

HONDA MOTOR CO LTD  
Form 6-K  
January 19, 2007  
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No. 1-7628

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF December 2006

COMMISSION FILE NUMBER: 1-07628

HONDA GIKEN KOGYO KABUSHIKI KAISHA

(Name of registrant)

## HONDA MOTOR CO., LTD.

(Translation of registrant's name into English)

1-1, Minami-Aoyama 2-chome, Minato-ku, Tokyo 107-8556, Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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If  Yes  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_

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**Exhibit 1:**

On December 1, 2006, Honda Motor Co., Ltd. announced plans to establish a wholly-owned subsidiary, Honda Soltec Co., Ltd., which will produce and sell the next-generation thin film solar cell independently developed by Honda. The new company will lead Honda to make a full-scale entry into the solar cell business. (Ref.# C06-107)

**Exhibit 2:**

On December 1, 2006, Honda Motor India Pvt Ltd. (HMI), the wholly owned subsidiary of Honda Motor Co., Ltd. formally began its operations from its corporate office in Greater Noida, UP to begin with Honda Siel Cars India Ltd. (HSCI) parts operations. Formation of HMI is part of the overall strategy to strengthen and integrate operations of Honda companies including motorcycle and power product businesses in India with respect to service parts.

**Exhibit 3:**

English translation of Notice concerning the date for determination of Shareholders entitled to receive quarterly dividend. Quarterly dividend will commence as of 3rd quarter End.

**Exhibit 4:**

On December 19, 2006, Honda Motor Co., Ltd. announced plans to build a new engine plant in Ogawa, Saitama prefecture, Japan in order to accelerate establishment of production systems and capabilities for advanced engines to enable Honda to meet increasing global demand for fuel efficient vehicles. Honda plans to begin operation of this new engine plant in summer 2009, with an annual production capacity of approximately 200,000 units. Advanced engines produced at this plant will be supplied to Honda auto plants inside and outside Japan. Honda will invest approximately 25 billion yen in the new plant, with employment of approximately 500 associates. (Ref.# C06-113)

**Exhibit 5:**

Summary of 2006 Year-End CEO Speech held on December 19, 2006, and 2006 Honda Sales & Production Forecast announced on December 19, 2006 (Ref.# C06-111,112)

**Exhibit 6:**

On December 25, 2006, Honda Motor Co., Ltd., announced its automobile production, domestic sales, and export results for the month of November 2006. (Ref.#C06-114)

**Exhibit 7:**

English summary and translation of semi-annual report ( hanki-houkokusho ) for the First-Half term (six months ended September 30, 2006) of the 83<sup>rd</sup> fiscal period

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HONDA GIKEN KOGYO  
KABUSHIKI KAISHA  
( HONDA MOTOR CO., LTD. )

/s/ Fumihiko Ike  
Fumihiko Ike  
Chief Operating Officer for  
Business Management Operation  
Honda Motor Co., Ltd.

Date: January 19, 2007

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Ref.# C06-107

**Honda Establishes Solar Cell Subsidiary Company, Honda Soltec  
to Make Full-Scale Entry into Solar Cell Business**

Tokyo, December 1, 2006 Honda Motor Co., Ltd. today announced plans to establish a wholly-owned subsidiary, Honda Soltec Co., Ltd., which will produce and sell the next-generation thin film solar cell independently developed by Honda. The new company will lead Honda to make a full-scale entry into the solar cell business.

The next-generation solar cell to be produced and sold by Honda Soltec was developed by Honda Engineering Co., Ltd., the production engineering subsidiary of Honda. By using thin film made from a compound of copper, indium, gallium and selenium (CIGS), Honda's next-generation solar cell achieves a major reduction in the amount of energy consumed during the manufacturing process by approximately 50% compared to what is required to produce conventional crystal silicon solar cells. This makes the new solar cell more environmentally-friendly by reducing the amount of CO<sub>2</sub> generated even from the production stage.

At the end of September 2006, Honda began construction of a plant to mass produce solar cells within the current site of Honda's Kumamoto factory, and the new facility will become operational in fall 2007 with an annual capacity of 27.5 megawatts. Prior to the start-up of the new plant, Honda Soltec will begin sales in limited areas in March 2007, of CIGS thin film compound solar cells produced by Honda Engineering. Once mass production begins at the new plant in Kumamoto in fall 2007, Honda Soltec will expand sales throughout Japan.

In addition to its effort to reduce CO<sub>2</sub> emissions through development of clean automobile engines, Honda is committed to develop environmentally-friendly and sustainable energy technologies. Honda will contribute to the effort to prevent global warming through production and sales of a clean energy source which does not use fossil fuels.

**About Honda Soltec Co., Ltd.:**

|                        |   |
|------------------------|---|
| Establishment:         | December 1, 2006  |
| Headquarters location: | 1500 Hirakawa, Ozu-machi, Kikuchi-gun, Kumamoto                     |
|                        | (within the current site of Honda Motor Co., Ltd. Kumamoto factory) |
| Sales office location: | Wako, Saitama (plan)  |
| Capital investment:    | 4 billion yen   |
| Capitalization ratio:  | 100% Honda Motor Co., Ltd.  |
| Representative:        | President: Akio Kazusa  |
| Employment:            | Approximately 150 associates (plan)                                 |
| Business:              | Production and sale of solar cells                                  |

**About the New plant:**

|                      |                                       |
|----------------------|---------------------------------------|
| Lot area:            | 25,000 square meters(m <sup>2</sup> ) |
| Facility size:       | 11,080 square meters(m <sup>2</sup> ) |
| Investment:          | Approximately 7 billion yen           |
| Start of operation:  | Fall 2007 (plan)                      |
| Production capacity: | Approximately 27.5 megawatts annually |

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**Press Release for HMI to be released on Dec 1, 2006**

Honda Motor India, Honda's 100% subsidiary for Service Parts, begins operations

To begin with HSCI parts operations

New Delhi, Dec 1, 2006 : Honda Motor India Pvt Ltd (HMI), the wholly owned subsidiary of Honda Motor Co., Ltd. formally began its operations today from its corporate office in Greater Noida, UP.

The plan to set up HMI was first announced in July this year by Mr Takeo Fukui, President and CEO, Honda Motor Co.,Ltd, during his visit to New Delhi.

Formation of HMI is part of the overall strategy to strengthen and integrate operations of Honda companies in India with respect to service parts.

HMI will begin its functions by immediately taking over the parts operations of Honda Siel Cars India Ltd. (HSCI) and gradually integrate operations of Honda Siel Power Products and Honda Motorcycles & Scooters India Pvt Ltd.

HMI will study the possibility of establishing a similar synergistic relationship with the fourth Honda company, Hero Honda Motors Ltd in the near future.

Starting with a capital of Rs 15 crore, HMI has targeted a turnover of Rs 180 crore for the fiscal 2008.

HMI will have a new warehouse facility to stock the service parts of motorcycles, automobiles and power products together which will be utilized along with other common resources like transportation, logistics and system development to help improve cost and operational efficiencies by up to 20%. This would ultimately result in overall benefit to customers by way of quality services like delivery within 24 hours and other cost advantages.

Mr. Masahiro Takedagawa, Operating Officer, Honda Motor Co.,Ltd, who is also the President and CEO of HSCI, will head the new company as its President & CEO.

**Company Information**

Name: Honda Motor India Pvt Ltd.  
Established: September 18, 2006.  
Starts operation: December 1, 2006  
Location: Plot No. A-1, Sector 40/41, Surajpur-Kasna Road,

Distt. Gautam Budh Nagar (UP) - 201306

(Within the current site of Honda Siel Cars India Ltd.)

Capitalization Ratio: 100% Honda Motor Co.,Ltd.  
Total Investment: About Rs 15 crore  
President & CEO: Mr. Masahiro Takedagawa  
Employment: 40 associates  
Business: Parts operations

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(English Translation)

**Notice of Record Date to Determine Stockholders**

**Entitled to Receive Distribution of Surplus (Quarterly Dividends)**

Only the shareholders listed or recorded in the final register of shareholders or register of beneficial shareholders on December 31, 2006 will be entitled to receive distribution of surplus (dividends for the 3rd quarter of the Company's 83rd fiscal year) from the company.

December 13, 2006

HONDA MOTOR CO., LTD.

1-1, 2-chome

Minami-Aoyama

Minato-Ku

Tokyo

The Shareholders' Register Manager and its place of business:

The Chuo Mitsui Trust and Banking Company, Limited.

33-1, Shiba 3-chome, Minato-ku,

Tokyo, Japan

Forwarding offices:

All branch offices throughout Japan of The Chuo Mitsui Trust and Banking Company, Limited and the principal office and all branch and liaison offices of Japan Securities Agents, Ltd. (Nihon Shoken Daiko Kabushiki Kaisha).

