

HONDA MOTOR CO LTD  
Form 20-F  
June 24, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F**

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2010

OR

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

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

For the transition period from to

Commission file number 1-7628

**HONDA GIKEN KOGYO KABUSHIKI KAISHA**

(Exact name of Registrant as specified in its charter)

**HONDA MOTOR CO., LTD.**

(Translation of Registrant's name into English)

**JAPAN**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

**Mitsuhiro Okayama, American Honda Motor Co., Inc.,**

**mitsuhiro\_okayama@ahm.honda.com, (212)707-9920, 156 West 56th Street, 20th Floor, New York, NY 10019, U.S.A.**

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

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

| <b>Title of each class</b> | <b>Name of each exchange on which registered</b> |
|----------------------------|--|
| <b>Common Stock*</b>       | <b>New York Stock Exchange</b>                   |

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**

(Title of class)

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

**None**

(Title of class)

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

| <b>Title of each class</b> | <b>Outstanding as of March 31, 2010</b> |
|----------------------------|---|
| <b>Common Stock</b>        | <b>1,814,602,736**</b>                  |

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

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

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

\*\* Shares of Common Stock include 71,107,703 shares represented by American Depositary Shares.

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

|  |    |
|--|----|
| <u>Item 1. Identity of Directors, Senior Management and Advisors</u> | 1  |
| <u>Item 2. Offer Statistics and Expected Timetable</u>               | 1  |
| <u>Item 3. Key Information</u>                                       | 1  |
| <u>A. Selected Financial Data</u>                                    | 1  |
| <u>B. Capitalization and Indebtedness</u>                            | 3  |
| <u>C. Reason for the Offer and Use of Proceeds</u>                   | 3  |
| <u>D. Risk Factors</u>   | 3  |
| <u>Item 4. Information on the Company</u>                            | 7  |
| <u>A. History and Development of the Company</u>                     | 7  |
| <u>B. Business Overview</u>  | 8  |
| <u>C. Organizational Structure</u>                                   | 25 |
| <u>D. Property, Plants and Equipment</u>                             | 26 |
| <u>Item 4A. Unresolved Staff Comments</u>                            | 28 |
| <u>Item 5. Operating and Financial Review and Prospects</u>          | 28 |
| <u>A. Operating Results</u>  | 28 |
| <u>B. Liquidity and Capital Resources</u>                            | 55 |
| <u>C. Research and Development</u>                                   | 56 |
| <u>D. Trend Information</u>  | 58 |
| <u>E. Off-Balance Sheet Arrangements</u>                             | 58 |
| <u>F. Tabular Disclosure of Contractual Obligations</u>              | 59 |
| <u>G. Safe Harbor</u>  | 60 |
| <u>Item 6. Directors, Senior Management and Employees</u>            | 60 |
| <u>A. Directors and Senior Management</u>                            | 60 |
| <u>B. Compensation</u>   | 72 |
| <u>C. Board Practices</u>  | 73 |
| <u>D. Employees</u>  | 73 |
| <u>E. Share Ownership</u>  | 74 |
| <u>Item 7. Major Shareholders and Related Party Transactions</u>     | 74 |
| <u>A. Major Shareholders</u>   | 74 |
| <u>B. Related Party Transactions</u>                                 | 75 |
| <u>C. Interests of Experts and Counsel</u>                           | 75 |
| <u>Item 8. Financial Information</u>                                 | 75 |
| <u>A. Consolidated Statements and Other Financial Information</u>    | 75 |
| <u>B. Significant Changes</u>  | 76 |
| <u>Item 9. The Offer and Listing</u>                                 | 77 |
| <u>A. Offer and Listing Details</u>                                  | 77 |
| <u>B. Plan of Distribution</u>                                       | 78 |
| <u>C. Markets</u>  | 78 |
| <u>D. Selling Shareholders</u>                                       | 78 |
| <u>E. Dilution</u>   | 78 |
| <u>F. Expenses of the Issue</u>                                      | 78 |
| <u>Item 10. Additional Information</u>                               | 78 |
| <u>A. Share Capital</u>  | 78 |
| <u>B. Memorandum and Articles of Association</u>                     | 78 |
| <u>C. Material Contracts</u>   | 86 |
| <u>D. Exchange Controls</u>  | 86 |
| <u>E. Taxation</u>   | 86 |

---

**Table of Contents**

|   |     |
|---|-----|
| <u>F. Dividends and Paying Agents</u>   | 90  |
| <u>G. Statement by Experts</u>  | 90  |
| <u>H. Documents on Display</u>  | 90  |
| <u>I. Subsidiary Information</u>  | 90  |
| <u>Item 11. Quantitative and Qualitative Disclosure about Market Risk</u>                 | 90  |
| <u>Item 12. Description of Securities Other than Equity Securities</u>                    | 93  |
| <b><u>PART II</u></b>   |     |
| <u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>                           | 95  |
| <u>Item 14. Material Modifications to the Rights of Security Holders and Use Proceeds</u> | 95  |
| <u>Item 15. Controls and Procedures</u>   | 95  |
| <u>Item 16A. Audit Committee Financial Expert</u>   | 96  |
| <u>Item 16B. Code of Ethics</u>   | 96  |
| <u>Item 16C. Principal Accountant Fees and Services</u>                                   | 96  |
| <u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>               | 97  |
| <u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>   | 98  |
| <u>Item 16F. Change in Registrant's Certifying Accountant</u>                             | 98  |
| <u>Item 16G. Corporate Governance</u>   | 98  |
| <b><u>PART III</u></b>  |     |
| <u>Item 17. Financial Statements</u>  | 100 |
| <u>Item 18. Financial Statements</u>  | 100 |
| <u>Item 19. Exhibits</u>  | 101 |

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

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

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data:**

The selected consolidated financial data set out below for each of the five fiscal years ended March 31, 2010 have been derived from our consolidated financial statements that were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

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

|   | Fiscal years ended March 31, |              |                           |              |             | U.S. dollars<br>(millions)<br>2010 |
|---|------------------------------|--------------|---------------------------|--------------|-------------|------------------------------------|
|   | 2006                         | 2007         | Yen<br>(millions)<br>2008 | 2009         | 2010        |                                    |
| <b>Income statement data:</b>                                 |                              |              |                           |              |             |                                    |
| Net sales and other operating revenue                         | ¥ 9,907,996                  | ¥ 11,087,140 | ¥ 12,002,834              | ¥ 10,011,241 | ¥ 8,579,174 | \$ 92,210                          |
| Research and development                                      | 510,385                      | 551,847      | 587,959                   | 563,197      | 463,354     | 4,980                              |
| Operating income  | 868,905                      | 851,879      | 953,109                   | 189,643      | 363,775     | 3,910                              |
| Income before income taxes and equity in income of affiliates | 829,904                      | 792,868      | 895,841                   | 161,734      | 336,198     | 3,613                              |
| Equity in income of affiliates                                | 99,605                       | 103,417      | 118,942                   | 99,034       | 93,282      | 1,003                              |
| Net income  | 612,320                      | 612,439      | 627,347                   | 150,933      | 282,611     | 3,038                              |

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|   |              |              |              |              |              |            |
|---|--------------|--------------|--------------|--------------|--------------|------------|
| Net income attributable to Honda Motor Co., Ltd.    | 597,033      | 592,322      | 600,039      | 137,005      | 268,400      | 2,885      |
| <b>Balance sheet data:</b>                          |              |              |              |              |              |            |
| Total assets  | ¥ 10,631,400 | ¥ 12,036,500 | ¥ 12,615,543 | ¥ 11,818,917 | ¥ 11,629,115 | \$ 124,990 |
| Long-term debt                                      | 1,879,000    | 1,905,743    | 1,836,652    | 1,932,637    | 2,313,035    | 24,861     |
| Honda Motor Co., Ltd. shareholders' equity          | 4,125,750    | 4,488,825    | 4,550,479    | 4,007,288    | 4,328,640    | 46,525     |
| Total equity  | 4,213,210    | 4,611,732    | 4,692,285    | 4,130,344    | 4,456,430    | 47,898     |
| Common stock  | 86,067       | 86,067       | 86,067       | 86,067       | 86,067       | 925        |
| <b>Cash flow data:</b>                              |              |              |              |              |              |            |
| Depreciation excluding property on operating leases | ¥ 262,225    | ¥ 361,747    | ¥ 417,393    | ¥ 441,868    | ¥ 401,743    | \$ 4,318   |
| Depreciation of property on operating leases        |              | 9,741        | 101,032      | 195,776      | 227,931      | 2,450      |
| Total depreciation                                  | 262,225      | 371,488      | 518,425      | 637,644      | 629,674      | 6,768      |
| Capital expenditures                                | 460,021      | 597,958      | 668,228      | 635,190      | 392,062      | 4,214      |
| Purchase of operating lease assets                  |              | 366,795      | 839,261      | 668,128      | 544,027      | 5,847      |
| Total capital expenditures                          | 460,021      | 964,753      | 1,507,489    | 1,303,318    | 936,089      | 10,061     |

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

|  | (Thousands of shares) |           |           |           |           |
|--|-----------------------|-----------|-----------|-----------|-----------|
|  | 2006                  | 2007      | 2008      | 2009      | 2010      |
| Weighted average number of common shares outstanding | 1,840,799             | 1,824,675 | 1,815,356 | 1,814,560 | 1,814,605 |

**Net income attributable to Honda Motor Co., Ltd. per common share**

|         | 2006     | 2007     | (Yen)<br>2008 | 2009    | 2010     | (US\$)<br>2010 |
|---------|----------|----------|---------------|---------|----------|----------------|
| Basic   | ¥ 324.33 | ¥ 324.62 | ¥ 330.54      | ¥ 75.50 | ¥ 147.91 | \$ 1.59        |
| Diluted | 324.33   | 324.62   | 330.54        | 75.50   | 147.91   | 1.59           |

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

**Dividends declared during the period per common share**

|   | 2006    | 2007    | (Yen)<br>2008 | 2009    | 2010    | (US\$)<br>2010 |
|---|---------|---------|---------------|---------|---------|----------------|
| Dividends declared during the period per common share | ¥ 38.50 | ¥ 77.00 | ¥ 84.00       | ¥ 77.00 | ¥ 34.00 | \$ 0.37        |

Additionally, a year-end dividend of ¥12 (\$0.13) per common share aggregating ¥21.7 billion (\$234 million) relating to fiscal 2010 was determined by our board of directors in April 2010 and approved by our shareholders in June 2010. This dividend will be paid in June 2010.

**Stock Split**

The Company executed a two-for-one stock split for the Company's common stock effective July 1, 2006. All per share information has been adjusted retroactively for the fiscal year ended March 31, 2006 to reflect this stock split.

**Reclassification Adjustments**

As described in Note (1)(u) to our consolidated financial statements, certain reclassifications have been made to the consolidated financial statement periods presented above to conform to the presentation used for the fiscal year ended March 31, 2010.



Noncontrolling Interests in Consolidated Financial Statements

Honda adopted Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which is now codified in the FASB Accounting Standards Codification (ASC) 810 Consolidation, effective April 1, 2009. Upon the adoption of this statement, Honda has changed the prior consolidated financial statements to conform to the presentation used for the fiscal year ended March 31, 2010. See Note (1)(c).

Exchange Rates

In this Annual Report, yen amounts have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for these translations was ¥93.04 = \$1.00, which represents the approximate exchange rate quoted on the Tokyo Foreign Exchange Market on March 31, 2010. No representation is made that yen amounts could have been, or could be, converted into U.S. dollars at that rate or any other rate on this or any other data or at all.

**Table of Contents**

The following table sets out information regarding the noon buying rates for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York expressed in yen per \$1.00 during the periods shown. On May 28, 2010, the noon buying rate was ¥90.81 = \$1.00. The average exchange rate for the period shown is the average of the month-end rates during the period.

| Years ended March 31,       | (Yen)   |            |        |        |
|-----------------------------|---------|------------|--------|--------|
|                             | Average | Period end | High   | Low    |
| 2006                        | 113.67  | 117.48     | 120.93 | 104.41 |
| 2007                        | 116.55  | 117.56     | 121.81 | 110.07 |
| 2008                        | 113.61  | 99.85      | 124.09 | 96.88  |
| 2009                        | 100.85  | 99.15      | 110.48 | 87.80  |
| 2010                        | 92.49   | 93.40      | 100.71 | 86.12  |
| 2011 (through May 28, 2010) | 92.53   | 90.81      | 94.68  | 89.89  |
| Dec-2009                    |         |            | 93.08  | 86.62  |
| Jan-2010                    |         |            | 93.31  | 89.41  |
| Feb-2010                    |         |            | 91.94  | 88.84  |
| Mar-2010                    |         |            | 93.40  | 88.43  |
| Apr-2010                    |         |            | 94.51  | 92.03  |
| May-2010                    |         |            | 94.68  | 89.89  |

*B. Capitalization and Indebtedness*

Not applicable.

*C. Reason for the Offer and Use of Proceeds*

Not applicable.

*D. Risk Factors*

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

**Risks Relating to Honda's Industry**

**Honda may be adversely affected by market conditions**

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

A sustained loss of consumer confidence in these markets, which may be caused by continued economic slowdown, recession, changes in consumer preferences, rising fuel prices, financial crisis or other factors could trigger a decline in demand for automobiles, motorcycles and power products that may adversely affect Honda's results of operations.

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

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

## **Table of Contents**

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

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

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

#### **Honda's operations are subject to currency fluctuations**

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

Honda purchases materials and sells its products in foreign currencies. Therefore, currency fluctuations may affect Honda's pricing of products sold and materials purchased. Accordingly, currency fluctuations have an effect on Honda's results of operations and financial condition, as well as Honda's competitiveness, which will over time affect its results.

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

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

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

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

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

that its counterparties to hedging contracts will default on their obligations.

Honda manages exposure to counterparty credit risk by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. However, any default by such counterparties might have an adverse effect on Honda.

### **Legal and Regulatory Risks**

**The automobile, motorcycle and power product industries are subject to extensive environmental and other governmental regulations, including with respect to global climate changes**

Regulations regarding vehicle emission levels, fuel economy, noise, safety and hazardous substances, as well as levels of pollutants from production plants are extensive within the automobile, motorcycle and power

## **Table of Contents**

product industries. These regulations are subject to change, and are often made more restrictive, particularly in recent years, due to an increasing concern with respect to possible global climate changes. The costs to comply with these regulations can be significant to Honda's operations.

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

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

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

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

### **Risks Relating to Honda's Operations**

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

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

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

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

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

Honda conducts its businesses worldwide, and in several countries, Honda conducts businesses through joint ventures with local entities, in part due to the legal and other requirements of those countries. These businesses are subject to various regulations, including the legal and other requirements of each country. If these regulations or the business conditions or policies of these local entities change, it may have an adverse affect on Honda's business, financial condition or results of operations.

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

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

## **Table of Contents**

services. Delays or disruptions in one region may in turn affect our global operations. If such delay or disruption occurs and continues for a long period of time, Honda's business, financial condition or results of operations may be adversely affected.

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

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

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

### **Risk related to Pension and Other Postretirement Benefits**

Honda has pension plans and provides other post-retirement benefits. The amounts of pension benefits, lump-sum payments and other post-retirement benefits are primarily based on the combination of years of service and compensation. The funding policy is to make periodic contributions as required by applicable regulations. Benefit obligations and pension costs are based on assumptions of many factors, including the discount rate, the rate of salary increase and the expected long-term rate of return on plan assets. Differences in actual expenses and costs or changes in assumptions could affect Honda's pension costs and benefit obligations, including Honda's cash requirements to fund such obligations, which could materially affect our financial condition and results of operations.

