan Trustee Services Bank, Ltd. (Trust Account)	67,052	3.65
The Bank of Tokyo–Mitsubishi UFJ, Ltd.	61,144	3.33
Meiji Yasuda Life Insurance Company	56,888	3.10
Sompo Japan Insurance Inc.	43,666	2.38
Mitsui Sumitomo Insurance Co., Ltd.	35,039	1.91
Nippon Life Insurance Company	34,700	1.89
Japan Trustee Services Bank, Ltd. (Trust Account 4)	33,838	1.84

■ Breakdown of Shareholders by Type



■ Honda's Stock Price and Trading Volume in Tokyo Stock Exchange



* The Company executed a two-for-one stock split for the Company's common stock effective July 1, 2006. The prices of shares on the Tokyo Stock Exchange prior to the split have been retroactively for consistency. Consequently, the prices shown here are not the actual prices of shares on the Tokyo Stock Exchange.

The Power of Dreams

This annual report is printed on 100% recycled paper using soy ink with no volatile organic content. Furthermore, a waterless printing process was used to prevent toxic emissions.

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