**Please Note** that you must complete the necessary procedures (such as changing the shareholder's name in the register) no later than Friday, December 29, 2006, because the Company's shareholders' register manager is not open for business on Saturday, December 30, or Sunday, December 31, 2006.

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December 19, 2006

Ref.# C06-113

**Honda to Build a New Engine Plant in Japan**

Establishing Production Systems and Capabilities for Advanced Engines

to Achieve Further Reduction of CO<sub>2</sub> Emissions

Tokyo, December 19, 2006 Honda Motor Co., Ltd. today announced plans to build a new engine plant in Ogawa, Saitama prefecture, Japan in order to accelerate establishment of production systems and capabilities for advanced engines to enable Honda to meet increasing global demand for fuel efficient vehicles. Honda plans to begin operation of this new engine plant in summer 2009, with an annual production capacity of approximately 200,000 units. Advanced engines produced at this plant will be supplied to Honda auto plants inside and outside Japan. Honda will invest approximately 25 billion yen in the new plant, with employment of approximately 500 associates.

Due to a number of factors including the high price of crude oil and increasing public concern about environmental issues, demand for fuel efficient automobiles is expected to grow rapidly in the future. As for the engine production, prior to the 2010 start-up of the new auto plant to be built in Yorii, Saitama, Honda decided to build a new engine plant in Ogawa, Saitama, near Yorii, in order to establish production systems and capabilities which can meet flexibly increases in demand, to enable Honda to offer advanced engines to customers as quickly as possible.

In the mean time, Honda has disclosed the concept for the new Yorii plant, which will become operational in 2010. Honda will build the Yorii plant with the concept of a people-friendly and resource/energy-recycling Green Factory which will employ high quality and highly efficient production and logistics systems, and it will be a state-of-the-art automobile plant along with new engine plant.

**About the New Automobile Plant**

|                            | <b>Automobile Plant</b>  | <b>Engine Plant</b>                     |
|----------------------------|--|---|
| <b>Location</b>            | Yorii-machi, Osato-gun, Saitama  | Ogawa-machi, Hiki-gun, Saitama          |
| <b>Size</b>                | 800,000 square meters (m <sup>2</sup> )  | 195,000 square meters (m <sup>2</sup> ) |
| <b>Production Capacity</b> | Approximately 200,000 units/year   | Approximately 200,000 units/year        |
| <b>Start of Operation</b>  | 2010 (plan)  | Summer, 2009 (plan)                     |
| <b>Investment</b>          | Approximately 70 billion yen (inclusive 25 billion yen for new engine plant)   |   |
| <b>Employment</b>          | Approximately 2,200 associates (inclusive 500 associates for new engine plant) |   |



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December 19, 2006

C06-111

**Summary of 2006 Year-End CEO Speech**

Accelerate our effort to strengthen the core characteristics that make Honda unique and proactively pursue creation of advanced technologies and products that represents the uniqueness of Honda

Honda Motor Co., Ltd. today announced that it would further accelerate its effort to strengthen the core characteristics that make Honda unique in each business area in order to continue creating new value and providing products and services which are beyond customers' expectations. Toward this end, Honda will steadily make progress with plans and initiatives in the following three areas, which Honda first announced in May.

- 1) Establishing advanced manufacturing systems and capabilities
- 2) Strengthening the foundation for overseas growth
- 3) Accelerating Honda's effort to reduce environmental footprint

**Estimated 2006 Worldwide Sales**

Honda expects to achieve all-time record sales in all three product areas.

|                 |                                      |
|-----------------|--------------------------------------|
| Motorcycles:    | 12.7 million units (up 3% from 2005) |
| Automobiles:    | 3.55 million units (up 5% from 2005) |
| Power Products: | 6.4 million units (up 15% from 2005) |

**Automobile Business in Japan**

2006 sales forecast: 700,000 units (down 2% from 2005).

Ever since the three domestic sales channels were integrated into a single network in March this year, sales of mini-vehicles as well as models which had been sold exclusively by each channel have increased. Honda recognizes this increase as a result of sales channel reform which was carried out to maximize customer joy and satisfaction.

In spring 2007, Honda will launch a new model which offers new value for the customer by integrating the design and mobility of an SUV and the functionality of seven-passenger seating. In addition to the introduction of this new vehicle, Honda is planning to further strengthen the appeal of its products.

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For its mini-vehicle business, Honda will further strengthen its collaboration with Yachiyo Industry Co., Ltd. to develop highly competitive products and to strengthen Honda's overall business capabilities in this category.

### **Motorcycle Business in Japan**

2006 sales forecast: 350,000 units (down 5% from 2005).

In 2007, Honda will continue leading the industry in both environmental and safety performance by making progress in installing fuel injection system to scooters sold in Japan and by introducing the *Gold Wing* equipped with an air bag.

Honda will further strengthen the foundation of its motorcycle business and continue promoting the attractiveness of motorcycles by increasing the number of *Honda Dream* dealerships, which meet the diverse needs of customers, from the current 81 sites to a network of more than 100 sites by the end of 2007.

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### **Establishing Advanced Manufacturing Systems and Capabilities**

#### **<Concept of the New Automobile Plant in Yorii>**

- 1) By achieving the world's top level of resource/energy efficiency, Honda will build a resource/energy-recycling Green Factory which will reduce the amount of CO<sub>2</sub> emitted per automobile produced by 20% compared to the level of 2000.
- 2) The Yorii Plant will be a state-of-the-art plant which will respond quickly to diversifying customer needs by employing high quality and highly efficient production and logistics systems.
- 3) The Yorii Plant will be a people-friendly plant where every associate will be able to fully demonstrate their unique characteristics and skills, fostering world-class experts and creating an environment where every associate feels joy and pride in their work.

#### **<Building a New Engine Plant>**

Demand for fuel efficient automobiles is growing faster than expected in every part of the world. Taking this into account, Honda has decided to build a new engine plant in Ogawa, Saitama, near Yorii, prior to the production start of the Yorii automobile plant in order to establish production systems and capabilities that will enable Honda to respond flexibly to increases in demand.

The annual production capacity of this new engine plant will be approximately 200,000 units. Honda plans to begin production at the new plant in summer 2009. Advanced engines produced at this plant will be supplied to Honda auto plants inside and outside of Japan. Related investment for this engine plant is expected to be approximately 25 billion yen, with employment expected to be approximately 500 associates (included in the original plan for Yorii Plant).

#### **<Strengthening Motorcycle Production>**

In order to further advance our technologies and know-how in the production of motorcycles of all sizes and to strengthen our system to evolve such technologies and know-how to other Honda plants around the world, Honda will concentrate all domestic motorcycle production to Kumamoto Factory with a target schedule by the end of 2009.

#### **<Strengthening Automatic Transmission (AT) Production>**

At Hamamatsu Factory, we will further strengthen production of automatic transmissions, where demand is growing on a global scale. Especially, the production of transmission gears which require a high level of manufacturing technologies will be strengthened so that Honda will handle major portion of the increased production volume in-house in the future.

#### **<Strengthening R&D Capabilities>**

In addition to the reorganization of Honda's R&D structure which was carried out in April this year, Honda will build a new R&D center in Sakura, Tochigi targeted to begin operation in 2009.

#### **Strengthening the Foundation for Overseas Growth**

#### **<Automobile - North America>**

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2006 U.S. sales forecast: 1.51 million units (up 3% from 2005, an all-time record for the 10<sup>th</sup> consecutive year).

2007 U.S. sales plan: 1.56 million units (up 3% from 2006)

An all-new Accord will go on sale in fall 2007. In addition, a concept model for the all-new *Accord Coupe* will be revealed at the North American International Auto Show in Detroit in January 2007.

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The design concept model for a next-generation sports car, which will represent the Acura brand, will be revealed at the North American International Auto Show in Detroit in January 2007.

In summer 2007, the Acura Design Center, currently under construction, will open in Los Angeles.

Beginning in spring 2007, production of the *Civic* will be expanded by adding production at Plant 2 in Canada to the current production of *Civic* in Plant 1 in Canada and at the East Liberty Plant in Ohio.

In fall 2007, the Honda plant in Mexico will begin production of the *CR-V*.

A new auto plant in Indiana and a new engine plant in Canada are scheduled to begin production in 2008.

### **<Automobile - Europe>**

2006 sales forecast: 310,000 units (up 8% from 2005, an all-time record for the third consecutive year)

2007 sales plan: 350,000 units (up 13% from 2006)

Sales of the all-new *CR-V* will begin in January 2007, and *Civic Type R* is planned to go on sale in spring 2007.

At the end of 2007, production at the UK plant will reach 250,000 units annually making full utilization of the plant's production capacity. Combined with the capacity of 50,000 units at the plant in Turkey, Honda's total annual auto production capacity in Europe will be 300,000 units.