### **As a holder of ADSs, you will have fewer rights than a shareholder has and you will have to act through the depositary to exercise those rights**

The rights of shareholders under Japanese law to take various actions, including exercising voting rights inherent in their shares, receiving dividends and distributions, bringing derivative actions, examining a company's accounting books and records, and exercising appraisal rights, are available only to holders of record. Because the depositary, through its custodian agents, is the record holder of the Shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited Shares. The depositary will make efforts to vote the Shares underlying your ADSs as instructed by you and will pay to you the dividends and distributions collected from us. However, in your capacity as an ADS holder, you will not be able to bring a derivative action, examine our accounting books and records or exercise appraisal rights through the depositary.

### **Rights of shareholders under Japanese law may be more limited than under the law of other jurisdictions**

Our Articles of Incorporation, Regulations of the Board of Directors, Regulations of the Board of Corporate Auditors and the Japanese Company Law govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties, and shareholders' rights may be different from those that would apply if we were a U.S. company. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of the United States. You may have more difficulty in asserting your



rights as a shareholder than you would as a shareholder of a U.S. corporation. In addition, Japanese courts may not be willing to enforce liabilities against us in actions brought in Japan that are based upon the securities laws of the United States or any U.S. state.

**Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell your shares of our Common Stock at a particular price on any particular trading day, or at all**

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation

## **Table of Contents**

limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

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

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

the political, economic and social conditions in Japan and throughout the world including North America, Europe and Asia, including economic slowdowns, recessions, changes in consumer preferences, rising fuel prices, financial crises and other factors, as well as the relevant governments' specific policies with respect to economic growth, inflation, taxation, currency conversion, imports and sources of supplies and the availability of credit, particularly to the extent such current or future conditions and policies affect the automobile, motorcycle and power product industries and markets in Japan and other markets throughout the world in which Honda conducts its business, and the demand, sales volume and sales prices for Honda's automobiles, motorcycles and power products;

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

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

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

the effects of environmental and other governmental regulations and legal proceedings.

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

## ***Item 4. Information on the Company***

### ***A. History and Development of the Company***

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

Honda develops, produces, and manufactures a variety of motor products, ranging from small general-purpose engines and scooters to specialty sports cars that incorporate Honda's highly efficient internal combustion engine technology.

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

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

In the fiscal years ended March 31, 2008, 2009 and 2010, Honda's capital expenditures were ¥1,493.2 billion, ¥1,302.0 billion, and ¥893.0 billion, respectively, on an accrual basis. Also, capital expenditures excluding those with respect to property on operating leases were ¥654.0 billion, ¥633.9 billion, and ¥348.9 billion, respectively, on an accrual basis. For further details of Honda's capital expenditures during fiscal 2010, see "Property, Plants and Equipment" included as Item 4.D of this Annual Report.

**B. Business Overview****General**

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

The following tables show the breakdown of Honda's revenues from external customers by category of activity and by geographical markets based on the location of the customer during the fiscal years ended March 31, 2008, 2009 and 2010:

|                                    | Fiscal years ended March 31, |                   |                  |
|------------------------------------|------------------------------|-------------------|------------------|
|                                    | 2008                         | 2009              | 2010             |
|                                    | Yen (billions)               |                   |                  |
| Motorcycle Business                | ¥ 1,558.6                    | ¥ 1,411.5         | ¥ 1,140.2        |
| Automobile Business                | 9,489.3                      | 7,674.4           | 6,554.8          |
| Financial Services Business        | 533.5                        | 582.2             | 606.3            |
| Power Product and Other Businesses | 421.1                        | 343.0             | 277.6            |
| <b>Total</b>                       | <b>¥ 12,002.8</b>            | <b>¥ 10,011.2</b> | <b>¥ 8,579.1</b> |

|               | Fiscal years ended March 31, |                   |                  |
|---------------|------------------------------|-------------------|------------------|
|               | 2008                         | 2009              | 2010             |
|               | Yen (billions)               |                   |                  |
| Japan         | ¥ 1,585.7                    | ¥ 1,446.5         | ¥ 1,577.3        |
| North America | 6,068.4                      | 4,514.1           | 3,736.4          |
| Europe        | 1,519.4                      | 1,186.0           | 764.7            |
| Asia          | 1,577.2                      | 1,595.4           | 1,543.3          |
| Other Regions | 1,251.9                      | 1,269.0           | 957.2            |
| <b>Total</b>  | <b>¥ 12,002.8</b>            | <b>¥ 10,011.2</b> | <b>¥ 8,579.1</b> |

**Motorcycle Business**

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

Honda produces a wide range of motorcycles, ranging from the 50cc class to the 1800cc class in cylinder displacement. Honda's motorcycles use internal combustion engines developed by Honda that are air- or water-cooled, two or four-cycle, and single, two, four or six-cylinder. Honda's motorcycle line consists of sports (including trial and moto-cross racing), business and commuter models. Honda has also produced all-terrain vehicles (ATVs) since 1984, personal watercraft (PWC) since 2002 and multi utility vehicles (MUVs) since 2008.

**Table of Contents**

The following table sets out unit sales for Honda's motorcycle business, including motorcycles, all-terrain vehicles (ATVs) and personal watercraft (PWC), and revenue from Motorcycle Business, and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2008, 2009 and 2010:

|   | 2008                 |                       | Fiscal years ended March 31,<br>2009 |                       | 2010                 |                       |
|---|----------------------|-----------------------|--------------------------------------|-----------------------|----------------------|-----------------------|
|   | Units<br>(thousands) | Revenue<br>(billions) | Units<br>(thousands)                 | Revenue<br>(billions) | Units<br>(thousands) | Revenue<br>(billions) |
| Japan   | 311                  | ¥ 93.5                | 232                                  | ¥ 81.8                | 190                  | ¥ 70.4                |
| North America   | 453                  | 265.6                 | 320                                  | 182.2                 | 189                  | 103.9                 |
| Europe  | 313                  | 226.6                 | 276                                  | 178.6                 | 199                  | 124.6                 |
| Asia  | 6,633                | 484.4                 | 7,523                                | 460.4                 | 7,628                | 461.0                 |
| Other Regions   | 1,610                | 488.3                 | 1,763                                | 508.3                 | 1,433                | 380.1                 |
| Total   | 9,320                | ¥ 1,558.6             | 10,114                               | ¥ 1,411.5             | 9,639                | ¥ 1,140.2             |
| Motorcycle revenue as a percentage of total sales revenue |                      | 13%                   |                                      | 14%                   |                      | 13%                   |

Motorcycles are produced by Honda in Japan at the Kumamoto factory. Honda's motorcycles are also produced by subsidiaries in countries around the world including Italy, Thailand, Vietnam, the Philippines, India, Brazil, and Argentina.

For further information on recent operations and a financial review of the motorcycle business, see "Operating Results" in Item 5. Operating and Financial Review and Prospects.

**Automobile Business**

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

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

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

Passenger cars:

*Legend, Accord, Inspire, Civic, Insight, City, Acura RL, Acura TL, Acura TSX, Acura CSX*

Minivans, Multi-wagons, Sport Utility Vehicle:

*Elysion, Odyssey, Step Wagon, Stream, FREED, FR-V, Airwave, Fit/Jazz, Partner Pilot, Ridgeline, CR-V, Element, Crossroad, CR-Z, Acura RDX, Acura MDX, Acura ZDX*

Mini cars:

*Life, Zest, Vamos, Acty*

**Table of Contents**

The following table sets out Honda's unit sales of automobiles and revenue from Automobile Business and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2008, 2009 and 2010:

|   | 2008                 |                       | Fiscal years ended March 31,<br>2009 |                       | 2010                 |                       |
|---|----------------------|-----------------------|--------------------------------------|-----------------------|----------------------|-----------------------|
|   | Units<br>(thousands) | Revenue<br>(billions) | Units<br>(thousands)                 | Revenue<br>(billions) | Units<br>(thousands) | Revenue<br>(billions) |
| Japan   | 615                  | ¥ 1,321.0             | 556                                  | ¥ 1,225.3             | 646                  | ¥ 1,383.8             |
| North America   | 1,850                | 5,209.4               | 1,496                                | 3,723.8               | 1,297                | 3,013.4               |
| Europe  | 391                  | 1,182.6               | 350                                  | 923.5                 | 249                  | 575.3                 |
| Asia  | 755                  | 1,048.4               | 793                                  | 1,079.5               | 950                  | 1,041.2               |
| Other Regions   | 314                  | 727.8                 | 322                                  | 721.9                 | 250                  | 540.9                 |
| Total   | 3,925                | ¥ 9,489.3             | 3,517                                | ¥ 7,674.4             | 3,392                | ¥ 6,554.8             |
| Automobile revenue as a percentage of total sales revenue |                      | 79%                   |                                      | 77%                   |                      | 77%                   |

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

For further information on recent operations and a financial review of the automobile business, see **Operating Results** in **Item 5. Operating and Financial Review and Prospects**

**Financial Services Business**

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

The following table sets out Honda's revenue from Financial Services Business and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2008, 2009 and 2010:

|               | Fiscal years ended March 31,  |                               |                               |
|---------------|-------------------------------|-------------------------------|-------------------------------|
|               | 2008<br>Revenue<br>(billions) | 2009<br>Revenue<br>(billions) | 2010<br>Revenue<br>(billions) |
| Japan         | ¥ 23.4                        | ¥ 24.0                        | ¥ 24.6                        |
| North America | 483.9                         | 527.9                         | 553.1                         |
| Europe        | 13.2                          | 12.6                          | 10.4                          |
| Asia          | 4.9                           | 4.7                           | 4.3                           |
| Other Regions | 8.0                           | 12.8                          | 13.8                          |



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|  |         |         |         |
|--|---------|---------|---------|
| Total  | ¥ 533.5 | ¥ 582.2 | ¥ 606.3 |
| Financial Service revenue as a percentage of total sales revenue | 4%      | 6%      | 7%      |

For further information on recent operations and a financial review of the financial services business, see Operating Results in Item 5. Operating and Financial Review and Prospects .

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

Honda's power product business began in 1953 with the introduction of the model the *H*, its first general purpose engine. Since then, Honda has manufactured a variety of power products including tillers, portable generators, general-purpose engines, grass cutters, outboard marine engines, water pumps, snow throwers, power carriers, power sprayers, lawn mowers and lawn tractors (riding lawn mowers). In 2003, Honda introduced a compact home-use cogeneration\* unit. In addition, Honda began sales of thin film solar cells made of crystalline silicon for home use in 2007 and for public and industrial use in 2008.

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

The following table sets out Honda's revenue from Power Product and Other Businesses and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2008, 2009 and 2010:

|   | 2008                 |                       | Fiscal years ended March 31,<br>2009 |                       | 2010                 |                       |
|---|----------------------|-----------------------|--------------------------------------|-----------------------|----------------------|-----------------------|
|   | Units<br>(thousands) | Revenue<br>(billions) | Units<br>(thousands)                 | Revenue<br>(billions) | Units<br>(thousands) | Revenue<br>(billions) |
| Japan   | 550                  | ¥ 147.7               | 516                                  | ¥ 115.2               | 322                  | ¥ 98.3                |
| North America   | 2,415                | 109.4                 | 1,893                                | 80.1                  | 1,818                | 65.8                  |
| Europe  | 1,693                | 96.8                  | 1,306                                | 71.1                  | 1,066                | 54.3                  |
| Asia  | 915                  | 39.4                  | 970                                  | 50.7                  | 1,069                | 36.7                  |
| Other Regions   | 484                  | 27.6                  | 502                                  | 25.8                  | 469                  | 22.3                  |
| Total   | 6,057                | ¥ 421.1               | 5,187                                | ¥ 343.0               | 4,744                | ¥ 277.6               |
| Power Product and other revenue as a percentage<br>of total sales revenue |                      | 4%                    |                                      | 3%                    |                      | 3%                    |

\* Unit sales of Power product and other business include all trilateral trade transactions from the fiscal year ended March 31, 2010. The change in the presentation for unit sales of Power product and other business resulted in an increase of 54 thousand units as compared to the presentation used in the prior periods. Trilateral trade transactions represent the transaction in which the Company purchases products from the vendors overseas and sells them to third countries.

For further information on recent operations and a financial review of the power product and other businesses, see "Operating Results" in Item 5. Operating and Financial Review and Prospects

**Marketing and Distribution**

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

**Sales in Japan**

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

Motorcycles are distributed through approximately 7,600 outlets, including approximately 800 PRO S shops and approximately 100 Honda Dream authorized dealerships.

## **Table of Contents**

As for the automobile distribution network, at present, 785 retail dealers operate 2,191 shops and sell models including the *Legend, Inspire, Accord, Civic, Insight, Elysion, Odyssey, Step Wagon, Stream, FREED, Airwave, Fit, CR-V, Crossroad, CR-Z, Partner, Life, Zest, Vamos, and Acty*.

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

## **Service and Parts Related Operations in Japan**

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

## **Overseas Sales**

In fiscal 2010, approximately 96% of Honda's overseas sales were made through its principal foreign sales subsidiaries, which distribute Honda's products to local wholesalers and retail dealers.

In the United States, Honda markets its products through a sales network of approximately 1,200 independent local dealers for motorcycles, approximately 1,300 for automobiles and approximately 7,000 for power products. Many of the motorcycle dealers and some of the automobile dealers also sell Honda's power products. In 1986, Honda opened the first Acura automobile dealerships in the United States. The Acura network in the United States totaled 269 dealerships at the end of fiscal 2010. The Acura network offers *RL, TL, TSX, RDX, MDX, ZDX* models, and *CSX* in Canada.

With regard to exports from North America, Honda is currently exporting such North American-built models as the *Accord, Civic, Pilot, MDX, Odyssey, TL, Ridgeline, RDX, Element and ZDX* to other markets. In fiscal 2010, Honda exported approximately 27,500 units from North America to 40 countries throughout the world.

In Europe, Honda's products are distributed through approximately 1,800 independent local dealers for motorcycles, approximately 1,900 for automobiles and approximately 2,700\* for power products.

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

In Asia, Honda's products are distributed through approximately 13,700 independent local dealers for motorcycles, approximately 1,300 for automobiles and approximately 1,560\* for power products.

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

The Company exports motorcycle components to 15 countries, including Indonesia, Vietnam, Thailand, and Brazil, where motorcycles are manufactured by its subsidiaries, joint venture firms and licensees. Some of the components used in the production of these vehicles are supplied locally.

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

The Company also exports power product components to seven countries, including Thailand and China, where power products are manufactured by its subsidiaries, joint venture firms and licensees. Some of the components used in the production of these products are supplied locally.

## **Table of Contents**

### **Service and Parts Related Operations Overseas**

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

### ***Components and Parts, Raw Materials and Sources of Supply***

Honda manufactures the major components and parts used in its products, including engines, frames and transmissions. Other components and parts, such as shock absorbers, electrical equipment and tires, are purchased from numerous suppliers. The principal raw materials used by Honda are steel plate, aluminum, special steels, steel tubes, paints, plastics and zinc, which are purchased from several suppliers. The most important raw material purchased is steel plate, accounting for approximately 50% of Honda's total purchases of raw materials.

No single supplier accounted for more than 5% of the Company's purchases of major components and parts and principal raw materials during the fiscal year ended March 31, 2010.

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

### ***Seasonality***

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

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

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

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

##### **Japan**

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

### **The United States**

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

## **Table of Contents**

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

In April 2004, the CARB finalized its ZEV requirements. Under these requirements, beginning with 2005 model cars, 6% of vehicles sold in California by a car manufacturer must be Partial Zero Emission Vehicles (PZEV), which includes SULEV with warranties coverage up to the earlier of 15 years or 150,000 driven miles, 2% must be advanced technology PZEV and 2% must be ZEV. Required percentages have been gradually increased under the ZEV standards from the 2008 model cars.

In March 2009, the CARB amended ZEV regulation. The CARB requires 7,500 fuel cell vehicles (FCV) in the entire industry from 2009 to 2011 instead of current requirement of 2,500 FCV. In addition, the manufacturer should sell the significant number of Enhanced Advanced Technology Partial Zero Emission Vehicles (Enhanced AT-PZEV) in the market after the 2012 model year.

In 2010, the CARB began to discuss with the automobile industry, the next phase exhaust emission standard, California Low Emission Vehicle Program III (LEV III), which is expected to have more stringent standards.

Currently, many other states have also adopted or proposed to adopt the California ZEV regulation.

## **Europe**

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

In 2005, the European Union created new emission standards (Euro5 and Euro6) and comprehensive requirements for gasoline vehicles and diesel vehicles. Euro5 was implemented in September 2009. Emission limits for gasoline vehicles and diesel vehicles were further lowered compared to the Euro4 level of HC, NO<sub>x</sub> and PM. Euro6 will be implemented in 2014. Emission limits for diesel vehicles will be lowered even more than the Euro5 level HC and NO<sub>x</sub>.

Additionally, Euro6 will require limits on the amount of PM allowed in diesel and petrol vehicles. A PM mass limit to gasoline vehicles which use direct injection engines has been implemented when Euro5 standards were introduced.



**Russia**

The Euro4 regulation has been in effect from January 2010. Additionally, the Euro5 regulation will be implemented in January 2014.

## **Table of Contents**

### **China**

China adopted Step3 and Step4 emission regulations for light-duty vehicles in 2005. These regulations are similar to European regulations (such as Euro3 and Euro4). Step3 was implemented in 2007 and Step4 will be implemented in July 2010. In addition, China is further contemplating the introduction of Step5 emission regulations.

In the city of Beijing, Step3 was implemented in December 2005 and Step4 was implemented in March 2008. In addition, the city of Beijing is studying introduction of Step5 emission regulations in the second half of 2012.

### **Other Regions**

South Korea adopted the enforcement regulation of the Special Act on Capital Region Air Quality Improvement. Accordingly, some manufacturers will be required to sell low emission vehicles which meet a more stringent emission standard than those meeting the national standard from January 2005. In January 2009, an enhanced national emission standard was implemented.

Several other Asian countries have adopted regulations which are similar to the European regulations (such as Euro2 and Euro3). Some of these countries are studying introduction of Euro4 and Euro5.

Australia implemented Euro4-equivalent regulations in July 2008. In addition, Australia is studying introduction of Euro5 in 2013.

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

### **Japan**

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

In light of the CO<sub>2</sub> reduction targets promulgated under the Kyoto Protocol in respect to concerns related to possible global climate changes, the Japanese government issued a fuel regulation for an interim ethanol blending limit (less than 3%) which became effective in 2003. The Japanese government intends to further increase this limit until the final target of 10% is achieved within a decade from 2003.

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

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

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

### **The United States**

The Federal Motor Vehicle Information and Cost Savings Act requires automobile manufacturers to comply with the Corporate Average Fuel Economy (CAFE) standards. Under the CAFE standards, manufacturers are subject to substantial penalties if automobiles produced by them in any model year do not meet the average standards for each category. The CAFE standard for passenger cars has been set at 27.5 miles per gallon (mpg) starting from the 1990 model year and for light trucks at 20.7 miles per gallon standard was established for the

## **Table of Contents**

1996-2004 model years. The standard for light trucks increased from the 2005 model year (21.0 miles per gallon) to the 2007 model year (22.2 miles per gallon). The National Highway Traffic Safety Administration (NHTSA) reformed the CAFE standard for light trucks in 2006. The new size-based CAFE standard for light trucks would have been implemented in the 2008 model year. However, on November 15, 2007, the United States Ninth Circuit Court of Appeals decided to revoke the CAFE regulation concerning light-duty trucks that the NHTSA had adopted. The court held that the NHTSA failed to (1) implement the cost conversion of CO<sub>2</sub> emission when establishing the CAFE limit values concerning the 2008-2009 model year light-duty trucks, (2) establish the Backstop Requirements, (3) the requirements concerning classification of passenger automobiles and light-duty trucks and (4) prescribe the fuel economy limit values for all vehicles with the Gross Vehicle Weight Rating class of 8,500 to 10,000 pounds. The court held that the CAFE regulation was arbitrary and capricious and that, furthermore, it violated the U.S. Energy Policy and Conservation Act. In addition, former U.S. President Bush directed relevant U.S. federal agencies to take the first steps toward regulations that would reduce gasoline consumption and Green House Gas (GHG) emissions from vehicles by 20 percent over the next 10 years. Therefore, the NHTSA has to promptly establish new limit values conforming to the pertinent policy and to apply it in the earliest possible model year. The NHTSA issued a new CAFE regulation draft which applies to passenger cars and light trucks from the 2011 model year to the 2015 model year on May 2, 2008. The proposal requires 31.6 miles per gallon for the combined CAFE standard in the 2015 model year. However, on January 26, 2009, President Obama announced that he has directed the NHTSA to issue the CAFE standard of the 2011 model year initially, and issue the standard for the 2012 model year and subsequent model years after reconsidering the details of this standard. In March 2009, the NHTSA issued the CAFE regulation standard for passenger cars and light trucks for the 2011 model year. The CAFE standard calculation of passenger cars and light trucks for the 2011 model year use a footprint prescribed in the CAFE regulation issued in 2006. Industry-wide combined average for the 2011 model year is estimated to be 27.3 mpg. The EPA and the NHTSA jointly finalized the U.S. federal GHG regulation from 2012 model year in accordance with President Obama's announcement. The EPA begins restricting carbon dioxide (CO<sub>2</sub>) emission, and the NHTSA restricts fuel economy (mile per gallon) as previously. The standard for the 2016 model year is 250 g-CO<sub>2</sub>/mile or 35.5 mpg over the industry average. In addition, a manufacturer is also deemed to comply with CARB GHG regulation if the manufacturer complies with EPA-GHG, based on an agreement among the White House, the CARB and the industry.

In August 2005, the CARB finalized its GHG regulation in response to concerns related to possible global climate changes. Under the GHG regulation, which became effective for the 2009 model year, automobile manufacturers have to improve fuel economy from the 2002 levels by more than 30% by the 2016 model year.

Many other states have adopted the GHG regulations.

In April 2007, the Supreme Court ruled that the EPA has the authority to regulate GHG emissions. However, the EPA decided not to grant enforcement of the GHG regulation by the State of California on December 19, 2007. The EPA concluded that the Federal unified standard can contribute to a significant reduction of GHG emitted in all states and will be more effective than California's approach.

In March 2008, the EPA denied California's GHG regulation waiver request against the CARB. On January 26, 2009, U.S. President Obama announced that he had directed the EPA to review California's waiver request. The EPA approved the waiver on July 8th, 2009 because the CARB promised that a manufacturer was also deemed to comply with CARB GHG regulation if the manufacturer complied with EPA-GHG from the 2012 through 2016 model years.

## **Europe**

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



## **Table of Contents**

In 2008, the European parliament adopted CO<sub>2</sub> regulations in response to concerns related to possible global climate changes. The adopted CO<sub>2</sub> regulations was published by Official Journal in June 2009.

Pursuant to those CO<sub>2</sub> regulations, the European Commission set a more stringent target of 130 grams of carbon dioxide per kilometer for new passenger cars offered for sale in the EU from 2012. In addition, the CO<sub>2</sub> regulations provided manufacturers with the necessary incentive to reduce the CO<sub>2</sub> emissions of their vehicles by imposing an excess emissions premium if their average emission levels are above the limit value curve. This premium will be based on the number of grams per kilometer (g/km) that an average vehicle sold by the manufacturer exceeds the limit imposed by the curve, multiplied by the number of vehicles sold by the manufacturer.

### **China**

China adopted a fuel consumption regulation for passenger vehicles in 2004. Step 1 of this regulation was implemented in 2005 and Step 2 was implemented in 2008. In addition, the Chinese Government is studying introduction of Step3 emission regulations in 2012.

### **Other Regions**

South Korea adopted the regulation of Corporate Average Fuel Economy for passenger vehicles in 2005. Domestic vehicles have been required to adhere to these regulations starting from 2006 and imported vehicles have been required to meet the requirement from 2010. In addition, South Korea adopted a more stringent regulation in 2008 that will be implemented in 2012. However, as South Korea is reconsidering the implementation of these regulations, only selective regulation (Fuel Economy or CO<sub>2</sub>) will be implemented in 2012.

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

### **Japan**

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

### **Europe**

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

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Manufacturers must be financially responsible for taking back end-of-life vehicles offered for sale after July 1, 2002 and dismantle and recycle the vehicles. Beginning on January 1, 2007, the requirement has also been applied to all vehicles offered for sale in the European Union before July 1, 2002.

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

On December 30, 2006, the European Union adopted the Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), which became effective on June 1, 2007. From June 1, 2008, any manufacturer or importer of chemical substances is required to submit a registration to the Agency, based on annual production or import quantity levels. Submitting a pre-registration between June 1, and December 1, 2008 will allow the manufacturer or importer to extend the deadline for submitting the

## **Table of Contents**

registration for existing chemical substances. The list of Substance of Very High Concern (SVHC) is amended periodically by adding substances. Currently, 30 substances are in the SVHC list. Upon a request by a consumer, a supplier of a product containing SVHC must provide the consumer with sufficient information, with at least the name of the substance, within 45 days.

## **Other Regions**

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

## **4. Safety**

### **Japan**

In November 2007, the Ministry of Land, Infrastructure and Transport (MLIT) issued safety standards which are applicable from July 1, 2012, for vehicles which use high voltage electric power such as electric vehicles or hybrid electric vehicles, to avoid electric shocks during normal operations and crashing.

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

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

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

In January 2010, MLIT started preparing a guideline for some measures against the silent characteristic of hybrid vehicles and also started studying how to regulate this.

In March 2010, in the session of the World Forum for Harmonization of Vehicle Regulations (WP29) of the United Nations Economic Commission for Europe, Japan proposed the establishment of a mutual certification system of international vehicle type certifications, which was agreed upon.



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In March 2010, triggered by a hit-and-run accident in the United States, the MLIT began research on introducing brake-override-systems .

### **The United States**

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

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

## **Table of Contents**

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

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

In February 2008, the Cameron Gulbransen Kids Transportation Safety Act was established, and the NHTSA issued some regulations to prevent accidents involving children based on the Act. In March 2009, the NHTSA issued a proposed rule to address backover accidents. In September 2009, the NHTSA issued a proposed rule to mandate the equipping of automatic reversal systems for side windows with an express-up mechanism. In March 2010, NHTSA issued a final rule to mandate the equipping of the Brake Transmission Shift Interlock (BTSI) mechanism for all vehicles with automatic transmission. Manufacturers must equip BTSI on and after September 2010.

In June 2008, the NHTSA issued a final rule to revise some performance requirements and phase-in compliance schedules in upgraded side impact occupant protection standards. For both the moving deformable barrier test and the oblique side pole impact test, manufacturers must comply with the revised requirements for 20% of all vehicles produced by 2010, 40% by 2011, 60% by 2012, 80% by 2013 and 100% by 2014.

In October 2008, the NHTSA issued a final rule to revise the definition of Designated Seating Position (DSP) and to newly introduce the procedure for determining the number of DSPs. These are not Federal Motor Vehicle Safety Standards (FMVSS), but manufacturers must comply with all requirements related to DSPs, such as the equipment requirement for 3-points safety belts, on and after September 1, 2011.

In May 2009, the NHTSA issued a final rule to upgrade vehicle roof crush standard. The rule newly introduces the Two-sided Roof Test, which imposes the strength tests for both sides of the vehicle roof, and increases the maximum applied load. For vehicles with GVWR of 2,722kg or less, manufacturers must comply with the upgraded requirements for 25% of all vehicles produced by 2012, 50% by 2013, 75% by 2014, and 100% by 2015. For heavier vehicles, manufacturers must comply with the standards on and after September 2016.

In December 2009, the NHTSA issued a proposed rule to prevent the ejection of occupants in rollover accidents. The rule requires ejection mitigation countermeasure (e.g. advanced glazing or head protection side airbag) equipment which meets with performance requirements. Manufacturers must comply with the new requirements from the first September which occurs after six years have elapsed since the issuance of the final rule.

## **Europe**

The European Commission issued a new regulation for pedestrian protection, which includes installation requirements of the Brake Assist System. It required M1 (Passenger vehicles up to nine passengers) and N1 (Light commercial vehicles with gross vehicle weight up to 3.5 tons) vehicles to meet standards for the protection of pedestrians in the event of a collision with the front of a motor vehicle. The new regulation will be effective November 24, 2011 for new types of vehicles.

Additionally, the European Commission issued a new regulation for GSR (type approval requirements for the General Safety of vehicles). It includes an installation requirement for the advanced safety system (Electronic Stability Control System (ESC) and Tyre Pressure Monitoring Systems (TPMS)) and a tire performance requirement in order to improve the safety and environmental performance of vehicles.

## **Table of Contents**

In September 2008, United Nation issued a revised Economic Commission for Europe (ECE) regulation relating to installation of lighting devices to require the installation of dedicated daytime running lamps (DRL). For M1 and N1 vehicles, manufacturers must equip DRL and comply with related requirements on and after February 2011, if certified as new type vehicle.

### **5. New Car Assessment Program (NCAP)**

Programs that provide customers with assessments of car safety functions and promote the development of car safety by automobile manufacturers are conducted in countries such as the United States, Japan, Australia, the EU, Korea and China. The principal items assessed in these programs are passenger protection and braking power, which are typically assessed with stricter standards or criteria than those required by statute.

In July 2008, the NHTSA issued a final decision to upgrade NCAP testing and safety rating criteria with the revision of frontal and side impact tests, the introduction of an overall rating program, and the addition of ratings for crash avoidance technologies. These new tests and rating criteria will be used for vehicles tested as part of the NCAP beginning with model year 2011 vehicles.

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

#### **1. Emissions**

##### **Japan**

Japan has emissions regulations for motorcycles applicable to all classes of engine displacement. Some aspects of these requirements, such as standards for hydro-carbon levels and durability, are stricter than the current European regulations, namely the Euro3 regulations.

##### **The United States**

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

##### **Canada**

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

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

### **Europe**

The EU maintains emissions regulations (Euro3) for motorcycles, as well as the Motor Cycle (& Moped)-Whole Vehicle Type Approval , a uniform certification system for two and three-wheeled motor vehicles.

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

### **Other Regions**

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

## **Table of Contents**

In Thailand, a sixth stage of emissions control, which is generally equivalent to or stricter than Euro3, has been implemented.

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

In China, the National third stage of emissions control, which is generally equivalent to or stricter than Euro3 regulations, was introduced in 2008.

In Korea, Euro3-equivalent regulations were implemented in 2008.

In Brazil, Euro3-equivalent regulations have been in effect from the beginning of 2009.

In India, second stage regulations based on the Indian authorities own test method are in effect and enhanced regulations were enacted in 2005. The third stage of emission control will be implemented from 2010.

## **2. Safety**

### **Japan**

Japan introduced ECE R78 Braking system based on gtr (global technical regulation). It has applied the requirement to new type models from June 18, 2009, and will apply it to all models from June 18, 2011.

### **The United States**

The Consumer Product Safety Improvement Act of 2008 was signed into law by former President Bush on August 14, 2008. In accordance with this, children's products including ATVs and off-road motorcycles for children have had to comply with hazardous substance and other requirements (e.g. certificate, third party testing, tracking label requirements) after November 11, 2008, and ATVs products have had to comply with the ANSI standard from April 13, 2009.

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

The Consumer Product Safety Commission (CPSC) and ATVs industry updated the voluntary standard in 2007. That standard has been introduced in the regulation.

## **Europe**

The number of ATVs designed to travel on four low pressure tires on non-paved surfaces has recently increased in the EU market. Because travel on public roads is necessary in Europe, manufacturers in China, Taiwan and U.S. have been receiving approval for their ATVs by the Whole Vehicle Type Approval (WVTA) Quadricycle category, and the vehicles are used in mixed traffic without safety measures. For that reason, the EU Commission is continuing discussions with each industry organization, recognizing the need for a review of the definition and the requirements of these vehicles.