### **<Asia>**

To accommodate growing demand for motorcycles in the region, Honda expanded motorcycle production capacity in India, the Philippines and Pakistan in 2006, and further capacity expansion is planned in countries such as India and Vietnam in 2007.

2006 automobile sales forecast: 320,000 units (up 4% from 2005, an all-time record for the 4<sup>th</sup> consecutive year)

2007 automobile sales plan: 360,000 units (up 13% from 2006)

Annual automobile production capacity in India will be doubled to 100,000 units by the end of 2007. With a plan to introduce a small-size vehicle and construction of a second auto plant, Honda aims to produce and sell more than 150,000 units of automobiles in India by the end of 2010.

### **<South America>**

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Honda will expand annual production capacity of its motorcycle plant in Brazil from the current 1 million units to 1.35 million units in early 2007, and further to 1.5 million units by the end of 2007.

Honda will double production capacity of its automobile plant in Brazil to 100,000 units by mid-2007.

### <Automobile - China>

2006 sales forecast: 320,000 units (up 23% from 2005, an all-time record for the 7<sup>th</sup> consecutive year since its local production started)

When Guangzhou Honda's second auto plant became operational in September 2006, Honda's total automobile production capacity in China reached 530,000 units including production at export plant.

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The export plant, Honda Automobile (China), which produces *Jazz* for European markets will fully utilize its annual production capacity of 50,000 units by spring 2007.

A new company, which will manufacture and supply transmissions and other engine components to Honda plants in China, will become operational in spring 2007. With this, Honda will further strengthen local automobile production in China.

Guangzhou Honda began study toward the establishment of an automobile R&D center for further business growth.

### **Strengthening Honda's Commitment to Reduce its Environmental Footprint**

With new technologies such as advanced VTEC and VCM for automobiles and super-low friction engines for motorcycles, Honda will achieve further improvement of fuel efficiency and cleaner tailpipe emissions.

Application of hybrid technology will be expanded to a smaller size vehicle. Honda will offer a new dedicated hybrid vehicle in 2009 at a price level lower than the globally popular *Civic Hybrid*.

Application of diesel technology will be expanded to a medium-to-large size vehicle. Honda will introduce super-clean diesel engine that will meet the stringent U.S. Tier II BIN5 emission standard, which reduces exhaust gas emissions to a level equal to a gasoline engine, in the U.S. market within the next three years. Honda will consider introducing this engine in Japan as well.

In November this year, Honda began sales in Brazil of automobiles equipped with a flexible fuel vehicle (FFV) system, which enables gasoline engine-based power plants to operate on a wide range of ethanol-gasoline fuel mixtures between 20% to 100% ethanol. The *Civic FFV* went on sale in November and the *Fit FFV* in December.

As for the development of technology which will more efficiently produce ethanol from stems and leaves of plants such as straw, an experimental plant will be built within Honda's Fundamental Technology Research Center in Wako in 2007 in order to work toward establishment of the mass-production technology of bio-ethanol in the future.

Compact, a home-use cogeneration unit, which has been sold roughly 40,000 units in Japan since its introduction in 2003, will be sold in U.S. from next year.

### **<Solar Cell>**

A new solar cell subsidiary, Honda Soltec Co., Ltd., was established earlier this month. This company will begin full-scale sales of solar cells when mass production begins at the new plant in Kumamoto in fall 2007. Through production and sales of environmentally-friendly and sustainable energy, Honda will further contribute to the effort to prevent global warming.

### **<Fuel Cell >**

A mass production model based on the technology and design of the *FCX Concept* will become available for lease sales in 2008 in Japan and the U.S.

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As for hydrogen generation technologies, Honda will further advance the Home Energy Station which produces hydrogen from natural gas, as well as the solar cell based Hydrogen Station, which Honda has already begun testing in the U.S. Honda will continue to be the leader in the effort to reduce its environmental footprint by accelerating the company's commitment and challenges to reduce CO<sub>2</sub> emissions through innovation of engine technologies and production of clean energy.



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### **HondaJet**

Honda has been receiving far more orders than the annual production plan of 70 units. With a plan to deliver the first HondaJet to a customer in 2010, Honda is making progress in determining the location for a production plant in the U.S. and establishing a high quality sales and service network.

In addition to the HondaJet, the HF120 Turbofan engine which was developed by the joint venture company GE Honda Aero Engines LLC, will be installed to the Spectrum Aeronautical's Freedom which will go on sale in 2010. Honda will also be providing fuel efficient and highly competitive advanced engines in the world of aviation.

### **Motor Sports**

#### **F1:**

Honda achieved a much-awaited victory in Hungary Grand Prix in August. For the 2007 season, Honda wants to meet fans expectations by winning the top spot on the winner's podium more often and competing for the constructor's title.

Honda will strongly support the SUPER AGURI F1 TEAM by providing highly competitive engines again in the 2007 season.

Through Mobilityland Corporation, Honda will continue negotiating toward hosting an F1 race again at Suzuka Circuit.

#### **IRL:**

Starting with the 2007 season, the IndyCar race engine will shift to 100% ethanol fuel. Honda will support the U.S. motor sports culture by providing environmentally-friendly and highly competitive engines to traditional open-wheel racing which has fans all over the U.S.

#### **WGP:**

For the top motorcycle road race series of MotoGP, Honda will aim to win the triple-crown for the second consecutive year with a new machine, the RC212V.

#### **Renovation of Suzuka Circuit:**

Honda will renovate Suzuka Circuit with the goal to achieve the further evolution of mobility and motor sports.

A major refurbishment of the Traffic Education Center will take place, to re-open in summer 2007. With this center, Honda will contribute to achieving a safer and richer mobility society.

In addition, the pits and paddocks on the race course will be overhauled. As one of the top-class racing circuits in the world, Suzuka Circuit will continue to host various international races and foster young racers. Through such activities, Suzuka Circuit will continue providing dreams and excitement to many motor sports fans.

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Honda will further strengthen the core characteristics that make Honda unique and continue taking on challenges in the creation of advanced technologies and products that represent the uniqueness of Honda to accomplish our goal to provide our customers with even greater joy and excitement.

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December 19, 2006

Ref.# C06-112

**2006 Honda SALES & PRODUCTION FORECAST****< Motorcycles >**

Unit (thousands)

|   | 2005          | 2006           |             |
|---|---------------|----------------|-------------|
|   | Result        | Forecast       | % Change    |
| <b>Global Sales</b>                       | <b>12,284</b> | <b>12,700*</b> | <b>103%</b> |
| Domestic                                  | 369           | 350            | 95%         |
| Overseas                                  | 11,914        | 12,350*        | 104%        |
| North America                             | 633           | 570            | 90%         |
| South America                             | 962           | 1,210*         | 126%        |
| Europe, the Middle & Near East and Africa | 409           | 390            | 95%         |
| Asia and Oceania                          | 8,982         | 9,260*         | 103%        |
| China                                     | 927           | 910            | 98%         |
| <b>Global Production</b>                  | <b>12,519</b> | <b>12,850*</b> | <b>103%</b> |
| Domestic                                  | 623           | 570            | 92%         |
| Overseas                                  | 11,896        | 12,270*        | 103%        |

Motorcycles: including ATVs

North America: including Mexico

Domestic production: Completely built unit (CBU) + complete knock-down (CKD)

Overseas production: CBU at local plants (excluding CKD)

\*New record

**< Automobiles >**

Unit (thousands)

|   | 2005         | 2006          |             |
|---|--------------|---------------|-------------|
|   | Result       | Forecast      | % Change    |
| <b>Global Sales</b>                       | <b>3,365</b> | <b>3,550*</b> | <b>105%</b> |
| Domestic                                  | 714          | 700           | 98%         |
| Registrations                             | 467          | 420           | 90%         |
| Mini vehicles                             | 246          | 280           | 113%        |
| Overseas                                  | 2,650        | 2,850*        | 108%        |
| North America                             | 1,656        | 1,720*        | 104%        |
| (U.S. only)                               | 1,462        | 1,510*        | 103%        |
| South America                             | 74           | 90*           | 121%        |
| Europe, the Middle & Near East and Africa | 354          | 390*          | 110%        |
| (Europe)                                  | 285          | 310*          | 108%        |
| Asia and Oceania                          | 306          | 320*          | 104%        |
| China                                     | 260          | 320*          | 123%        |
| <b>Global Production</b>                  | <b>3,409</b> | <b>3,630*</b> | <b>106%</b> |
| Domestic                                  | 1,261        | 1,330         | 105%        |
| Overseas                                  | 2,147        | 2,300*        | 107%        |
| Export sales from Japan                   | 522          | 630           | 120%        |

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North America: including Mexico  
 Europe: West/Central/East Europe + Russia and Ukraine  
 Domestic production: CBU + CKD  
 Overseas production: CBU at local plants (excluding CKD)  
 Export sales from Japan: CBU + CKD

\*New record

< Power Products >

Unit (thousands)

|                     | 2005<br>Result | 2006<br>Forecast | % Change    |
|---------------------|----------------|------------------|-------------|
| <b>Global Sales</b> | <b>5,551</b>   | <b>6,400*</b>    | <b>115%</b> |
| Domestic            | 463            | 520*             | 112%        |
| Overseas            | 5,088          | 5,880*           | 116%        |

\*New record

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Ref.#C06-114

**Honda Sets Monthly Record for Worldwide, Domestic and Overseas Auto Production**

December 25, 2006 Honda Motor Co., Ltd., today announced its automobile production, domestic sales, and export results for the month of November 2006.