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

## **Other regions**

The Brazil government issued a new regulation regarding anti-theft devices and has required installing an immobilizer and a vehicle tracking system on vehicles and motorcycles sold or registered from August 1, 2009.

## **Table of Contents**

However, this regulation has not been implemented yet, because the Prosecutors Office had claimed it as unconstitutional and had asked the court to overturn it. The contents and the effective date of this regulation are under consultation between the government and the industry.

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

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

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

### **1. Emissions**

#### **The United States**

The EPA introduced more stringent exhaust standards and new evaporative emission standards for fuel tanks and fuel lines used in the small non-road engines. The new regulation will apply starting in the 2011 model year for Class II engines (above 225 cc) and in the 2012 model year for Class I engines (less than 225 cc, used in non-handheld applications) and generally start in 2010 for handheld products. EPA also adopted a more stringent level of emission standards for outboard and personal watercraft engines starting with the 2010 model year. This new regulation includes new standards to control evaporative emissions for all vessels using marine spark-ignition engines.

#### **China**

An exhaust emission standard will be introduced in China on July 1, 2010. Its requirements are based on the European exhaust emission regulation, and are applicable to small spark ignition engines for non-road mobile machinery with 19 kW or less.

### **2. Safety**

#### **Japan**

The institute of Agricultural Machinery amended the safety standard of backward speed requirement for walk-behind equipment from 1.8 km/h to 3.6 km/h, and the interpretation of splash protection guard requirements for brush cutters. New models have had to comply with the standard from April 2010, and all models will need to comply with it from April 2015.



**The United States**

Based on the Consumer Product Safety Improvement Act of 2008, walk-behind lawn mowers have had to comply with the certificate requirements from November 11, 2008. The CPSC has enhanced the recall system by this Act.

**Europe**

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

## **Table of Contents**

### **China**

The Chinese State Council has published the Agricultural Machinery Safety Supervision and Management Regulations. This regulation requires that defective agricultural machinery producers should conduct recalls in a timely manner. The producers should establish the quality assurance system for their products. In addition, agricultural machinery is required to comply with the applicable new technical standards. The new regulation was implemented on November 1, 2009.

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

Honda aims to achieve global growth by further encouraging and strengthening innovation and creativity and creating quality products that please customers and exceed their expectations.

Therefore, in order to improve the competitiveness of its products, Honda will endeavor to enhance its R&D, production and sales capabilities. Furthermore, Honda will continue to enhance its social reputation in the community through companywide activities. Honda recognizes that further enhancing the following specific areas is essential to its success:

#### **1. Research and Development**

In connection with its efforts to develop the most effective safety and environmental technologies, Honda will continue to be innovative in advanced technology and products. Honda aims to create and introduce new value-added products to quickly respond to specific needs in various markets around the world. Honda will also continue its efforts to conduct research on experimental technologies for the future.

#### **2. Production Efficiency**

Honda will establish and enhance efficient and flexible production systems at its global production bases and supply high quality products, with the aim of meeting the needs of its customers in each region.

#### **3. Sales Efficiency**

Honda will remain proactive in its efforts to expand product lines through the innovative use of IT and will show its continued commitment to different customers throughout the world by upgrading its sales and service structure.

#### **4. Product Quality**

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

#### 5. Safety Technologies

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

#### 6. The Environment

Honda will step up its efforts to create better, cleaner and more fuel-efficient engine technologies and to further improve recyclables throughout its product lines. Honda will also work to advance fuel cell technology

**Table of Contents**

and steadily promote its new solar cell business. In addition, Honda will further its efforts to minimize its environmental impact. To this end, Honda sets global targets to reduce the environmental burden as measured by the Life Cycle Assessment\*, in all areas of business, spanning production, logistics and sales.

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

7. Continuing to Enhance Honda's Social Reputation and Communication with the Community

In addition to continuing to provide products incorporating Honda's advanced safety and environmental technologies, Honda will continue striving to enhance its social reputation by, among other things, strengthening its corporate governance, compliance, and risk management as well as participating in community activities and making philanthropic contributions.

To this end, Honda will focus its limited company resources on necessary areas and undertake the following challenges for the purpose of improving business results.

- Creation of fuel efficient products that reduce our environmental footprint

- Further advancement of our motorcycle business

- Advancement of our global production system and capabilities

Through these Company-wide activities, Honda will strive to become a company whose presence is welcomed by our shareholders, customers and society.

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

As of March 31, 2010, the Company had 112 Japanese subsidiaries and 278 overseas subsidiaries. The following table sets out for each of the Company's principal subsidiaries, the country of incorporation, function and percentage ownership and voting interest held by Honda.

| <b>Company</b>                                      | <b>Country of Incorporation</b> | <b>Function</b>   | <b>Percentage Ownership and Voting Interest</b> |
|---|---------------------------------|---|---|
| Honda R&D Co., Ltd.                                 | Japan                           | Research & Development  | 100.0   |
| Honda Engineering Co., Ltd.                         | Japan                           | Manufacturing and Sales of machine tools, equipment and production techniques | 100.0   |
| Yachiyo Industry Co., Ltd.                          | Japan                           | Manufacturing   | 50.5  |
| Honda Finance Co., Ltd.                             | Japan                           | Finance   | 100.0   |
| American Honda Motor Co., Inc.                      | U.S.A.                          | Sales   | 100.0   |
| Honda North America, Inc.                           | U.S.A.                          | Coordination of Subsidiaries Operation  | 100.0   |
| Honda of America Mfg., Inc.                         | U.S.A.                          | Manufacturing   | 100.0   |
| American Honda Finance Corporation                  | U.S.A.                          | Finance   | 100.0   |
| Honda Manufacturing of Alabama, LLC                 | U.S.A.                          | Manufacturing   | 100.0   |
| Honda Manufacturing of Indiana, LLC                 | U.S.A.                          | Manufacturing   | 100.0   |
| Honda Transmission Mfg. of America, Inc.            | U.S.A.                          | Manufacturing   | 100.0   |
| Honda R&D Americas, Inc.                            | U.S.A.                          | Research & Development  | 100.0   |
| Honda Canada Inc.                                   | Canada                          | Manufacturing and Sales   | 100.0   |
| Honda Canada Finance Inc.                           | Canada                          | Finance   | 100.0   |
| Honda de Mexico, S.A. de C.V.                       | Mexico                          | Manufacturing and Sales   | 100.0   |
| Honda Motor Europe Limited                          | U.K.                            | Coordination of Subsidiaries Operation and Sales                              | 100.0   |
| Honda of the U.K. Manufacturing Ltd.                | U.K.                            | Manufacturing   | 100.0   |
| Honda Finance Europe plc                            | U.K.                            | Finance   | 100.0   |
| Honda Motor Europe (South) S.A.S.* <sup>1</sup>     | France                          | Sales   | 100.0   |
| Honda Bank GmbH                                     | Germany                         | Finance   | 100.0   |
| Honda Motor Europe (North) GmbH* <sup>2</sup>       | Germany                         | Sales   | 100.0   |
| Honda Italia Industriale S.p.A.                     | Italy                           | Manufacturing and Sales   | 100.0   |
| Honda Motor (China) Investment Corporation, Limited | China                           | Coordination of Subsidiaries Operation and Sales                              | 100.0   |
| Honda Auto Parts Manufacturing Co., Ltd.            | China                           | Manufacturing   | 100.0   |
| Honda Automobile (China) Co., Ltd.                  | China                           | Manufacturing   | 65.0  |
| Honda Siel Cars India Limited                       | India                           | Manufacturing and Sales   | 97.4  |
| Honda Taiwan Co., Ltd.                              | Taiwan                          | Sales   | 100.0   |
| Asian Honda Motor Co., Ltd.                         | Thailand                        | Coordination of Subsidiaries Operation and Sales                              | 100.0   |
| Honda Leasing (Thailand) Company Limited            | Thailand                        | Finance   | 100.0   |
| Honda Automobile (Thailand) Co., Ltd.               | Thailand                        | Manufacturing and Sales   | 89.0  |
| Thai Honda Manufacturing Co., Ltd.                  | Thailand                        | Manufacturing   | 60.0  |
| Honda Vietnam Co., Ltd.                             | Vietnam                         | Manufacturing and Sales   | 70.0  |
| Honda Motor de Argentina S.A.                       | Argentina                       | Manufacturing and Sales   | 100.0   |
| Honda South America Ltda.                           | Brazil                          | Coordination of Subsidiaries Operation  | 100.0   |
| Honda Automoveis do Brasil Ltda.                    | Brazil                          | Manufacturing and Sales   | 100.0   |
| Moto Honda da Amazonia Ltda.                        | Brazil                          | Manufacturing and Sales   | 100.0   |
| Honda Turkiye A.S.                                  | Turkey                          | Manufacturing and Sales   | 100.0   |
| Honda Australia Pty. Ltd.                           | Australia                       | Sales   | 100.0   |

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\*<sup>1</sup> Honda Motor Europe (South) S.A.S. changed its name to Honda France S.A.S. effective April 1, 2010.

\*<sup>2</sup> Honda Motor Europe (North) GmbH changed its name to Honda Deutschland GmbH effective April 1, 2010.

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

The following table sets out information, as of March 31, 2010, with respect to Honda's principal manufacturing facilities, all of which are owned by Honda:

| <b>Location</b>                         | <b>Number of Employees</b> | <b>Principal Products Manufactured</b>                        |
|---|----------------------------|---|
| Sayama, Saitama, Japan                  | 5,444                      | Automobiles   |
| Hamamatsu, Shizuoka, Japan              | 2,684                      | Power products and transmissions                              |
| Suzuka, Mie, Japan                      | 6,796                      | Automobiles   |
| Ohzu-machi, Kikuchi-gun Kumamoto, Japan | 3,323                      | Motorcycles, all-terrain vehicles, power products and engines |
| Marysville, Ohio, U.S.A.                | 4,776                      | Automobiles   |
| Anna, Ohio, U.S.A.                      | 2,779                      | Engines   |
| East Liberty, Ohio, U.S.A.              | 2,652                      | Automobiles   |
| Lincoln, Alabama, U.S.A.                | 4,109                      | Automobiles and engines                                       |
| Greensburg, Indiana, U.S.A.             | 1,123                      | Automobiles   |
| Alliston, Ontario, Canada               | 4,100                      | Automobiles and engines                                       |
| El Salto, Mexico                        | 2,031                      | Motorcycles and automobiles                                   |
| Swindon, Wiltshire, U.K.                | 3,200                      | Automobiles and engines                                       |
| Atessa, Italy                           | 778                        | Motorcycles, power products and engines                       |
| Guangzhou, China                        | 921                        | Automobiles   |
| Greater Noida, India                    | 1,923                      | Automobiles   |
| Ayutthaya, Thailand                     | 3,510                      | Automobiles   |
| Bangkok, Thailand                       | 3,092                      | Motorcycles and power products                                |
| Vinhphuc, Vietnam                       | 2,104                      | Motorcycles and automobiles                                   |
| Buenos Aires, Argentina                 | 294                        | Motorcycles   |
| Sumare, Brazil                          | 3,443                      | Automobiles   |
| Manaus, Brazil                          | 8,254                      | Motorcycles and power products                                |
| Gebze, Turkey                           | 843                        | Automobiles   |

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

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

As of March 31, 2010, the Company's property, with a net book value of approximately ¥20.4 billion, was subject to specific mortgages securing indebtedness.

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

Capital expenditures in fiscal 2010 were applied to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities.

Total capital expenditures for the year amounted to ¥873.7 billion, down ¥393.4 billion from the previous year. Also, total capital expenditures, excluding property on operating leases, for the year amounted to ¥329.7 billion, down ¥269.3 billion from the previous year. Spending by business segment is shown below.

|  | Fiscal years ended March 31, |           |                        |
|--|------------------------------|-----------|------------------------|
|  | 2009                         | 2010      | Increase<br>(Decrease) |
|  | Yen (millions)               |           |                        |
| Motorcycle Business  | ¥ 90,401                     | ¥ 38,332  | ¥ (52,069)             |
| Automobile Business  | 490,760                      | 267,257   | (223,503)              |
| Financial Services Business  | 669,178                      | 544,425   | (124,753)              |
| Financial Services Business (Excluding Property on Operating Leases) | 1,050                        | 398       | (652)                  |
| Power Product and Other Businesses                                   | 16,920                       | 23,748    | 6,828                  |
| Total  | ¥ 1,267,259                  | ¥ 873,762 | ¥ (393,497)            |
| Total (Excluding Property on Operating Leases)                       | ¥ 599,131                    | ¥ 329,735 | ¥ (269,396)            |

Intangible assets are not included in the table above.

In the motorcycle business, we made capital expenditures of ¥38,332 million in the fiscal year ended March 31, 2010. Funds were allocated to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities.

In the automobile business, we made capital expenditures of ¥267,257 million in the fiscal year ended March 31, 2010. Funds were allocated to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities. A new engine plant in Ogawa-machi Hiki-gun, Saitama, Japan completed construction of its facilities for the production of engines in September 2009.

In the financial services business segment, capital expenditures excluding property on operating leases amounted to ¥398 million in the fiscal year ended March 31, 2010, while capital expenditures for property on operating leases were ¥544,027 million. Capital expenditures in power products and other businesses in the fiscal year ended March 31, 2010, totaling ¥23,748 million, were deployed to upgrade, streamline, and modernize manufacturing facilities for power products, and to improve R&D facilities for power products.

*Plans after fiscal 2010*

We set out our original capital expenditure plans for the period from the fiscal year ended March 31, 2010 during the preceding fiscal year. We have subsequently modified these plans as follows:



The planned timing of the start of operation in the latter half of 2009 on the new auto plant of Honda Motor De Argentina S.A., which is one of the Company's consolidated subsidiaries, in Buenos Aires, Argentina has changed to in the first half of 2011. The investment amount is approximately ¥16,000 million.

Managements mainly consider economic trends of each region, demand trends, situation of competitors and our business strategy such as introduction plans of new models in determining the future of projects.

**Table of Contents**

The estimated amounts of capital expenditures for fiscal year ending March 31, 2011 are shown below.

|                                    | <b>Fiscal year ending<br/>March 31, 2011<br/>Yen (millions)</b> |
|------------------------------------|---|
| Motorcycle Business                | ¥ 43,900  |
| Automobile Business                | 324,200   |
| Financial Services Business        | 500   |
| Power Product and Other Businesses | 11,400  |
| <b>Total</b>                       | <b>¥ 380,000</b>  |

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

Intangible assets are not included in the table above.

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

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

***Item 5. Operating and Financial Review and Prospects******A. Operating Result******Overview*****Business Environment**

Key trends in the economic environment surrounding the operations of Honda during the fiscal year 2010 include the following. In the United States, despite concern about economic stagnation due mainly to the continuation of the credit contraction and deterioration in the employment situation, conditions showed moderate recovery as a result of improvement in consumer spending, a bottoming out of private capital investment. In Europe, although there was concern about stagnation in the economy resulting from the credit contraction, the reactionary decline following measures to support purchases of new automobiles and deterioration in employment conditions, the economy appears to have bottomed out. In Asia, the Chinese economy recovered, and the outlook there appears to be for expansion. In India, economic conditions recovered, and the

economies of other countries in the region generally appear to be recovery. In Japan, although economic conditions continued to be difficult, with unemployment rates remaining high, the economy showed a trend toward improvement, especially in consumer spending.

### **Overview of Fiscal Year 2010 Operating Performance**

Honda's consolidated net sales and operating revenues for the fiscal year ended March 31, 2010, decreased from the fiscal year ended March 31, 2009, due mainly to negative foreign currency translation effects and decreased net sales in automobile business. Operating income, however, increased from the previous fiscal year, due mainly to decreased selling, general and administrative expenses and R&D expenses and continuing cost reduction, which was partially offset by a decrease in income attributable to the decreased net sales, negative foreign currency effects and an increase in fixed costs per unit as a result of reduced production.

### **Motorcycle Business**

Honda's unit sales of motorcycles, all-terrain vehicles (ATVs) and personal watercraft (PWC) on a consolidated basis decreased from the previous fiscal year, due mainly to a decrease in unit sales in Japan, North America, Europe and Other Regions, including South America, which was partially offset by an increase in units sales in Asia.

## **Table of Contents**

In Asia, where markets are expanding, although the global economic downturn had an adverse effect during the first half of 2009, demand recovered throughout the region in the latter half. Unit sales in Asia rose, due mainly to expansion in sales of the *Activa* scooters in India and new types, including the *CBTwister* motorcycles in India, as well as to growth in sales in Thailand of the Cub-type *Wave110iAT* and the *PCX* scooters.

On the other hand, in North America, as a result of the economic downturn, unit sales of mid-size models including 750cc motorcycles and scooters as well as ATVs declined, especially in the United States. Also, unit sales in Other Regions, including South America, decreased, especially in the Brazilian market, because of the tightening of loan conditions for motorcycles triggered by the financial crisis.

## **Automobile Business**

Honda's unit sales of automobiles on a consolidated basis decreased from the previous fiscal year, due mainly to a decrease in unit sales in North America, Europe and Other Regions, including South America, which was partially offset by an increase in unit sales in Japan and Asia.

In Japan, during the first half of the fiscal year, conditions were difficult due to a weakness in corporate activity and stagnation in consumer spending accompanying the global economic downturn. During the second half of the fiscal year, the positive effects on demand of tax reductions and subsidies for eco-cars emerged, and sales of automobiles moved toward recovery and the number of units sold increased in Japan driven especially by robust sales of the *Insight*, *Fit* and *STEPWGN*. In addition, in Asia, the number of unit sales expanded mainly because of growth in demand in China and strong sales of the *City* mainly in Thailand and India.

On the other hand, in North America, despite growth in sales of the light truck models including the *CR-V*, the new *Accord Crosstour* and the new *Acura ZDX*, unit sales overall declined because of the shrinkage in demand. Moreover, in Europe, demand expanded in some countries because of government policies to encourage purchases of new cars, but more intense competition led to an overall drop in unit sales.

## **Power Product and Other Businesses**

Honda's unit sales of power products on a consolidated basis decreased from the previous fiscal year, due mainly to a decrease in unit sales in Japan, North America, Europe and Other Regions, including South America, which partially offset by an increase in unit sales in Asia.

In Asia, unit sales of engines and pumps for agricultural use and brush cutters increased because of the effects of agricultural-support policies adopted by some countries and the effects of weather conditions.

On the other hand, in Japan, North America and Europe, unit sales of engines, mainly for OEM<sup>®</sup> use, decreased, and in Other Regions, including South America, unit sales of pumps and standard engines fell. These factors resulted in an overall decrease in unit sales.

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

***Fiscal Year 2010 Compared with Fiscal Year 2009***

Honda adopted Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which is now codified in the FASB Accounting Standards Codification (ASC) 810 Consolidation, effective April 1, 2009. Upon the adoption of this statement, Honda has changed the prior consolidated financial statements to conform to the presentation used for the fiscal year ended March 31, 2010. See Note (1)(c).

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**Table of Contents****Net Sales and Other Operating Revenue**

Honda's consolidated net sales and other operating revenue (hereafter, "net sales") for the fiscal year ended March 31, 2010, decreased ¥1,432.0 billion, or 14.3%, to ¥8,579.1 billion from the fiscal year ended March 31, 2009, due mainly to negative foreign currency translation effects and decreased net sales in automobile business. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥746.7 billion, or 7.5%, compared to the decrease as reported of ¥1,432.0 billion, which includes negative foreign currency translation effects.

Net sales in Japan increased ¥130.7 billion, or 9.0%, to ¥1,577.3 billion from the previous fiscal year and overseas net sales decreased ¥1,562.8 billion, or 18.2%, to ¥7,001.8 billion from the previous fiscal year.

**Operating Costs and Expenses**

Operating costs and expenses decreased ¥1,606.1 billion, or 16.4%, to ¥8,215.3 billion from the previous fiscal year. Cost of sales decreased ¥1,004.8 billion, or 13.5%, to ¥6,414.7 billion from the previous fiscal year, due mainly to a decrease in costs attributable to the decreased net sales, positive foreign currency effects and continuing cost reduction. Selling, general and administrative expenses decreased ¥501.4 billion, or 27.3%, to ¥1,337.3 billion from the previous fiscal year, due mainly to positive foreign currency effects, a decrease in provisions for credit losses and losses on lease residual values in financial services business and the impact of expenses in the previous year which related to withdrawal from some racing activities and cancellations of development new models. R&D expenses decreased by ¥99.8 billion, or 17.7%, to ¥463.3 billion from the previous fiscal year, due mainly to improving development efficiency, while improving safety and environmental technologies and enhancing of the attractiveness of the products.

**Operating Income**

Operating income increased ¥174.1 billion, or 91.8%, to ¥363.7 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses and R&D expenses and continuing cost reduction, which was partially offset by a decrease in income attributable to the decreased net sales, negative foreign currency effects and an increase in fixed costs per unit as a result of reduced production. Excluding negative foreign currency effects of ¥167.5 billion, Honda estimates operating income increased ¥341.7 billion.

With respect to the discussion above of the changes, management identified the factors and used what it believes to be a reasonable method to analyze the respective changes in such factors. Management analyzed changes in these factors at the levels of the Company and its material consolidated subsidiaries. Foreign currency effects consist of translation adjustments, which come from the translation of the currency of foreign subsidiaries' financial statements into Japanese yen, and foreign currency adjustments, which result from foreign-currency-denominated sales. With respect to foreign currency adjustments, management analyzed foreign currency adjustments primarily related to the following currencies: U.S. dollar, Canadian dollar, Euro, British pound, Brazilian real and Japanese yen, at the level of the Company and its material consolidated subsidiaries.

**Income before Income Taxes and Equity in Income of Affiliates**

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Income before income taxes and equity in income of affiliates increased ¥174.4 billion, or 107.9%, to ¥336.1 billion. Main factors of this increase except factors relating operating income are as follows:

Unrealized gains and losses related to derivative instruments had a positive impact of ¥22.2 billion. Other income(expenses) excluding unrealized gains and losses related to derivative instruments had a negative impact of ¥21.9 billion, due mainly to a decrease in foreign currency transaction gains, which was partially offset by a decrease of impairment losses on investment securities.

## **Table of Contents**

### **Income Tax Expense**

Income tax expense increased ¥37.0 billion, or 33.7%, to ¥146.8 billion from the previous fiscal year. The effective tax rate decreased 24.2 percentage points to 43.7% from the previous fiscal year. The decrease in the effective tax rate was due to (1) a decrease in tax expenses of ¥21.2 billion related to the dividend and royalty income from foreign subsidiaries and affiliates, net of foreign tax credit, because the Company did not utilize indirect foreign tax credit in the prior fiscal year due to lower taxable income and (2) a decrease in the valuation allowance of ¥7.0 billion recorded during the fiscal year ended March 31, 2010.

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

Equity in income of affiliates decreased ¥5.7 billion, or 5.8%, to ¥93.2 billion, due mainly to an increase in expenses and tax expense at affiliates in certain countries in Asia, which was partially offset by a decrease in expenses at certain affiliates in Japan.

### **Net Income**

Net income increased ¥131.6 billion, or 87.2%, to ¥282.6 billion from the previous fiscal year.

### **Net Income attributable to Noncontrolling Interests**

Net income attributable to noncontrolling interests increased ¥0.2 billion, or 2.0%, to ¥14.2 billion from the previous fiscal year.

### **Net Income attributable to Honda Motor Co., Ltd.**

Net income attributable to Honda Motor Co., Ltd. increased ¥131.3 billion, or 95.9%, to ¥268.4 billion from the previous fiscal year.

### **Business Segments**

#### **Motorcycle Business**



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Honda's unit sales of motorcycles, all-terrain vehicles (ATVs) and personal watercraft (PWC) totaled 9,639 thousand units, decreased by 4.7% from the previous fiscal year. Unit sales in Japan totaled 190 thousand units, decreased by 18.1%. Overseas unit sales totaled 9,449 thousand units, decreased by 4.4%, due mainly to a decrease in unit sales in Other Regions, including South America, and North America, which was partially offset by an increase in unit sales in Asia.

Revenue from external customers decreased ¥271.2 billion, or 19.2%, to ¥1,140.2 billion from the previous fiscal year, due mainly to decreased unit sales and the negative foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥141.2 billion, or 10.0%, compared to the decrease as reported of ¥271.2 billion, which includes negative foreign currency translation effects.

Operating costs and expenses decreased ¥230.1 billion, or 17.5%, to ¥1,081.4 billion from the previous fiscal year. Cost of sales decreased by ¥149.1 billion, or 15.3%, to ¥826.7 billion, due mainly to a decrease in costs attributable to the decreased net sales, the positive foreign currency effects. Selling, general and administrative expenses decreased by ¥60.2 billion, or 24.1%, to ¥189.9 billion. R&D expenses decreased by ¥20.7 billion, or 24.3%, to ¥64.7 billion, from ¥85.5 billion, which reflects a correction from the amount previously disclosed at Item 5. Operating and Financial Review and Prospects C. Research and Development.

Operating income decreased ¥41.0 billion, or 41.1%, to ¥58.8 billion from the previous fiscal year, due mainly to a decrease in income attributable to the decreased net sales and negative foreign currency effects, which was partially offset by decreased selling, general and administrative expenses and R&D expenses.

## **Table of Contents**

### ***Japan***

Total industry demand for motorcycles in Japan in fiscal 2010 was approximately 410 thousand units\*, about 25% lower than in the previous fiscal year. This decline was due mainly to the effects of the economic downturn, measures taken to respond to emission regulations and structural factors, such as the decrease in the percentage of younger people in the total population, decline in the number of persons obtaining new driver's licenses and the shortage of parking places in urban areas.

Amid these operating conditions, Honda launched its *Super-Cub110* business model, which is both economical and practically useful. In addition, Honda introduced its *CB1100 Type I* large sports bike, an easy-to-ride with a beautiful design that is equipped with a newly developed air-cooled, four-stroke engine.

Unit sales in Japan were down 18.1% compared with the previous fiscal year, to 190 thousand units. Despite the contribution to sales of the new *Super-Cub110* business model and new *CB1100* sports bike, this overall decline in unit sales was due mainly to intensifying competition.

\* Source: JAMA (Japan Automobile Manufacturers Association)

### ***North America***

Total demand for motorcycles and ATVs in the United States\* during calendar 2009 declined approximately 37% from the previous year, to approximately 840 thousand units. This decline was due to the continuing credit contraction, deterioration in employment conditions, and shrinkage in leisure-related expenditures.

Amid this business environment, Honda launched the *Fury* large cruiser model, which features improved stable driving performance, through the incorporation of Honda's original floating final gear.

Unit sales in North America declined 40.9% compared with the previous fiscal year, to 189 thousand units. Sales of the new *Fury* large cruiser model were strong, but in reaction to the decline in gasoline prices, sales of mid-size models including 750cc motorcycles and scooters decreased. As a result, Honda's motorcycle sales in this market fell 47.9%, to 98 thousand units. Moreover, unit sales of ATVs and others dropped 31.1%, to 91 thousand units, despite steady demand for utility ATVs.

\* Source: MIC (Motorcycle Industry Council)

### ***Europe***

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Total demand for motorcycles in Europe\* during calendar 2009 declined approximately 16% from the previous year, to about 1.05 million units. Although demand in some countries rose because of government incentives to support the purchase of new motorcycles and changes in the driver's license system, overall demand fell because of the impact of the economic downturn throughout Europe.

Amid this business environment, Honda introduced its *VFR1200F* sports tourer with a V4-stroke engine, which combines sporty performance with high-quality riding comfort.

In fiscal 2010, although the *CB125*, 125cc motorcycle that launched in previous fiscal year, the naked type *CBF1000* leisure motorcycle and the new *VFR1200F* sports tourer had a positive effect, this was not enough to compensate a decrease in unit sales of large scooters and other bikes. As a result, unit sales in Europe were down 27.9% from the previous fiscal year, to 199 thousand units.

\* Based on Honda's research, the motorcycle registration market includes 10 countries: the United Kingdom, Germany, France, Italy, Spain, Switzerland, Portugal, the Netherlands, Belgium and Austria.

### *Asia*

Demand for motorcycles is continuing to expand in Asia, where they are an essential means of transportation. In calendar 2009, despite the unfavorable impact of the global economic downturn in the first half

## **Table of Contents**

of the year, during the second half, demand recovered, and total demand for motorcycles<sup>\*1</sup> rose about 6% over the previous year, to approximately 40.2 million units. By country, sales in India rose about 19%, to approximately 8.8 million units; sales in Indonesia decreased about 8%, to approximately 6.0 million units; and sales in Thailand dropped about 10%, to approximately 1.5 million units.

Amid these business conditions, in India, Honda made a full model change in its *Activa* 110cc scooter and launched its *CB Twister* motorcycle, which incorporates low-friction technology and is equipped with a fuel efficient 110cc engine. In Thailand, Honda introduced the *Wave110iAT*, outfitted with a new type CV-matic automatic transmission that provides both practical and convenient performance. In addition, Honda began to manufacture and market its new type *PCX* 125cc scooter. A strategic global model, *PCX* is a 125cc-class scooter featuring a global standard design for major components, which enhances cost competitiveness and production efficiency.

Unit sales in Asia<sup>\*2</sup> for fiscal 2010 rose 1.4% compared with the previous fiscal year, to 7,628 thousand units. This increase was due to expansion in sales of the *Activa* scooters in India and new types, including the *CB Twister* motorcycles in India, as well as to growth in sales in Thailand of the Cub-type *Wave110iAT* and the *PCX* scooters.

With respect to production activities, in India, our consolidated subsidiary Honda Motorcycle & Scooter India (Private) Ltd. decided to build a second production plant to respond to sharply rising demand in that country. Along with the expansion in capacity of its existing plant, the second plant is scheduled to go into operation in the latter half of 2011, and this is expected to bring this company's total annual production capacity to 2.2 million units.

\*1: Based on Honda's research, the motorcycle registration market includes eight countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, India, Pakistan and China.

\*2: This total includes sales of completed products of the Company and its consolidated subsidiaries and unit sales of parts for use in local production to Honda's affiliates accounted for under the equity method.

## ***Other Regions***

In Brazil, the principal market within Other Regions, total demand in calendar 2009 decreased about 16%, to approximately 1.61 million units\* because of the tightening of loan conditions for motorcycles triggered by the financial crisis.

Amid these conditions, in Brazil, Honda made a full model change on its *CB300R* motorcycle.

In Other Regions (including South America, the Middle East, Africa and Oceania), unit sales decreased 18.7% compared with the previous fiscal year, to 1,433 thousand units, despite the contribution to sales of Brazilian *CB300R* and *CG150Fan* motorcycles within Other Regions.

\* Source: ABRACICLO (the Brazilian association of motorcycle, moped, and bicycle manufacturers)

**Automobile Business**

Honda's unit sales of automobiles totaled 3,392 thousand units, decreased by 3.6% from the previous fiscal year. Unit sales in Japan totaled 646 thousand units, increased by 16.2%. Overseas unit sales totaled 2,746 thousand units, decreased by 7.3%, due mainly to a decrease in unit sales in North America and Europe, which was partially offset by an increase in unit sales in Asia.

Revenue from external customers decreased ¥1,119.5 billion, or 14.6%, to ¥6,554.8 billion from the previous fiscal year, due mainly to decreased unit sales and the negative foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥625.1 billion, or 8.1%, compared to the decrease as reported of ¥1,119.5 billion, which includes negative foreign currency translation effects.