**<Production>**

For the sixteenth consecutive month since August 2005, worldwide production increased in November over the same month a year ago. Honda achieved a new record for the month of November.

Due to an increase in production for overseas markets, domestic production experienced a year-on-year increase for the sixth consecutive month since June 2006. Honda achieved a new record for the month of November.

Due mainly to production increases in North America and Asia, overseas production increased compared to the same month a year ago for the sixteenth consecutive month since August 2005. Honda achieved a new record for overseas production for the month of November, including record production in North America. Production in Asia also set an all-time record for any month.

**<Japan Domestic Sales>**

Total domestic sales increased compared to the same month a year ago for the first time in the last two months since September 2006.

Due to decreased sales of Air Wave and Step Wagon, new vehicle registrations in November experienced a year-on-year decline for the eighth consecutive month since April 2006.

Due mainly to an increase in sales of Zest, mini-vehicle sales increased compared to the same month a year ago for the first time in the last two months since September 2006.

**<Vehicle registrations - excluding mini vehicles>**

Fit was the industry's fourth best selling car among new vehicle registrations for the month of November, with sales of 7,350 units. Step Wagon ranked as the industry's sixth best selling car among new vehicle registrations for the month of November, with sales of 5,826 units.

**<Mini vehicles - under 660cc>**

Life was the industry's fifth best selling car among mini vehicles, with sales of 7,823 units, and ranked as Honda's best selling car for the month of November. Zest was the industry's tenth best selling vehicle among mini vehicles for the month of November, with sales of 5,170 units.

**<Exports from Japan>**

Due primarily to an increase in exports to North America, total exports increased over the same month a year ago for the sixth consecutive month since June 2006.

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## Production

|                        | Year-to-Date Total |               |                  |              |
|------------------------|--------------------|---------------|------------------|--------------|
|                        | November           |               | (Jan - Nov 2006) |              |
|                        | Units              | Vs.11/05      | Units            | Vs.2005      |
| Domestic (CBU+CKD)     | 126,534            | +15.0%        | 1,216,488        | +4.8%        |
| Overseas (CBU only)    | 202,258            | +8.1%         | 2,134,083        | +7.6%        |
| <b>Worldwide Total</b> | <b>328,792</b>     | <b>+10.6%</b> | <b>3,350,571</b> | <b>+6.6%</b> |

## Production by Region

|                       | Year-to-Date Total |              |                  |              |
|-----------------------|--------------------|--------------|------------------|--------------|
|                       | November           |              | (Jan - Nov 2006) |              |
|                       | Units              | Vs.11/05     | Units            | Vs.2005      |
| North America         | 119,357            | +1.4%        | 1,291,578        | +3.4%        |
| (USA only)            | 81,379             | +1.3%        | 906,808          | +4.2%        |
| Europe                | 15,205             | -8.8%        | 172,244          | -0.6%        |
| Asia                  | 59,090             | +27.7%       | 582,506          | +19.0%       |
| (China only)          | 35,048             | +29.6%       | 321,507          | +31.4%       |
| Others                | 8,606              | +32.0%       | 87,755           | +23.4%       |
| <b>Overseas Total</b> | <b>202,258</b>     | <b>+8.1%</b> | <b>2,134,083</b> | <b>+7.6%</b> |

## Japan Domestic Sales

| Vehicle type             | Year-to-Date Total |              |                  |              |
|--------------------------|--------------------|--------------|------------------|--------------|
|                          | November           |              | (Jan - Nov 2006) |              |
|                          | Units              | Vs.10/05     | Units            | Vs.2005      |
| Registrations            | 32,451             | -12.1%       | 383,092          | -11.3%       |
| Mini Vehicles            | 25,440             | +24.2%       | 256,006          | +11.6%       |
| <b>Honda Brand Total</b> | <b>57,891</b>      | <b>+0.9%</b> | <b>639,098</b>   | <b>-3.4%</b> |

## Exports from Japan

|               | Year-to-Date Total |               |                  |               |
|---------------|--------------------|---------------|------------------|---------------|
|               | November           |               | (Jan - Nov 2006) |               |
|               | Units              | Vs.11/05      | Units            | Vs.2005       |
| North America | 26,653             | +59.8%        | 319,301          | +39.6%        |
| (USA only)    | 25,068             | +70.4%        | 289,049          | +42.4%        |
| Europe        | 13,431             | +33.1%        | 120,889          | -3.5%         |
| Asia          | 2,497              | +109.1%       | 17,483           | +12.4%        |
| Others        | 11,672             | +12.8%        | 109,511          | +7.5%         |
| <b>Total</b>  | <b>54,253</b>      | <b>+41.6%</b> | <b>567,184</b>   | <b>+20.3%</b> |

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2006

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Consolidated Balance Sheets

September 30, 2005 and 2006 and March 31, 2006

| Assets   | September 30,<br>2005<br>unaudited | Yen (millions)<br>September<br>30,<br>2006<br>unaudited | March 31,<br>2006<br>audited |
|--|------------------------------------|---|------------------------------|
| <b>Current assets:</b>   |                                    |   |                              |
| Cash and cash equivalents  | ¥ 731,199                          | ¥ 792,489   | ¥ 747,327                    |
| Trade accounts and notes receivables, net of allowance for doubtful accounts of ¥10,554 million at September 30, 2005, ¥8,259 million at September 30, 2006 and ¥10,689 million at March 31, 2006 (note 2) | 672,160                            | 796,245   | 963,320                      |
| Finance subsidiaries-receivables, net (notes 2,5 and 9)  | 1,214,243                          | 1,471,967   | 1,230,912                    |
| Inventories (note 3)   | 941,161                            | 1,109,412   | 1,036,304                    |
| Deferred income taxes  | 225,255                            | 198,848   | 198,033                      |
| Other current assets (notes 4 and 9)   | 372,583                            | 469,075   | 450,002                      |
| <b>Total current assets</b>  | <b>4,156,601</b>                   | <b>4,838,036</b>  | <b>4,625,898</b>             |
| Finance subsidiaries-receivables, net (notes 2,5 and 9)  | 2,909,017                          | 3,290,975   | 2,982,425                    |
| <b>Investments and advances:</b>   |                                    |   |                              |
| Investments in and advances to affiliates  | 377,682                            | 426,029   | 408,993                      |
| Other, including marketable equity securities (notes 4 and 9)  | 310,285                            | 250,095   | 298,460                      |
| <b>Total investments and advances</b>  | <b>687,967</b>                     | <b>676,124</b>  | <b>707,453</b>               |
| <b>Property, plant and equipment, at cost (note 5):</b>  |                                    |   |                              |
| Land   | 370,472                            | 402,338   | 384,447                      |
| Buildings  | 1,062,707                          | 1,217,806   | 1,149,517                    |
| Machinery and equipment  | 2,341,808                          | 2,700,806   | 2,562,507                    |
| Construction in progress   | 153,614                            | 201,600   | 115,818                      |
|  | 3,928,601                          | 4,522,550   | 4,212,289                    |
| Less accumulated depreciation and amortization   | 2,270,024                          | 2,548,790   | 2,397,022                    |
| <b>Net property, plant and equipment</b>   | <b>1,658,577</b>                   | <b>1,973,760</b>  | <b>1,815,267</b>             |
| Other assets (notes 2 and 9)   | 470,517                            | 423,562   | 440,638                      |
| <b>Total assets</b>  | <b>¥ 9,882,679</b>                 | <b>¥ 11,202,457</b>                                     | <b>¥ 10,571,681</b>          |

| Liabilities and Stockholders Equity        | September 30,<br>2005<br>unaudited | Yen (millions)<br>September<br>30,<br>2006<br>unaudited | March 31,<br>2006<br>audited |
|--|------------------------------------|---|------------------------------|
| <b>Current liabilities:</b>                |                                    |   |                              |
| Short-term debt (note 5)                   | ¥ 725,771                          | ¥ 1,221,228   | ¥ 693,557                    |
| Current portion of long-term debt (note 5) | 567,250                            | 749,127   | 657,645                      |