## **Table of Contents**

Operating costs and expenses decreased ¥1,221.7 billion, or 16.0%, to ¥6,428.0 billion from the previous fiscal year. Cost of sales decreased by ¥790.4 billion, or 13.5%, to ¥5,066.5 billion, due mainly to a decrease in costs attributable to the decreased net sales, the positive foreign currency effects and continuing cost reduction. Selling, general and administrative expenses decreased by ¥354.9 billion, or 26.3%, to ¥992.1 billion, due mainly to the impact of expenses in the previous year which related to withdrawal from some racing activities and cancellations of development of new models and the positive foreign currency effects. R&D expenses decreased by ¥76.3 billion, or 17.1%, to ¥369.3 billion, from ¥445.7 billion, which reflects a correction from the amount previously disclosed at Item 5. Operating and Financial Review and Prospects C. Research and Development, due mainly to improving development efficiency, while improving safety and environmental technologies and enhancing of the attractiveness of the products.

Operating income increased ¥102.2 billion, or 416.5%, to ¥126.7 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses and R&D expenses and continuing cost reduction, which was partially offset by a decrease in income attributable to the decreased net sales and negative foreign currency effects.

### ***Japan***

Total automobile demand in Japan\* for the fiscal year 2010 rose approximately 4% over the previous fiscal year, to 4.88 million units. In the first half of the fiscal year, operating conditions were difficult because of weakness in company's business activities as a result of the global economic downturn and stagnant consumer spending. During the latter half of the fiscal year, however, the positive effects of government incentives to provide tax breaks and subsidies for purchasing eco-cars emerged, and automobile sales began to recover.

Amid these business operating conditions, Honda made full model changes to its *STEPWGN*, which features a low floor and a low center of gravity as well as excellent fuel economy, and the *ACTY* truck, which now offers a wider cabin and an improved minimum turning radius. In addition, Honda launched its all-new *CR-Z* hybrid vehicle, which combines a nimble and exhilarating ride with excellent fuel economy.

Unit sales in Japan rose 16.2% over the previous fiscal year, to 646 thousand units, driven especially by robust sales of the *Insight*, *Fit*, *STEPWGN* and *FREED*.

With respect to production, the number of units manufactured in Japan during the fiscal year 2010 decreased 21.5%, to 902 thousand units, mainly because of the decline in the number of cars exported.

\* Source: JAMA (as measured by the number of regular vehicle registrations (661cc or higher) and mini-vehicles (660cc or lower))

### ***North America***

In calendar 2009, total demand in the United States\* fell approximately 21% from the previous year, to about 10.4 million units, the second major consecutive year-to-year contraction in the market. This was because of lackluster consumer spending caused by the continuing credit contraction and the deterioration in employment conditions.

Under these circumstances, Honda introduced its new *Accord Crosstour*, which is a high-performance sedan, powered by a Honda V6 engine, and boasts strong utility car features, including more storage capacity in the rear section. Honda also launched its *Acura ZDX*, which comes with a newly-developed six-speed automatic transmission and combines a powerful ride with excellent fuel economy.

Although in the fiscal year 2010 unit sales of the *CR-V* and the new *Accord Crosstour* and *ZDX* models expanded, unit sales in North America decreased 13.3%, to 1,297 thousand units, because of the overall shrinkage in market demand.

With respect to production, Honda automobiles manufactured in North America declined 7.9%, to 1,152 thousand units.

\* Source: Ward's Auto

## Table of Contents

### *Europe*

During calendar 2009, total demand in Europe\*<sup>1</sup> fell approximately 2%, to about 14.48 million units. Demand in major European markets, including Germany and France, expanded as the governments of these countries adopted measures to encourage purchases of new cars. On the other hand, demand in the United Kingdom and Spain, where such incentive measures were adopted in the middle of the year, failed to recover from the slump in the first half of the year, and remained below the prior year. Moreover, unit demand in Russia\*<sup>2</sup> dropped about 50%, to approximately 1.47 million units.

Amid this business environment, Honda began production and marketing of its *Jazz* in Europe, which offers excellent fuel economy, a superior ride, and high-level safety features.

Unit sales in Europe during the fiscal year 2010 decreased 28.9% from the previous fiscal year, to 249 thousand units because of the combined effects of shrinkage in demand and more intense competition.

With respect to production, Honda manufactured 99 thousand units at its U.K. plant during the fiscal year 2010, 43.1% fewer than in the previous year.

\*<sup>1</sup>: Source: ACEA (Association des Constructeurs Europeens d Automobiles (the European Automobile Manufacturers Association) (New passenger car registrations cover EU27 and EFTA3.))

\*<sup>2</sup>: Source: AEB (The Association of European Businesses)

### *Asia*

In Asia, total demand in the principal countries\*<sup>1</sup> in calendar 2009 increased to approximately 19.48 million units. This gain was due mainly to expansion in demand, principally in China and the adoption of measures to encourage new vehicle purchases by governments in the regions.

Amid this business environment, Honda began production in Indonesia of its *FREED* compact mini-van, which offers a spacious interior, and commenced the marketing of these units not only in Indonesia but also in Singapore and Thailand. Also, in China, manufacturing and sales of the *Spirior*, a premium sporty sedan featuring a nimble and pleasant ride, began at a Honda affiliate accounted for under the equity method.

During fiscal 2010, unit sales in Asia rose 19.8%, to 950 thousand units. Sales of the *City* in Thailand and India, and sales of the new *FREED* in Indonesia held strong. In China, the *City*, *CR-V* and the new *Spirior* recorded robust sales performances.



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With respect to production, to meet rapidly rising demand for automobiles in China, Honda decided to build a second plant through Dongfeng Honda Automobile Co., Ltd. <sup>\*2</sup>. This will bring total production capacity at Dongfeng Honda Automobile to 300 thousand units a year in the latter half of calendar 2012. In addition, Honda decided to expand production capacity at Guangqi Honda Automobile Co., Ltd. <sup>\*2,3</sup>. This will bring total production capacity at Guangqi Honda Automobile to 480 thousand units from the current 360 thousands units a year by the latter half of 2011.

\*1: The total is based on Honda's research and includes the following 11 countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Singapore, Taiwan, South Korea, India, Pakistan, and China.

\*2: Dongfeng Honda Automobile Co., Ltd. and Guangqi Honda Automobile Co., Ltd. are the manufacturing and marketing joint ventures accounted for under the equity method.

\*3: Guangqi Honda Automobile Co., Ltd. changed its name from Guangzhou Honda Automobile Co., Ltd. effective June, 2009.

## **Table of Contents**

### ***Other Regions***

Total demand for automobiles in Brazil, one of the principal markets among the Other Regions, increased about 13% in calendar 2009, to approximately 3.01 million units <sup>\*1</sup>. On the other hand, demand in Australia decreased approximately 7%, to 940 thousand units <sup>\*2</sup>.

Amid this operating environment, in Brazil, Honda introduced its new *City*, a small sedan incorporating flexible fuel technology, that allows drivers to select any ratio of bioethanol and gasoline that meets their needs.

Unit sales in Other Regions decreased 22.4%, to 250 thousand units. Although unit sales were lifted by the new *City* in Brazil, this was offset by declines in unit sales in Australia and the Middle East.

\*1: Source: ANFAVEA (Associação Nacional dos Fabricantes de Veículos Automotores (the Brazilian automobile association, includes passenger cars and light commercial vehicles))

\*2: Source: FCAI (Federal Chamber of Automotive Industries (the Australian automobile association))

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

Honda's unit sales of power products totaled 4,744 thousand units, decreased by 8.5% from the previous fiscal year. Unit sales in Japan totaled 322 thousand units, decreased by 37.6%. Overseas unit sales totaled 4,422 thousand units, decreased by 5.3%, due mainly to decreased unit sales in Europe and North America, which was partially offset by increased unit sales in Asia.

Revenue from external customers decreased ¥65.3 billion, or 19.1%, to ¥277.6 billion from the previous fiscal year, due mainly to the decreased unit sales of power products and negative foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥52.2 billion, or 15.2%, compared to the decrease as reported of ¥65.3 billion, which includes negative foreign currency translation effects. Revenue including intersegment sales decreased ¥64.2 billion, or 17.4%, to ¥304.6 billion from the previous fiscal year.

Operating costs and expenses decreased ¥63.0 billion, or 16.4%, to ¥321.3 billion from the previous fiscal year. Cost of sales decreased by ¥46.1 billion, or 16.2%, to ¥239.3 billion, due mainly to a decrease in costs attributable to the decreased net sales. Selling, general and administrative expenses decreased by ¥14.1 billion, or 21.2%, to ¥52.7 billion. R&D expenses decreased by ¥2.7 billion, or 8.6%, to ¥29.2 billion, from ¥31.9 billion, which reflects a correction from the amount previously disclosed at Item 5. Operating and Financial Review and Prospects C. Research and Development.

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Operating loss increased ¥1.2 billion to ¥16.7 billion from the previous fiscal year, due mainly to a decrease in income attributable to the decreased net sales, which was partially offset by decreased selling, general and administrative expenses and R&D expenses.

### *Japan*

In the power products field, in Japan Honda produces the *BF60*, a medium-sized, four-stroke outboard boat motor offering good acceleration and fuel economy, and has now launched this product in markets around the world. In addition, Honda manufactures the *EU26i* handy electric power generator, which is light in weight, compact and quiet, in Japan and has now launched this product globally. Marketed under the name *EU3000iHandy* in North America and *EU30i* in other markets around the world, this generator incorporates Honda's original sine-wave inverter technology and supplies electricity comparable in quality to commercially generated power. Also, Honda made full model changes to its V-Twin general-purpose engines *GX630*, *GX660* and *GX690*, which are manufactured in Japan and offer good fuel economy with low emissions. Honda has now launched these engines globally, and they are marketed as the *GX630R*, *GX660R* and *GX690R* in North America, Europe and Australia.

## **Table of Contents**

During the fiscal year 2010, unit sales in Japan decreased 37.6% from the previous fiscal year, to 322 thousand units. Although sales of tillers and snow removal equipments rose, these increases were offset by lower sales of engines for OEM use.

### ***North America***

Unit sales in North America declined 4.0% from the previous fiscal year, to 1,818 thousand units. Despite increases in sales of lawn mowers and sales of engines for OEM use in lawn mowers, these increases were not enough to compensate a decrease in sales of engines for OEM use in construction machinery.

### ***Europe***

In Europe, unit sales fell 18.4% from the previous fiscal year, to 1,066 thousand units, as a result of a decrease in sales of engines for OEM use in construction machinery and electric power generators.

### ***Asia***

In Asia, unit sales rose 10.2%, to 1,069 thousand units, as sales of engines for use in agricultural machinery, pumps and brush cutters rose. This increase was due in part to the introduction of measures to support the agricultural sector in certain countries and to weather conditions.

### ***Other Regions***

Unit sales in Other Regions decreased 6.6% compared with the previous fiscal year, to 469 thousand units. This decline was due mainly to lower sales of pumps and general-purpose engines to the Middle East.

## **Financial Services Business**

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

Total amount of finance subsidiaries-receivables and property on operating leases of finance subsidiaries decreased by ¥90.4 billion, or 1.9%, to ¥4,769.6 billion from the previous fiscal year. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, total amount of finance subsidiaries-receivables and property on operating leases of finance subsidiaries as of the end of the year would have increased by approximately ¥5.9 billion, or 0.1%, compared to the decrease as reported of ¥90.4 billion, which includes

negative foreign currency translation effects.

Revenue from external customers in a financial services business increased ¥24.0 billion, or 4.1%, to ¥606.3 billion from the previous fiscal year. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, revenue for the year would have increased by approximately ¥71.9 billion, or 12.4%, compared to the increase as reported of ¥24.0 billion, which includes negative foreign currency translation effects. Revenue including intersegment sales increased ¥22.2 billion, or 3.7%, to ¥618.8 billion from the previous fiscal year.

Operating costs and expenses decreased ¥91.9 billion, or 17.8%, to ¥423.9 billion from the previous fiscal year. Cost of sales decreased ¥19.7 billion, or 5.8%, to ¥321.4 billion from the previous fiscal year, due mainly to a decrease in funding costs. Selling, general and administrative expenses decreased ¥72.1 billion, or 41.3%, to ¥102.4 billion from the previous fiscal year, due mainly to a decrease in provisions for credit losses and losses on lease residual values.

## **Table of Contents**

Operating income increased ¥114.2 billion, or 141.6%, to ¥194.9 billion from the previous fiscal year, due mainly to a decrease in provisions for credit losses and losses on lease residual values and a decrease in funding costs.

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

Information about credit losses and losses on lease residual values is provided at Item 5. Operating and Financial Review and Prospects A. Operating Results, Application of Critical Accounting Policies. Information about finance subsidiaries-receivables and securitizations is described in Note (2) to the accompanying consolidated financial statements.

## **Geographical Information**

### ***Japan***

In Japan, revenue from domestic and export sales decreased ¥856.8 billion, or 20.6%, to ¥3,305.7 billion from the previous fiscal year, due mainly to a decrease in export sales in automobile business. Operating loss decreased ¥132.4 billion, to ¥29.1 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses and R&D expenses and continuing cost reductions, which was partially offset by a decrease in income attributable to the decreased revenue and negative foreign currency effects.

### ***North America***

In North America, which mainly consists of the United States, revenue decreased ¥870.9 billion, or 18.2%, to ¥3,908.2 billion from the previous fiscal year, due mainly to a decrease in revenue in automobile business and negative foreign currency translation effects. Operating income increased ¥156.6 billion, or 196.6%, to ¥236.3 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses, including a decrease in provisions for credit losses and losses on lease residual values and continuing cost reductions, which was partially offset by a decrease in income attributable to the decreased revenue and an increase in fixed costs per unit as a result of reduced production.

### ***Europe***

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In Europe, revenue decreased ¥453.4 billion, or 35.5%, to ¥825.4 billion from the previous fiscal year, due mainly to a decrease in revenue in the automobile business and negative foreign currency translation effects. Operating loss was ¥10.8 billion, a decrease of ¥21.0 billion of operating income from the previous fiscal year, due mainly to a decrease in income attributable to the decreased revenue and negative foreign currency effects, which was partially offset by decreased selling, general and administrative expenses.

### *Asia*

In Asia, revenue decreased ¥89.6 billion, or 5.6%, to ¥1,518.5 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was partially offset by an increase in revenue in

## **Table of Contents**

motorcycle business. Operating income increased ¥9.4 billion, or 9.1%, to ¥113.0 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses and an increase in income attributable to the increased revenue, which was partially offset by negative foreign currency effects.

### ***Other Regions***

In Other Regions, revenue decreased ¥247.7 billion, or 21.7%, to ¥896.4 billion from the previous fiscal year, due mainly to a decrease in negative foreign currency translation effects and a decrease in revenue in motorcycle and automobile businesses. Operating income decreased ¥89.2 billion, or 66.1%, to ¥45.8 billion from the previous fiscal year, due mainly to a decrease in income attributable to a decrease in revenue and negative foreign currency effects, which was partially offset by decreased selling, general and administrative expenses.

### ***Fiscal Year 2009 Compared with Fiscal Year 2008***

Honda adopted Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51, which is now codified in the FASB Accounting Standards Codification (ASC) 810 *Consolidation*, effective April 1, 2009. Upon the adoption of this statement, Honda has changed the prior consolidated financial statements to conform to the presentation used for the fiscal year ended March 31, 2010. See Note (1)(c).

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

Honda's consolidated net sales and other operating revenue (hereafter, *net sales*) for the fiscal year ended March 31, 2009, decreased ¥1,991.5 billion, or 16.6%, to ¥10,011.2 billion from the fiscal year ended March 31, 2008, primarily due to foreign currency translation effects and decreased net sales in the automobile business. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥795.8 billion, or 6.6%, compared to the decrease as reported of ¥1,991.5 billion, which includes negative foreign currency translation effects.

Net sales in Japan decreased ¥139.2 billion, or 8.8%, to ¥1,446.5 billion from the previous fiscal year and overseas net sales decreased ¥1,852.3 billion, or 17.8%, to ¥8,564.7 billion from the previous fiscal year.

### **Operating Income**

Operating income decreased ¥763.4 billion, or 80.1%, to ¥189.6 billion from the previous fiscal year. Excluding negative foreign currency effects of ¥269.5 billion, caused by the appreciation of the Japanese yen, Honda estimates operating income decreased ¥493.8 billion, or 51.8%.



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Factors contributing to the decrease of ¥493.8 billion in operating income excluding negative foreign currency effects can be summarized as follows: (i) changes in net sales and the model mix, (ii) cost reductions and the effect of raw material cost fluctuations, (iii) changes in selling, general and administrative (SG&A) expenses and (iv) R&D expenses. Details regarding these factors are as follows.

Changes in net sales and the model mix had a negative impact of ¥247.7 billion, due mainly to a decrease in income attributable to the decreased net sales and changes in the model mix caused by shift of customers' demands towards more fuel efficient (compact) models in automobile business, which was offset by price increases and reduced sales incentives in automobile business in North America.

Cost reductions and the effect of raw material fluctuations had a negative impact of ¥182.5 billion, due mainly to increased raw materials costs, such as steel and precious grade metals, and an increase in fixed costs per unit as a result of reduced production, which was offset by continuing cost reductions.

## **Table of Contents**

Selling, general and administrative expenses had a negative impact of ¥88.3 billion due mainly to expenses related to withdrawal from some racing activities and cancellations of development new models and an increase in provisions for credit losses and losses on lease residual values in the financial services business in North America, which was offset by a decrease in costs for product warranties.

R&D expenses also had a positive impact of ¥24.7 billion, due mainly to reduction of R&D expenses, which was offset by increased R&D expenses related to safety and environmental technologies and enhancement of the attractiveness of the products.

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

(1) Foreign currency effects consist of translation adjustments, which come from the translation of the currency of foreign subsidiaries' financial statements into Japanese yen, and foreign currency adjustments, which result from foreign-currency-denominated sales. With respect to foreign currency adjustments, management analyzed foreign currency adjustments primarily related to the following currencies: U.S. dollar, Canadian dollar, Euro, British pound, Brazilian real and Japanese yen, at the level of the Company and its material consolidated subsidiaries.

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

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

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

## **Income before Income Taxes and Equity in Income of Affiliates**

Income before income taxes and equity in income of affiliates decreased ¥734.1 billion, or 81.9%, to ¥161.7 billion. Main factors of this decrease, except factors relating to operating income, are as follows:

Unrealized gains and losses related to derivative instruments, such as interest rate swaps of finance subsidiaries, had a positive impact of ¥85.7 billion. On the other hand, realized losses related to derivative instruments and the losses associated with the revaluation of investment securities had a negative impact of ¥56.4 billion, which was offset by the effects of foreign currency transaction gains.

**Income Tax Expense**

Income tax expense decreased ¥277.6 billion, or 71.7%, to ¥109.8 billion from the previous fiscal year. The effective tax rate increased 24.7 percentage points to 67.9%, from the previous fiscal year. The increase in the effective tax rate was due to (1) an increase in tax expenses of ¥24.4 billion related to the dividend and royalty income from foreign subsidiaries and affiliates, net of foreign tax credit, because the Company did not utilize indirect foreign tax credit due to lower taxable income and (2) an increase in the valuation allowance of ¥23.1 billion recorded during the fiscal year ended March 31, 2009.

## **Table of Contents**

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

Equity in income of affiliates decreased ¥19.9 billion, or 16.7%, to ¥99.0 billion, due mainly to a decrease in income of affiliates that primarily manufacture components and parts for Honda's products in Japan, because of a decrease in their revenues, which was partially offset by an increase in income of affiliates in Asia, because of an increase in their revenues resulting from further automobile market expansion.

### **Net Income**

Net income decreased ¥476.4 billion, or 75.9%, to ¥150.9 billion from the previous fiscal year.

### **Net Income attributable to Noncontrolling Interests**

Net income attributable to noncontrolling interests decreased ¥13.3 billion, or 49.0%, to ¥13.9 billion from the previous fiscal year.

### **Net Income attributable to Honda Motor Co., Ltd.**

Net income attributable to Honda Motor Co., Ltd. decreased ¥463.0 billion, or 77.2%, to ¥137.0 billion from the previous fiscal year.

## **Business Segments**

### **Motorcycle Business**

Honda's unit sales of motorcycles, all-terrain vehicles (ATVs) and personal watercraft (PWC) totaled 10,114 thousand units, increased by 8.5% from the previous fiscal year. Unit sales in Japan totaled 232 thousand units, decreased by 25.4%. Overseas unit sales totaled 9,882 thousand units, increased by 9.7%, due mainly to an increase in unit sales of parts for local production at affiliates accounted for under the equity method in Asia and an increase in unit sales in Other Regions, including Brazil. Revenue from external customers decreased ¥147.1 billion, or 9.4%, to ¥1,411.5 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was offset by increased overseas unit sales. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have increased by approximately ¥18.5 billion, or 1.2%, compared to the decrease as reported of ¥147.1 billion, which includes negative foreign currency translation effects.

Operating income decreased ¥51.3 billion, or 34.0%, to ¥99.9 billion from the previous fiscal year, due mainly to increased raw material costs, the negative foreign currency effects and increased SG&A expenses, which was offset by price increases and decreased R&D expenses.

*Japan*

Total industry demand for motorcycles in Japan\* in fiscal 2009 was approximately 550 thousand units. Although sales of motorcycles in the 51cc - 125cc class were solid because of the increased use of motorcycles for commuting, overall demand was about 21% lower than in the previous year for a number of reasons. These included restrictions on emissions of motorcycles, demographic factors as the decline in the number of younger people, the decline in the number of people who acquire motorcycle driving licenses and the shortage of motorcycle parking spaces in city areas.

Amid these difficult operating conditions, Honda newly launched the *CB223S*, a road sports model and introduced the all-new *Monkey*, a 50cc recreational model for the first time in 30 years. In addition, Honda launched the all-new *CBR1000RR* and the *CBR1000RR ABS*, equipped with the world's first electronically controlled Combined ABS for super sports models.

## **Table of Contents**

In fiscal 2009, although unit sales of new models and the *Lead110* scooter were strong, sales in all categories were lackluster because of more-intense market competition and other factors. As a result, sales for the year were down 25.4%, to 232 thousand units.

In production activities, based on its concept of a people-friendly and environmentally-responsible plant, Honda introduced its latest, highly efficient manufacturing technologies at its new Kumamoto Factory. Also, Honda began production at the Factory in April 2008, which will be a new leader plant for Honda motorcycle production on a global basis.

\* Source: JAMA (Japan Automobile Manufacturers Association)

## ***North America***

Total demand for motorcycles and all-terrain vehicles (ATVs) in the United States\* during calendar 2008 declined 16% from the previous year, to approximately 1.33 million units. Although demand for medium-class motorcycles and scooters appears to have increased because of the increase in gasoline prices during the first half of the year, expenditures on recreational products had been shrinking along with the emergence of the subprime loan issue, and market conditions deteriorated sharply following the financial crisis in September.

Amid this operating environment, Honda entered a new market segment with the introduction of the *Big Red* multi-utility vehicle. In addition, in September 2008, Honda strengthened its product lineup by launching the *FourTrax Rancher AT*, a utility ATV.

Unit sales of motorcycles in North America declined 29.4% compared with the previous fiscal year, to 320 thousand units. Although sales of the *Shadow* cruiser model, the *Ruckus* scooter, and the *Metropolitan* scooter increased, sales of off-road and sports motorcycles decreased to 188 thousand units, a decrease of 22.3%. Moreover, unit sales of ATVs, including recreational-style sport use and utility types also declined to 132 thousand units, a decline of 37.4% from the previous fiscal year.

\* Source: MIC (Motorcycle Industry Council)

## ***Europe***

Total demand for motorcycles in Europe\* during calendar 2008 declined 6% from the previous year, to about 1.25 million units as a result of the economic downturn, such as deterioration in consumer sentiment beginning in September 2008.

Amid this difficult operating environment, Honda newly introduced the *CB1000R* naked sports model offering a powerful and dynamic performance.

In fiscal 2009, although unit sales of the 110cc *LEAD* scooter, the *XL700V* dual-purpose sports model and the *CB1000R* were strong, unit sales of super sports models, small motorcycles and larger scooters declined. As a result, total unit sales in Europe were down 11.8%, to 276 thousand units.

\* The total for 10 European countries: including the United Kingdom, Germany, France, Italy, Spain, Switzerland, Portugal, the Netherlands, Belgium, and Austria.

### *Asia*

Demand for motorcycles is continuing to expand in Asia, where motorcycles are an essential form of daily transportation. In calendar 2008, total demand<sup>\*1</sup> in the principal countries of Asia rose 6%, to about 37.9 million

## **Table of Contents**

units, supported by favorable economic growth in the first half of the year offsetting negative impact of declines in agricultural product prices in the latter half of the year. By country, sales in India amounted to about 7.4 million units, approximately the same as in the previous year. In Indonesia, sales for the year were up 33%, to about 6.5 million units. Sales in Thailand increased 7%, to about 1.7 million units.

Amid these operating conditions, in Thailand, Honda launched the new *CZ i 110* Cub type model in Thailand, which offers an eco-friendly performance and low fuel consumption, followed by the introduction of the *Wave110i*.

Unit sales in Asia\*<sup>2</sup> for the fiscal 2009 increased 13.4%, to 7,523 thousand units, due mainly to the favorable sales of the all-new *CBF Stunner* in India, 125cc motorcycle and the all-new *Air Blade*, 110 cc scooter in Vietnam.

In India, an affiliate accounted for under the equity method, began operations at its third factory in April 2008, thus bringing the total annual capacity to 6.15 million units together with the capacity of Honda's consolidated subsidiary. In Vietnam, Honda began the production of scooters and 125cc Cub-type motorcycles at its second motorcycle plant in that country, and had brought Honda's total annual production capacity in Vietnam to 1.5 million units.

\* 1: The total for eight countries: including Thailand, Indonesia, Malaysia, the Philippines, Vietnam, India, Pakistan and China.

\* 2: This total includes sales of completed products of the Company and its consolidated subsidiaries and unit sales of parts for use in local production to Honda's affiliates accounted for under the equity methods.

## ***Other Regions***

In Brazil, the principal market within Other Regions, the total demand in calendar 2008 amounted to approximately 1.91 million units, due to favorable economic growth in the first half of the year.

Also in Brazil, Honda newly launched its *CG150 TITAN MIX* small motorcycle, equipped with the world's first Mix Fuel Injection System, which accommodates any ratio of bio-ethanol and gasoline fuels.

Unit sales in Other Regions (South America, the Middle & Near East, Africa and Oceania) increased 9.5% over the previous fiscal year to 1,763 thousand units, due mainly to the favorable sales of the all-new *CG 125 FAN* motorcycle and *CG 150 TITAN* in Brazil.

## **Automobile Business**



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Honda's unit sales of automobiles totaled 3,517 thousand units, decreased by 10.4% from the previous fiscal year. Unit sales in Japan totaled 556 thousand units, decreased by 9.6%. Overseas unit sales totaled 2,961 thousand units, decreased by 10.5%, due mainly to a decrease in unit sales in North America, which was offset by an increase in unit sales in Asia and Other Regions including Brazil.

Revenue from external customers decreased ¥1,814.9 billion, or 19.1%, to ¥7,674.4 billion from the previous fiscal year, due to the negative foreign currency translation effects and decreased unit sales. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥889.9 billion, or 9.4%, compared to the decrease as reported of ¥1,814.9 billion, which includes negative foreign currency translation effects.

Operating income decreased ¥637.1 billion, or 96.3%, to ¥24.5 billion, from the previous fiscal year, due mainly to a decrease in income attributable to the decreased net sales in North America and Japan, the negative foreign currency effects, an increase in fixed costs per unit as a result of reduced production, increased raw material costs, changes in the model mix caused by shift of customers' demands towards more fuel efficient

## **Table of Contents**

(compact) models and expenses related to withdrawal from some racing activities and cancellations of development of new models, which was offset by continuing cost reduction, price increases, a decrease in costs for product warranties, decreased R&D expenses and reduced sales incentives in North America.

### ***Japan***

Total automobile demand in Japan\* for the fiscal year showed approximately 12% decline compared with the same period of the previous year to 4.7 million units, reflecting the decline in demand as the financial crisis began to have an impact on the economy from September 2008 onward.

Amid these operating conditions, Honda worked to strengthen its product lineup and expand sales by introducing the new *FREED*, *Life* and *Insight* hybrid car, which features a lightweight, compact hybrid system that combines exceptional fuel economy with fun-to-drive performance.

Although registrations of the Honda *Fit*, *FREED* and *Insight* were strong, as a result of severe market conditions, overall unit sales dropped 9.6% below the level of the previous fiscal year, to 556 thousand units.

In production, Honda reduced output in response to the worldwide decline in unit sales and the need to make adjustments in inventories. As a consequence, the number of automobiles manufactured by Honda during the fiscal year was down 11.4%, to 1,148 thousand units in Japan. In response to sudden changes in global markets, Honda transferred all production of the *Stream* from the Suzuka Factory to the Saitama Factory. Also, production of the *Fit* for the North American market began at the Saitama Factory in addition to the Suzuka Factory. The start-up of production at the Yorii Factory, which was scheduled for 2010, has been postponed for two years or more. Also, plans for beginning the manufacturing of mini-vehicles at the Yokkaichi Factory of Yachiyo Industry Co., Ltd., which was scheduled for 2010, have been postponed for one year or more.

\* : Source: JAMA (as measured by the number of regular vehicle registrations (661cc or higher) and mini-vehicles (660cc or lower))

### ***North America***

In calendar 2008, total demand in the United States\* declined 18% from the previous year, to about 13.19 million units. The automobile market experienced a major decline with the impact of the financial crisis on the economy, the deterioration in employment conditions, deterioration in consumer sentiment and other factors.

Amid this operating environment, Honda introduced new models such as the mid-size SUV *Pilot*, the *Acura TL* and the *Insight* hybrid car.

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For the fiscal year, unit sales in North America as a whole declined 19.1%, to 1,496 thousand units. Although sales of the all-new *TSX* remained solid, the sales of the *Odyssey*, the *Pilot* and the *Acura MDX*, as well as the *Acura TL* declined.

Manufacturing activities started at the auto production plant in Indiana in October 2008 with the *Civic*. Although, because of the sudden slowing of automobile demand, Honda slashed production in all plants in North America. As a result, the number of automobiles manufactured declined 13.2% from the previous fiscal year, to 1,251 thousand units.

\* : Source: Ward's Auto

### ***Europe***

During calendar 2008, total demand in Spain, Italy, and the United Kingdom declined along with the negative impact of the financial crisis from September 2008 onward. As a consequence, total demands in Europe<sup>\*1</sup> fell 8%, to about 14.71 million units. At the same time, total demand in Russia<sup>\*2</sup> for calendar 2008 rose 13%, to about 2.93 million units.

## **Table of Contents**

Amid this environment, Honda introduced the all-new *Accord*. Unit sales in this region were down 10.5% from the previous year and amounted to 350 thousand units due to decreased total demands.

Honda made production adjustments in response to the sudden decline in automobile demand. As a result, production at Honda's U.K. plant decreased 29.4%, to 175 thousand units compared to the same period of previous fiscal year.

\* 1: Source: ACEA (Association des Constructeurs Europeens d Automobiles (the European Automobile Manufacturers Association) (New passenger car registrations cover EU27 and EFTA3.))

\*2: Source: AEB (The Association of European Businesses)

## ***Asia***

In Asia, total demand in principal countries\* in calendar 2008 increased over the previous year to approximately 15,100 thousand units, despite the negative impact of the financial crisis from September 2008 onward.

Amid this environment, Honda introduced the all-new *Fit* in Taiwan. Honda also introduced the all-new *City*, a small sedan initially in Thailand and subsequently to India and other countries in Asia.