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|   |             |              |              |
|---|-------------|--------------|--------------|
| Trade payables:   |             |              |              |
| Notes   | 24,684      | 26,890       | 31,698       |
| Accounts  | 931,950     | 1,031,255    | 1,099,902    |
| Accrued expenses  | 947,571     | 951,445      | 930,115      |
| Income taxes payable  | 80,505      | 62,644       | 110,160      |
| Other current liabilities (note 9)  | 435,155     | 481,845      | 466,332      |
| Total current liabilities   | 3,712,886   | 4,524,434    | 3,989,409    |
| Long-term debt, excluding current portion (note 5)  | 1,800,814   | 1,745,205    | 1,879,000    |
| Other liabilities (notes 6 and 9)   | 742,313     | 576,037      | 577,522      |
| Total liabilities   | 6,256,013   | 6,845,676    | 6,445,931    |
| Stockholders' equity:   |             |              |              |
| Common stock, authorized 7,108,000,000 shares at September 30, 2005 and 7,086,000,000 shares at September 30, 2006 and at March 31, 2006 ; issued 1,856,828,430 shares at September 30, 2005 and 1,834,828,430 shares at September 30, 2006 and at March 31, 2006 | 86,067      | 86,067       | 86,067       |
| Capital surplus   | 172,531     | 172,529      | 172,529      |
| Legal reserves  | 35,516      | 37,332       | 35,811       |
| Retained earnings   | 4,018,709   | 4,482,612    | 4,267,886    |
| Accumulated other comprehensive income (loss), net (note 8)   | (644,464)   | (387,749)    | (407,187)    |
| Treasury stock, at cost 14,791,514 shares at September 30, 2005, 11,147,456 shares at September 30, 2006 and 8,680,000 shares at March 31, 2006   | (41,693)    | (34,010)     | (29,356)     |
| Total stockholders' equity  | 3,626,666   | 4,356,781    | 4,125,750    |
| Commitments and contingent liabilities (notes 11 and 12)  |             |              |              |
| Total liabilities and stockholders' equity  | ¥ 9,882,679 | ¥ 11,202,457 | ¥ 10,571,681 |

See accompanying notes to consolidated financial statements.

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Consolidated Statements of Income

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

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

See accompanying notes to consolidated financial statements.

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Consolidated Statements of Stockholders' Equity

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

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

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|  |        |         |        |           |           |          |           |
|--|--------|---------|--------|-----------|-----------|----------|-----------|
| Unrealized holding gains (losses) arising during the period            |        |         |        |           | (7,667)   | (7,667)  |           |
| Reclassification adjustments for losses (gains) realized in net income |        |         |        |           | (2,155)   | (2,155)  |           |
| Unrealized gains (losses) on derivative instruments:                   |        |         |        |           |           |          |           |
| Unrealized holding gains (losses) arising during the year              |        |         |        |           | (581)     | (581)    |           |
| Reclassification adjustments for losses (gains) realized in net income |        |         |        |           | 588       | 588      |           |
| Minimum pension liabilities adjustment                                 |        |         |        |           | (24)      | (24)     |           |
| Total comprehensive income for the period                              |        |         |        |           |           |          | 290,749   |
| Purchase of treasury stock   |        |         |        |           |           | (23,531) | (23,531)  |
| Reissuance of treasury stock   |        |         |        |           | (280)     | 18,877   | 18,597    |
| Retirement of treasury stock   |        |         |        |           |           |          |           |
| Balance at September 30, 2006 (Unaudited)                              | 86,067 | 172,529 | 37,332 | 4,482,612 | (387,749) | (34,010) | 4,356,781 |
| 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 for the period  |        |         |        | 597,033   |           |          | 597,033   |
| Other comprehensive income (loss) for the period, net of tax (note 8)  |        |         |        |           |           |          |           |
| Adjustments from foreign currency translation                          |        |         |        |           | 249,160   |          | 249,160   |
| Unrealized gains (losses) on marketable equity securities:             |        |         |        |           |           |          |           |
| Unrealized holding gains (losses) arising during the period            |        |         |        |           | 29,807    |          | 29,807    |
| Reclassification adjustments for losses (gains) realized in net income |        |         |        |           | (841)     |          | (841)     |
| Unrealized gains (losses) on derivative instruments:                   |        |         |        |           |           |          |           |
| Unrealized holding gains (losses) arising during the year              |        |         |        |           | (26)      |          | (26)      |
| Reclassification adjustments for losses (gains) realized in net income |        |         |        |           | (38)      |          | (38)      |
| Minimum pension liabilities adjustment                                 |        |         |        |           | 108,685   |          | 108,685   |
| Total comprehensive income for the period                              |        |         |        |           |           |          | 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 (Audited)                                    | 86,067 | 172,529 | 35,811 | 4,267,886 | (407,187) | (29,356) | 4,125,750 |

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

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

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

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Net cash provided by financing activities                    | 66,713    | 350,253   | 24,006    |
| Effect of exchange rate changes on cash and cash equivalents | 22,731    | 9,482     | 45,927    |
| Net change in cash and cash equivalents                      | (42,339)  | 45,162    | (26,211)  |
| Cash and cash equivalents at beginning of the period         | 773,538   | 747,327   | 773,538   |
| Cash and cash equivalents at end of the period               | ¥ 731,199 | ¥ 792,489 | ¥ 747,327 |

See accompanying notes to consolidated financial statements.

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

(1) General and Summary of Significant Accounting Policies(a) Financial Statements

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

(b) Description of Business

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

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

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

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

| Japan<br>(%) | North<br>America<br>(%) | Europe<br>(%) | Asia<br>(%) | Others<br>(%) | Consolidated<br>(%) |
|--------------|-------------------------|---------------|-------------|---------------|---------------------|
|--------------|-------------------------|---------------|-------------|---------------|---------------------|



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|  |      |      |      |      |     |       |
|--|------|------|------|------|-----|-------|
| Net sales and other operating revenue: | 15.7 | 53.6 | 10.6 | 11.9 | 8.2 | 100.0 |
|--|------|------|------|------|-----|-------|

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Basis of Presenting Consolidated Financial Statements

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

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

(d) Consolidation Policy

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

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

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

(e) Use of Estimates

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

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(f) Revenue Recognition

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

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

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

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

(g) Cash Equivalents

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

(h) Inventories

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(i) Investments in Securities

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

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

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

(j) Goodwill

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

(k) Depreciation

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

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

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



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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(m) Income Taxes

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

(n) Product-Related Expenses

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

(o) Basic Net Income per Common Share

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

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

(p) Foreign Currency Translation

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

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

(q) Derivative Financial Instruments

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

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



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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

(r) Shipping and Handling Costs

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

(s) Asset Retirement Liability

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



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Notes to Consolidated Financial Statements

(t) New Accounting Pronouncements Not Yet Adopted

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

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

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

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

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

(u) Reclassifications

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

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

(2) Finance Subsidiaries-Receivables

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

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

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

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

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(3) Inventories

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

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

(4) Investments and Advances

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

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

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

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

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(5) Short-Term and Long-Term Debt

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

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

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

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

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

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

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(6) Other Liabilities

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

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

(7) Supplemental Disclosures of Cash Flow Information

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

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

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(8) Accumulated Other Comprehensive Income (Loss)

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

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

(9) Fair Value of Financial Instruments

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

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



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|                                      |   |          |   |          |   |          |   |          |   |          |   |          |
|--------------------------------------|---|----------|---|----------|---|----------|---|----------|---|----------|---|----------|
| Net                                  | ¥ | (17,740) | ¥ | (17,740) | ¥ | (35,725) | ¥ | (35,725) | ¥ | (31,502) | ¥ | (31,502) |
| <b>Interest rate instruments (d)</b> |   |          |   |          |   |          |   |          |   |          |   |          |
| Asset position                       | ¥ | 27,839   | ¥ | 27,839   | ¥ | 17,388   | ¥ | 17,388   | ¥ | 36,334   | ¥ | 36,334   |
| Liability position                   |   | (245)    |   | (245)    |   | (23)     |   | (23)     |   | (2)      |   | (2)      |
| Net                                  | ¥ | 27,594   | ¥ | 27,594   | ¥ | 17,365   | ¥ | 17,365   | ¥ | 36,332   | ¥ | 36,332   |

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

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

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

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

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

*Cash and cash equivalents, trade receivables and trade payables*

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

*Finance subsidiaries-receivables (Including loans held for sale)*

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

*Marketable equity securities*

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

*Held-to-maturity securities*

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

*Convertible notes and convertible preferred stock investment*

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

*Debt*

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

*Foreign exchange and interest rate instruments*

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Risk Management Activities and Derivative Financial Instruments

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

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

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

*Cash flow hedge*

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

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Notes to Consolidated Financial Statements

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

*Derivative financial instruments not designated as accounting hedges*

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

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

(11) Commitments and Contingent Liabilities

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

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

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

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

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## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(12) Leases

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

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

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

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

**Table of Contents****[Note 13] Segment Information**

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

Principal products and functions of each segment are as follows:

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

**Business Segment Information**

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

|  | Yen (millions)         |                        |                                   |               |             |                  |                      |              |
|--|------------------------|------------------------|-----------------------------------|---------------|-------------|------------------|----------------------|--------------|
|  | Motorcycle<br>Business | Automobile<br>Business | Financial<br>Services<br>Business | Power Product |             | Segment<br>Total | Reconciling<br>Items | Consolidated |
| and Other<br>Businesses                |                        |                        |                                   |               |             |                  |                      |              |
| Net sales and other operating revenue: |                        |                        |                                   |               |             |                  |                      |              |
| External customers                     | ¥ 550,942              | ¥ 3,738,630            | ¥ 143,759                         | ¥ 168,918     | ¥ 4,602,249 |                  |                      | ¥ 4,602,249  |
| Intersegment                           |                        |                        | ¥ 2,046                           | ¥ 7,039       | ¥ 9,085     | ¥ (9,085)        |                      |              |
| Total                                  | ¥ 550,942              | ¥ 3,738,630            | ¥ 145,805                         | ¥ 175,957     | ¥ 4,611,334 | ¥ (9,085)        |                      | ¥ 4,602,249  |
| Cost of sales, SG&A and R&D expenses   | ¥ 511,002              | ¥ 3,504,415            | ¥ 101,205                         | ¥ 161,625     | ¥ 4,278,247 | ¥ (9,085)        |                      | ¥ 4,269,162  |

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Gain on transfer of the substitutional portion of the Employee's Pension Funds to the government

|   |           |             |             |           |              |                         |
|---|-----------|-------------|-------------|-----------|--------------|-------------------------|
| Operating income  | ¥ 39,940  | ¥ 234,215   | ¥ 44,600    | ¥ 14,332  | ¥ 333,087    | ¥ 333,087               |
| Equity in income of affiliates  | ¥ 15,438  | ¥ 31,135    |             | ¥ 634     | ¥ 47,207     | ¥ 47,207                |
| Assets  | ¥ 889,720 | ¥ 4,340,272 | ¥ 4,742,454 | ¥ 250,282 | ¥ 10,222,728 | ¥ (340,049) ¥ 9,882,679 |
| Investments in affiliates   | ¥ 85,320  | ¥ 275,878   |             | ¥ 12,892  | ¥ 374,090    | ¥ 374,090               |
| Depreciation and amortization   | ¥ 13,902  | ¥ 94,780    | ¥ 318       | ¥ 3,970   | ¥ 112,970    | ¥ 112,970               |
| Capital expenditures  | ¥ 19,901  | ¥ 142,930   | ¥ 703       | ¥ 6,192   | ¥ 169,726    | ¥ 169,726               |
| Provision for credit and lease residual losses on finance subsidiaries- receivables |           |             | ¥ 19,147    |           | ¥ 19,147     | ¥ 19,147                |



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

|  | Yen (millions)      |                     |                             |                                    |               |                   |              |
|--|---------------------|---------------------|-----------------------------|------------------------------------|---------------|-------------------|--------------|
|  | Motorcycle Business | Automobile Business | Financial Services Business | Power Product and Other Businesses | Segment Total | Reconciling Items | Consolidated |
| Net sales and other operating revenue: |                     |                     |                             |                                    |               |                   |              |
| External customers                     | ¥ 645,646           | ¥ 4,194,436         | ¥ 188,040                   | ¥ 202,476                          | ¥ 5,230,598   |                   | ¥ 5,230,598  |
| Intersegment                           |                     |                     | ¥ 1,791                     | ¥ 6,024                            | ¥ 7,815       | ¥ (7,815)         |              |
| Total                                  | ¥ 645,646           | ¥ 4,194,436         | ¥ 189,831                   | ¥ 208,500                          | ¥ 5,238,413   | ¥ (7,815)         | ¥ 5,230,598  |
| Cost of sales, SG&A and R&D expenses   | ¥ 600,423           | ¥ 3,913,474         | ¥ 137,970                   | ¥ 190,001                          | ¥ 4,841,868   | ¥ (7,815)         | ¥ 4,834,053  |

Gain on transfer of the substitutional portion of the Employee's Pension Funds to the government

|  |             |             |             |           |              |             |              |
|--|-------------|-------------|-------------|-----------|--------------|-------------|--------------|
| Operating income   | ¥ 45,223    | ¥ 280,962   | ¥ 51,861    | ¥ 18,499  | ¥ 396,545    |             | ¥ 396,545    |
| Equity in income of affiliates   | ¥ 14,640    | ¥ 41,872    |             | ¥ 1,123   | ¥ 57,635     |             | ¥ 57,635     |
| Assets   | ¥ 1,001,525 | ¥ 4,904,836 | ¥ 5,513,479 | ¥ 289,728 | ¥ 11,709,568 | ¥ (507,111) | ¥ 11,202,457 |
| Investments in affiliates  | ¥ 96,177    | ¥ 311,020   |             | ¥ 14,539  | ¥ 421,736    |             | ¥ 421,736    |
| Depreciation and amortization  | ¥ 17,670    | ¥ 132,808   | ¥ 439       | ¥ 4,618   | ¥ 155,535    |             | ¥ 155,535    |
| Capital expenditures   | ¥ 28,915    | ¥ 236,365   | ¥ 368       | ¥ 5,267   | ¥ 270,915    |             | ¥ 270,915    |
| Provision for credit and lease residual losses on finance subsidiaries-receivables |             |             | ¥ 17,943    |           | ¥ 17,943     |             | ¥ 17,943     |

As of and for the year ended March 31, 2006

|  | Yen (millions)      |                     |                             |                                    |               |                   |              |
|--|---------------------|---------------------|-----------------------------|------------------------------------|---------------|-------------------|--------------|
|  | Motorcycle Business | Automobile Business | Financial Services Business | Power Product and Other Businesses | Segment Total | Reconciling Items | Consolidated |
| Net sales and other operating revenue: |                     |                     |                             |                                    |               |                   |              |
| External customers                     | ¥ 225,812           | ¥ 8,004,694         | ¥ 306,869                   | ¥ 370,621                          | ¥ 9,907,996   |                   | ¥ 9,907,996  |
| Intersegment                           |                     |                     | ¥ 4,068                     | ¥ 11,941                           | ¥ 16,009      | ¥ (16,009)        |              |
| Total                                  | ¥ 225,812           | ¥ 8,004,694         | ¥ 310,937                   | ¥ 382,562                          | ¥ 9,924,005   | ¥ (16,009)        | ¥ 9,907,996  |
| Cost of sales, SG&A and R&D expenses   | ¥ 1,127,157         | ¥ 7,492,257         | ¥ 220,352                   | ¥ 353,350                          | ¥ 9,193,116   | ¥ (16,009)        | ¥ 9,177,107  |

Gain on transfer of the substitutional portion of the Employee's Pension Funds to the government

|                                |             |             |             |           |              |             |              |
|--------------------------------|-------------|-------------|-------------|-----------|--------------|-------------|--------------|
| Operating income               | ¥ 113,974   | ¥ 628,372   | ¥ 90,585    | ¥ 35,974  | ¥ 868,905    |             | ¥ 868,905    |
| Equity in income of affiliates | ¥ 30,700    | ¥ 67,439    |             | ¥ 1,466   | ¥ 99,605     |             | ¥ 99,605     |
| Assets                         | ¥ 1,006,308 | ¥ 4,752,405 | ¥ 5,008,058 | ¥ 294,170 | ¥ 11,060,941 | ¥ (489,260) | ¥ 10,571,681 |
| Investments in affiliates      | ¥ 87,041    | ¥ 304,477   |             | ¥ 13,194  | ¥ 404,712    |             | ¥ 404,712    |
| Depreciation and amortization  | ¥ 30,232    | ¥ 222,165   | ¥ 771       | ¥ 9,057   | ¥ 262,225    |             | ¥ 262,225    |
| Capital expenditures           | ¥ 52,246    | ¥ 392,934   | ¥ 1,316     | ¥ 11,345  | ¥ 457,841    |             | ¥ 457,841    |
|                                |             |             | ¥ 36,153    |           | ¥ 36,153     |             | ¥ 36,153     |

Provision for credit and lease residual  
losses on finance subsidiaries-  
receivables

Explanatory notes:

1. Operating income of each segment is measured in a consistent manner in which consolidated operating income is determined. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable.
2. Assets of each business segment are defined as total assets. Segment assets are based on those directly associated with each segment and those not directly associated with specific segments are allocated based on the most reasonable measures applicable except for the corporate assets described below.
3. Intersegment sales and revenues are generally made at values that approximate arm's-length prices.
4. Unallocated corporate assets, included in reconciling items, amounted to ¥444,902 million as of September 30, 2005, ¥378,404 million as of September 30, 2006, and ¥354,903 million as of March 31, 2006 respectively, which consist primarily of cash and cash equivalents and marketable securities held by the Company. Reconciling items also include elimination of intersegment transactions.

**Table of Contents****External Sales and Other Operating Revenue by Product or Service Groups**

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

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

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

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

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

As of and for the year ended March 31, 2006

|                             | Japan       | United States | Others<br>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 |

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

**Table of Contents****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

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

Major countries or regions in each geographic area:

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

(2) Supplemental geographical information based on the location of the Company and its subsidiaries  
As of and for the six months ended September 30, 2005

|   | Japan       | North<br>America | Europe    | Yen (millions) |                  | Total       | Reconciling<br>Items | Consolidated |
|---|-------------|------------------|-----------|----------------|------------------|-------------|----------------------|--------------|
|   |             |                  |           | Asia           | Other<br>Regions |             |                      |              |
| Net sales and other operating revenue:  |             |                  |           |                |                  |             |                      |              |
| External customers  | ¥ 1,010,185 | ¥ 2,447,402      | ¥ 482,707 | ¥ 408,499      | ¥ 253,456        | ¥ 4,602,249 |                      | ¥ 4,602,249  |
| Transfers between geographic areas  | ¥ 1,128,932 | ¥ 64,608         | ¥ 81,575  | ¥ 54,302       | ¥ 10,285         | ¥ 1,339,702 | ¥ (1,339,702)        |              |
| Total   | ¥ 2,139,117 | ¥ 2,512,010      | ¥ 564,282 | ¥ 462,801      | ¥ 263,741        | ¥ 5,941,951 | ¥ (1,339,702)        | ¥ 4,602,249  |
| Cost of sales, SG&A and R&D expenses  | ¥ 2,028,924 | ¥ 2,370,726      | ¥ 550,700 | ¥ 427,806      | ¥ 234,945        | ¥ 5,613,101 | ¥ (1,343,939)        | ¥ 4,269,162  |
| Gain on transfer of the substitutional portion of the Employees Pension Funds to the government |             |                  |           |                |                  |             |                      |              |
| Operating income  | ¥ 110,193   | ¥ 141,284        | ¥ 13,582  | ¥ 34,995       | ¥ 28,796         | ¥ 328,850   | ¥ 4,237              | ¥ 333,087    |

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|                   |             |             |           |           |           |             |           |             |
|-------------------|-------------|-------------|-----------|-----------|-----------|-------------|-----------|-------------|
| Assets            | ¥ 2,571,296 | ¥ 5,675,749 | ¥ 621,501 | ¥ 578,383 | ¥ 258,079 | ¥ 9,705,008 | ¥ 177,671 | ¥ 9,882,679 |
| Long-lived assets | ¥ 902,293   | ¥ 540,892   | ¥ 124,408 | ¥ 135,425 | ¥ 58,306  | ¥ 1,761,324 |           | ¥ 1,761,324 |

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

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

As of and for the year ended March 31, 2006

|   | Yen (millions) |               |             |           |               |              |                   |              |
|---|----------------|---------------|-------------|-----------|---------------|--------------|-------------------|--------------|
|   | 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 to the government | ¥ 138,016      |               |             |           |               | ¥ 138,016    |                   | ¥ 138,016    |
| Operating income  | ¥ 370,950      | ¥ 353,943     | ¥ 26,305    | ¥ 64,999  | ¥ 57,163      | ¥ 873,360    | ¥ (4,455)         | ¥ 868,905    |
| Assets  | ¥ 2,737,454    | ¥ 6,026,342   | ¥ 800,786   | ¥ 717,933 | ¥ 309,209     | ¥ 10,591,724 | ¥ (20,043)        | ¥ 10,571,681 |
| Long-lived assets   | ¥ 949,713      | ¥ 589,596     | ¥ 157,819   | ¥ 167,148 | ¥ 72,244      | ¥ 1,936,520  |                   | ¥ 1,936,520  |

Explanatory notes:

1. Major countries or regions in each geographic area:

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

2. Operating income of each segment is measured in a consistent manner in which consolidated operating income is determined.

3. Assets of each business segment are defined as total 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 ¥444,902 million as of September 30, 2005, ¥378,404 million as of September 30, 2006, and ¥354,903 million as of March 31, 2006 respectively, which consist primarily of cash and cash equivalents and marketable securities held by the Company. Reconciling items also include elimination of transactions between geographic areas.

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

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

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

|  | September 30,<br>2005 | Yen (millions)<br>September 30,<br>2006 | March 31,<br>2006 |
|--|-----------------------|---|-------------------|
| <b>Assets</b>                                    |                       |   |                   |
| <b>&lt;Non-financial services businesses&gt;</b> |                       |   |                   |
| Current Assets:                                  | ¥ 3,424,259           | ¥ 3,792,348                             | ¥ 3,788,184       |
| Cash and cash equivalents                        | 716,423               | 775,508                                 | 727,735           |
| Trade accounts and notes receivable              | 354,691               | 405,296                                 | 504,101           |
| Inventories                                      | 941,161               | 1,109,412                               | 1,036,304         |
| Other current assets                             | 1,411,984             | 1,502,132                               | 1,520,044         |
| Investment and advances                          | 918,449               | 938,542                                 | 955,338           |
| Property, plant and equipment, at cost           | 1,638,776             | 1,953,622                               | 1,795,173         |
| Other assets                                     | 269,447               | 213,910                                 | 225,575           |
| <b>Total assets</b>                              | <b>6,250,931</b>      | <b>6,898,422</b>                        | <b>6,764,270</b>  |
| <b>&lt;Finance Subsidiaries&gt;</b>              |                       |   |                   |
| Cash and cash equivalents                        | 14,776                | 16,981                                  | 19,592            |
| Finance subsidiaries short-term receivables, net | 1,224,132             | 1,487,841                               | 1,240,581         |
| Finance subsidiaries long-term receivables, net  | 2,909,368             | 3,291,803                               | 2,982,832         |
| Other assets                                     | 594,178               | 716,854                                 | 765,053           |
| <b>Total assets</b>                              | <b>4,742,454</b>      | <b>5,513,479</b>                        | <b>5,008,058</b>  |
| Eliminations                                     | (1,110,706)           | (1,209,444)                             | (1,200,647)       |
| <b>Total assets</b>                              | <b>9,882,679</b>      | <b>11,202,457</b>                       | <b>10,571,681</b> |
| <b>Liabilities and Stockholders Equity</b>       |                       |   |                   |
| <b>&lt;Non-financial services businesses&gt;</b> |                       |   |                   |
| Current liabilities:                             | ¥ 2,159,864           | ¥ 2,289,121                             | ¥ 2,355,999       |
| Short-term debt                                  | 170,778               | 152,266                                 | 171,122           |
| Current portion of long-term debt                | 4,860                 | 12,507                                  | 9,138             |
| Trade payables                                   | 965,548               | 1,079,992                               | 1,144,159         |
| Accrued expenses                                 | 797,122               | 798,979                                 | 763,879           |
| Other current liabilities                        | 221,556               | 245,377                                 | 267,701           |
| Long-term debt, excluding current portion        | 20,720                | 29,365                                  | 34,396            |
| Other liabilities                                | 736,352               | 574,483                                 | 575,034           |
| <b>Total liabilities</b>                         | <b>2,916,936</b>      | <b>2,892,969</b>                        | <b>2,965,429</b>  |
| <b>&lt;Finance Subsidiaries&gt;</b>              |                       |   |                   |
| Short-term debt                                  | 1,350,383             | 1,896,449                               | 1,369,177         |
| Current portion of long-term debt                | 562,470               | 741,568                                 | 653,276           |
| Accrued expenses                                 | 160,779               | 166,198                                 | 181,140           |
| Long-term debt, excluding current portion        | 1,796,945             | 1,730,114                               | 1,858,362         |



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|  |                  |                   |                   |
|--|------------------|-------------------|-------------------|
| Other liabilities                                | 364,740          | 390,423           | 392,316           |
| <b>Total liabilities</b>                         | <b>4,235,317</b> | <b>4,924,752</b>  | <b>4,454,271</b>  |
| Eliminations                                     | (896,240)        | (972,045)         | (973,769)         |
| <b>Total liabilities</b>                         | <b>6,256,013</b> | <b>6,845,676</b>  | <b>6,445,931</b>  |
| Common stock                                     | 86,067           | 86,067            | 86,067            |
| Capital surplus                                  | 172,531          | 172,529           | 172,529           |
| Legal reserves                                   | 35,516           | 37,332            | 35,811            |
| Retained earnings                                | 4,018,709        | 4,482,612         | 4,267,886         |
| Accumulated other comprehensive income (loss)    | (644,464)        | (387,749)         | (407,187)         |
| Treasury stock                                   | (41,693)         | (34,010)          | (29,356)          |
| <b>Total stockholders equity</b>                 | <b>3,626,666</b> | <b>4,356,781</b>  | <b>4,125,750</b>  |
| <b>Total liabilities and stockholders equity</b> | <b>9,882,679</b> | <b>11,202,457</b> | <b>10,571,681</b> |

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(2) Consolidated Statements of Cash Flows Divided into non-financial services businesses and finance subsidiaries  
For the six months ended September 30, 2005

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

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For the six months ended September 30, 2006

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

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For the year ended March 31, 2006

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

Explanatory notes:

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1. The cash flows derived from non-financial services businesses loans to finance subsidiaries were included in the items of Decrease (increase) in investments and advances of non-financial services businesses, and Increase (decrease) in short-term debt , Proceeds from long-term debt and Repayment of long-term debt of finance subsidiaries (marked by \*).

Loans from non-financial services businesses to finance subsidiaries increased by ¥27,510 million for the six months ended September 30, 2005, decreased by ¥28,717 million for the six months ended September 30, 2006 and increased by ¥13,242 million for the year ended March 31,2006.

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 consolidated statements of cash flows presented above.

**Table of Contents****Unconsolidated Financial Statements and other information**

## (1) Unconsolidated Financial Statements

## Unconsolidated Balance Sheets

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

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

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|     |   |   |           |             |
|-----|---|---|-----------|-------------|
| 2   | Other capital surplus                                     |   |           |             |
|     | Total capital surplus                                     |   | 170,313   |             |
| (3) | Retained earnings   |   |           |             |
| 1   | Legal reserves  |   | 21,516    |             |
| 2   | Other retained earnings                                   |   |           |             |
|     | Reserve for dividends                                     |   | 105,800   |             |
|     | General reserves  |   | 1,074,300 |             |
|     | Reserve for special depreciation                          |   | 2,188     |             |
|     | Reserve for reduction of acquisition cost of fixed assets |   | 12,375    |             |
|     | Earnings to be carried forward                            |   | 294,688   |             |
|     | Total retained earnings                                   |   | 1,510,869 |             |
| (4) | Treasury stock  |   | (41,171)  |             |
|     | Total stockholders' equity                                |   | 1,726,079 |             |
| II  | Difference of appreciation and conversion                 |   |           |             |
| 1   | Net unrealized gains on securities                        |   | 59,653    |             |
| 2   | Deferred loss (gain) on hedges                            |   | (57)      |             |
|     | Total difference of appreciation and conversion           |   | 59,595    |             |
|     | Total net assets  |   | 1,785,675 |             |
|     | Total liabilities and net assets                          | ¥ | ¥         | 2,524,890 ¥ |



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## Unconsolidated Statement of Income

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

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Unconsolidated Statements of Stockholders' Equity

| Yen (millions) |                 |                       |                |                       |  |                                  |   |                                |                |                            |                                    | Difference of appreciation and conversion |  |
|----------------|-----------------|-----------------------|----------------|-----------------------|--|----------------------------------|---|--------------------------------|----------------|----------------------------|------------------------------------|---|--|
| Common stock   | Capital surplus |                       |                | Reserve for dividends | Stockholders' equity Retained earnings Other retained earnings |                                  |   | Earnings to be carried forward | Treasury stock | Total stockholders' equity | Net unrealized gains on securities | Deferred loss (gain) on hedges            |  |
|                | Capital surplus | Other capital surplus | Legal reserves |                       | General reserves   | Reserve for special depreciation | Reserve for reduction of acquisition cost of fixed assets |                                |                |                            |                                    |   |  |
| 86,067         | 170,313         |                       | 21,516         | 87,300                | 1,049,300  | 2,072                            | 12,328  | 266,128                        | (29,352)       | 1,665,674                  | 69,163                             |   |  |
|                |                 |                       |                | 18,500                |  |                                  |   | (18,500)                       |                |                            |                                    |   |  |
|                |                 |                       |                |                       | 25,000   |                                  |   | (25,000)                       |                |                            |                                    |   |  |
|                |                 |                       |                |                       |  | 833                              |   | (833)                          |                |                            |                                    |   |  |
|                |                 |                       |                |                       |  | (716)                            |   | 716                            |                |                            |                                    |   |  |
|                |                 |                       |                |                       |  |                                  | 112   | (112)                          |                |                            |                                    |   |  |
|                |                 |                       |                |                       |  |                                  | (66)  | 66                             |                |                            |                                    |   |  |
|                |                 |                       |                |                       |  |                                  |   | (54,784)                       |                | (54,784)                   |                                    |   |  |
|                |                 |                       |                |                       |  |                                  |   | 127,295                        |                | 127,295                    |                                    |   |  |
|                |                 |                       |                |                       |  |                                  |   |                                | (30,700)       | (30,700)                   |                                    |   |  |
|                |                 |                       |                |                       |  |                                  |   | (287)                          | 18,881         | 18,593                     | (9,509)                            | (57)                                      |  |

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|  |  |  |        |        |  |     |    |        |          |        |         |      |
|--|--|--|--------|--------|--|-----|----|--------|----------|--------|---------|------|
|  |  |  | 18,500 | 25,000 |  | 116 | 46 | 28,560 | (11,819) | 60,404 | (9,509) | (57) |
|--|--|--|--------|--------|--|-----|----|--------|----------|--------|---------|------|

30,

|        |         |  |        |         |           |       |        |         |          |           |        |      |
|--------|---------|--|--------|---------|-----------|-------|--------|---------|----------|-----------|--------|------|
| 86,067 | 170,313 |  | 21,516 | 105,800 | 1,074,300 | 2,188 | 12,375 | 294,688 | (41,171) | 1,726,079 | 59,653 | (57) |
|--------|---------|--|--------|---------|-----------|-------|--------|---------|----------|-----------|--------|------|

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

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

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

(1) Securities

Held to maturity debt securities

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

Investments in subsidiaries and affiliates

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

Other securities

Marketable securities

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

Non-marketable securities

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

(2) Inventories

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

(3) Derivative financial instruments

Derivative financial instruments are stated at fair value.

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2. Method of depreciation of fixed assets

(1) Depreciation of tangible fixed assets is computed using the declining-balance method.

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

3. Basis of accounting for provisions and reserves

(1) Allowance for doubtful accounts

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

(2) Accrued product warranty

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

an estimate of warranty costs to be incurred during the remaining warranty periods based on historical warranty claim experiences and an estimate of the probability of future warranty costs; and

an estimate of future warranty claims mainly associated with regulatory reporting and similar.

(3) Accrued bonuses

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

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(4) Accrued employees' retirement benefits

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

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

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

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

(5) Accrued officers' retirement benefits

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

(6) Operating officers' retirement benefits

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

4. Leases

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

5. Hedge accounting

(1) Method of hedge accounting

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

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(2) Hedging instruments and hedged items

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

(3) Hedging policy

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

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

(4) Assessment of hedging effectiveness

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

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

(1) Accounting for consumption tax

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

Consumption tax refund receivable is included in other current assets.

(2) Application of consolidated regulatory tax rules and regulations

The consolidated regulatory tax rules and regulations were applied.

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

#### Accounting Standard for Presentation of Net Assets in the Balance Sheet

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

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

#### Accounting Standard for Business Combination

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

### **Change in Presentation of Unconsolidated Financial Statements**

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



**Table of Contents****Footnotes****(Notes to Unconsolidated Balance Sheets)**

## 1. Accumulated depreciation of tangible fixed assets:

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

## 2. Contingent Liabilities

## (1) Guarantees provided

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

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

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

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

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

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## (2) Keep-well agreements

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

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

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

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

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

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

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

4. Accounting for receivables

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

**Table of Contents****(Notes to Unconsolidated Statements of Income)**

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

**Table of Contents****(Notes to Unconsolidated Statements of Stockholders' Equity)**

## 1. Total number of shares issued:

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

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

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

## 2. Total number of treasury stock:

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

Notes:

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

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

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

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

## 3. Dividends

## (1) Dividend payout

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

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Effective date June 26, 2006

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

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

**Table of Contents****(Lease Transactions)**

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

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

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

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

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

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



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## 2. Future lease payments

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

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

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

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

## 3. Lease payments and pro forma depreciation expenses

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

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

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

## 4. Method of estimating pro forma depreciation expenses

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

**Table of Contents****(Securities)**

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

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

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

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

**Table of Contents****(Per Share Data)**

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

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

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

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

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

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