During fiscal 2009, total unit sales (comprised of finished automobiles of the Company and its consolidated subsidiaries and unit sales of parts to Honda's affiliates accounted for under the equity method) rose 5.0% over the level of the previous fiscal year, to 793 thousand units. In the mean time, sales of the *City* and *Jazz* models held strong primarily in Thailand, Indonesia, Malaysia, and elsewhere. Similarly, sales of the all-new *Accord* and the *CR-V* were also strong in China.

With an eye to future growth in Asia, Honda began production at its second plant in Thailand in October 2008, which has an annual production capacity of 60 thousand units. Honda postponed its plan for the start-up of the final assembly line at its second plant in India, in view of the major changes in the market environment.

\* : The total for 11 countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Singapore, Taiwan, South Korea, India, Pakistan, and China)

## ***Other Regions***

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Principal markets in the Other Regions increased due to economic expansion during the first half of 2008, although conditions became stagnant as a result of the financial crisis from September 2008. Overall demand for the region increased in 2008.

Total demand in Brazil<sup>\*1</sup> in calendar 2008 was approximately 2.67 million units, 14% higher than in the previous year. On the other hand, total demand in Australia<sup>\*2</sup> decreased 4% from the previous year, to about 1.01 million units.

Honda's unit sales in Other Regions increased 2.5%, to 322 thousand units. During fiscal 2009, unit sales in Brazil and Argentina increased due to the launch of the all-new *Fit* although unit sales in Australia and the Middle East declined.

\* 1: Source: ANFAVEA (Associação Nacional dos Fabricantes de Veículos Automotores (the Brazilian automobile association, includes passenger cars and light commercial vehicles)

\* 2: Source: FCAI (Federal Chamber of Automotive Industries (the Australian automobile association))

## **Table of Contents**

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

Honda's unit sales of power products totaled 5,187 thousand units, decreased by 14.4% from the previous fiscal year. Unit sales in Japan totaled 516 thousand units, decreased by 6.2%. Overseas unit sales totaled 4,671 thousand units, decreased by 15.2%, due mainly to decreased unit sales in North America and Europe. Revenue from external customers decreased ¥78.1 billion, or 18.5%, to ¥343.0 billion from the previous fiscal year, due mainly to the decreased unit sales and negative foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥49.0 billion, or 11.7%, compared to the decrease as reported of ¥78.1 billion, which includes negative foreign currency translation effects.

Operating loss was ¥15.4 billion, a decrease of ¥37.8 billion of operating income from the previous fiscal year, due mainly to a decrease in income attributable to the decreased net sales and increased in R&D expenses in other businesses, which was offset by decreased SG&A expenses.

### ***Japan***

In Japan, Honda newly launched the *Yukios SB800*, which is compact and lightweight and clears snow with a blade. Honda also newly introduced the *Pianta FV200*, a gas-powered mini tiller that uses the same butane gas canisters that are used in households for powering portable gas stoves. In addition, Honda introduced its original thin-film solar cells that reduce CO<sub>2</sub> emissions in the manufacturing process, and satisfy specifications for use in public and industrial applications.

Unit sales were down 6.2%, to 516 thousand units for this fiscal year, because of lower sales of *GX* series engines for water pumps and generators sold to OEM, and other products.

### ***North America***

Unit sales in North America declined 21.6%, to 1,893 thousand units. Weakness in the sales of engines for OEM use in construction machinery, high-pressure washers, and lawn mowers as well as weakness in the sales of lawn mowers, mainly due to the downturn in the U.S. economy.

### ***Europe***

In Europe, unit sales declined 22.9%, to 1,306 thousand units. Sales of *GX* and *GC* series engines for OEM use in construction machinery and generators declined.

### ***Asia***

Honda newly launched engines specially designed for long tail boats, the *GX160*, *GX200* and *GX390*. In addition, in China, Honda newly introduced *HRJ196* lawn mowers that are compact, lightweight and easy to use.

Unit sales in Asia, excluding Japan, increased 6.0% from the previous fiscal year, to 970 thousand units, as a result of expansion in sales of *WB20XT* pumps in Indonesia and increases in sales of general-purpose engine, *GX160* for OEM use in water pumps in China.

***Other Regions***

In Other Regions, unit sales rose 3.7% over the previous fiscal year, to 502 thousand units, as a result of higher unit sales in the Middle East of general-purpose engine, *GX390* for OEM use in construction machinery and generators, increased sales in South America of general-purpose engine, *GX* series, and other factors.

## **Table of Contents**

### **Financial Services Business**

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

In North America, the financial crisis had a severe impact on the economy, the deterioration in employment conditions, deterioration in consumer sentiment and other factors. As a result, the environment for financial services business remained under pressure.

Total amount of finance subsidiaries-receivables and property on operating leases of finance subsidiaries decreased by 2.2%, to ¥4,860.1 billion from the previous fiscal year, due mainly to the currency translation effects.

Revenue from external customers in a financial services business increased ¥48.7 billion, or 9.1%, to ¥582.2 billion from the previous fiscal year, due mainly to an increase in operating lease revenue, which was offset by negative foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, revenue for the year would have increased by approximately ¥124.7 billion, or 23.4%, compared to the increase as reported of ¥48.7 billion, which includes negative foreign currency translation effects.

Operating income decreased ¥37.1 billion, or 31.5%, to ¥80.6 billion from the previous fiscal year, due mainly to an increase in provisions for credit losses and losses on lease residual values in North America and negative foreign currency translation effects, which was offset by an increase in income attributable to higher revenue. In North America, prices of SUVs and minivans in the used car market dropped during the fiscal first half, and losses on lease residual values of these models increased. In addition, from September onward, losses on lease residual values of compact and mid-sized sedans and other passenger vehicles also increased. In addition, provisions for credit losses also increased as the ability of certain customers to pay their debts declined.

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

Information about credit losses and losses on lease residual values is provided at Item 5. Operating and Financial Review and Prospects A. Operating Results, Application of Critical Accounting Policies. Information about finance subsidiaries-receivables and securitizations is described in Note (2) to the accompanying consolidated financial statements.

### **Geographical Information**



*Japan*

In Japan, revenue from domestic and export sales decreased 726.4 billion, or 14.9%, to ¥4,162.5 billion from the previous fiscal year, due mainly to a decrease in revenue in automobile business. Operating loss was ¥161.6 billion, a decrease of ¥354.1 billion of operating income from previous fiscal year, due mainly to negative

## **Table of Contents**

foreign currency effects, a decrease in income attributable to the decreased revenue, increased raw material costs, an increase in fixed costs per unit as a result of reduced production and expenses related to withdrawal from some racing activities and cancellations of development of new models, which was offset by continuing cost reductions, decreased SG&A and R&D expenses.

### ***North America***

In North America, which mainly consists of the United States, revenue decreased ¥1,486.1 billion, or 23.7%, to ¥4,779.1 billion from the previous fiscal year, due mainly to negative foreign currency translation effects and a decrease in revenue in automobile business. Operating income decreased ¥352.9 billion, or 81.6%, to ¥79.7 billion from the previous fiscal year, due mainly to a decrease in income attributable to the decreased revenue, an increase in fixed costs per unit as a result of reduced production, negative foreign currency effects, and increased raw material costs, which was offset by continuing cost reductions and decreased SG&A expenses.

### ***Europe***

In Europe, revenue decreased ¥315.3 billion, or 19.8% to ¥1,278.9 billion from the previous fiscal year, due mainly to negative foreign currency translation effects and a decrease in revenue in the motorcycle business and automobile business. Operating income decreased ¥41.3 billion, or 80.2%, to ¥10.2 billion from the previous fiscal year, due mainly to a decrease in income attributable to the decreased revenue, increased SG&A expenses, an increase in fixed costs per unit as a result of reduced production and increased raw material costs, which was offset by continuing cost reductions.

### ***Asia***

In Asia, revenue decreased ¥30.0 billion, or 1.8% to ¥1,608.2 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was offset by increase in revenue in automobile business. Operating income decreased ¥27.1 billion, or 20.7%, to ¥103.6 billion from the previous fiscal year, due mainly to negative foreign currency effects, increased raw material costs and increased SG&A expenses.

### ***Other Regions***

In Other Regions, revenue increased ¥51.4 billion, or 4.7%, to ¥1,144.2 billion from the previous fiscal year, due mainly to an increase in revenue in all businesses, which was offset by a decrease in negative foreign currency translation effects. Operating income increased ¥18.5 billion, or 16.0%, to ¥135.0 billion from the previous fiscal year, due mainly to an increase in income attributable to an increase in revenue and continuing cost reductions, which was offset by increased SG&A expenses and increased raw material costs.

## **Application of Critical Accounting Policies**

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Critical accounting policies are those which require us to apply the most difficult, subjective or complex judgments, often requiring us to make estimates about the effect of matters that are inherently uncertain and which may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period would have had a material impact on the presentation of our financial condition and results of operations. A sustained loss of consumer confidence which may be caused by continued economic slowdown, recession, changes in consumer preferences, rising fuel prices, financial crisis or other factors have combined to increase the uncertainty inherent in such estimates and assumptions.

The following is not intended to be a comprehensive list of all our accounting policies. Our significant accounting policies are more fully described in Note (1) to the accompanying consolidated financial statements.

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

**Table of Contents****Product Warranty**

We warrant our products for specific periods of time.

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

We recognize costs for general warranties on products we sell and product recalls. We provide for estimated warranty costs at the time products are sold to customers or the time new warranty programs are initiated. Estimated warranty costs are provided based on historical warranty claim experience with consideration given to the expected level of future warranty costs, including current sales trends, the expected number of units to be affected and the estimated average repair cost per unit for warranty claims. Our products contain certain parts manufactured by third party suppliers. Since suppliers typically warrant these parts, the expected receivables from warranties of these suppliers are deducted from our estimates of accrued warranty obligations.

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

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

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

The changes in provisions for those product warranties and net sales and other operating revenue for each of the years in the three-year period ended March 31, 2010 are as follows:

|  | 2008         | Yen (millions)<br>2009 | 2010        |
|--|--------------|------------------------|-------------|
| Provisions for product warranties                                    |              |                        |             |
| Balance at beginning of year   | ¥ 317,103    | ¥ 293,760              | ¥ 233,979   |
| Warranty claims paid during the period                               | (137,591)    | (123,509)              | (86,886)    |
| Liabilities accrued for warranties issued during the period          | 136,355      | 79,576                 | 79,520      |
| Changes in liabilities for pre-existing warranties during the period | (1,476)      | 2,233                  | (3,571)     |
| Foreign currency translation   | (20,631)     | (18,081)               | 2,996       |
| Balance at end of year   | ¥ 293,760    | ¥ 233,979              | ¥ 226,038   |
| Net sales and other operating revenue                                | ¥ 12,002,834 | ¥ 10,011,241           | ¥ 8,579,174 |

**Credit Losses**

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

The majority of the credit risk is with consumer financing and to a lesser extent with dealer financing. Estimated losses on finance receivables due to customer or dealer defaults are recognized in the allowance for

**Table of Contents**

credit losses. Estimated losses on past due operating lease rental payments are also recognized in the allowance for credit losses. In the case of property on operating leases, estimated losses due to customer defaults are not recognized in the allowance for credit losses because a loss is realized on the disposition of the property. Therefore we present these losses as impairment losses on property on operating leases.

Our portfolio of customer finance receivables is collectively evaluated for credit losses. They are segmented into groups with common characteristics including product and collateral types, credit grades, and original loan terms. For each of these groups, we estimate losses primarily based on our historic loss experiences, delinquency rates, recovery rates, taking factors into consideration such as changing economic conditions and changes in operational policies and procedures. Our portfolio of dealer finance receivables is evaluated for the allowance for credit losses on an individual dealer basis. Similar to our portfolio of customer finance receivables, our portfolio of receivables on past due operating lease rental payments is collectively evaluated for the allowance for credit losses. Property on operating leases are also collectively evaluated for impairment losses to be realized upon early disposition.

We believe our allowance for credit losses and impairment losses on operating leases is a critical accounting estimate because it requires significant judgment about inherently uncertain items. We regularly review the adequacy of the allowance for credit losses and impairment losses on operating leases. The estimates are based on information available as of each reporting date. However actual losses may differ from the original estimates as a result of actual results varying from those assumed in our estimates.

As an example of the sensitivity of the allowance calculation, the following scenario demonstrates the impact that a deviation in one of the primary factors estimated as a part of our allowance calculation would have on the provision and allowance for credit losses. If we had experienced a 10% increase in net credit losses during fiscal 2010 in our North America portfolio, the provision for fiscal 2010 and the allowance balance at the end of fiscal 2010 would have increased by approximately ¥5.7 billion and ¥2.8 billion, respectively. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2010.

*Additional Narrative of the Change in Credit Loss*

The following tables summarize our allowance for credit losses on finance receivables and related information in our North American portfolio:

|  | Yen (billions)         |               |              |               |
|--|------------------------|---------------|--------------|---------------|
|  | Direct financing lease | Retail        | Wholesale    | Total         |
| <b>For the year ended March 31, 2008</b>             |                        |               |              |               |
| Provisions for credit losses                         |                        |               |              |               |
| Balance at beginning of year                         | ¥ 4.9                  | ¥ 23.7        | ¥ 0.0        | ¥ 28.7        |
| Provision  | 2.1                    | 42.7          | (0.0)        | 44.8          |
| Charge-offs (Net of recoveries)                      | (4.7)                  | (35.2)        | (0.0)        | (39.9)        |
| Change due to securitization activity                |                        | (0.5)         |              | (0.5)         |
| Adjustments from foreign currency translation        | (0.2)                  | (4.3)         | (0.0)        | (4.5)         |
| <b>Balance at end of year</b>                        | <b>¥ 2.1</b>           | <b>¥ 26.3</b> | <b>¥ 0.0</b> | <b>¥ 28.4</b> |
| Ending receivable balance                            | ¥ 1,019.5              | ¥ 2,522.2     | ¥ 348.5      | ¥ 3,890.4     |
| Average receivable balance, net                      | ¥ 1,371.1              | ¥ 2,616.0     | ¥ 329.7      | ¥ 4,317.0     |
| Net Charge-offs as a % of average receivable balance | 0.34%                  | 1.35%         | 0.00%        | 0.93%         |
| Allowance as a % of ending receivable balance        | 0.21%                  | 1.04%         | 0.01%        | 0.73%         |



**Table of Contents**

|  | Yen (billions)         |               |              |               |
|--|------------------------|---------------|--------------|---------------|
|  | Direct financing lease | Retail        | Wholesale    | Total         |
| <b>For the year ended March 31, 2009</b>             |                        |               |              |               |
| Provisions for credit losses                         |                        |               |              |               |
| Balance at beginning of year                         | ¥ 2.1                  | ¥ 26.3        | ¥ 0.0        | ¥ 28.4        |
| Provision  | 3.0                    | 45.9          | 0.8          | 49.7          |
| Charge-offs (Net of recoveries)                      | (3.7)                  | (40.3)        | (0.3)        | (44.4)        |
| Change due to securitization activity                |                        | (1.4)         |              | (1.4)         |
| Adjustments from foreign currency translation        | (0.1)                  | (0.7)         | (0.0)        | (0.9)         |
| <b>Balance at end of year</b>                        | <b>¥ 1.2</b>           | <b>¥ 29.7</b> | <b>¥ 0.4</b> | <b>¥ 31.4</b> |
| Ending receivable balance                            | ¥ 544.2                | ¥ 2,527.2     | ¥ 324.9      | ¥ 3,396.4     |
| Average receivable balance, net                      | ¥ 799.4                | ¥ 2,745.5     | ¥ 319.8      | ¥ 3,864.7     |
| Net Charge-offs as a % of average receivable balance | 0.47%                  | 1.47%         | 0.11%        | 1.15%         |
| Allowance as a % of ending receivable balance        | 0.23%                  | 1.18%         | 0.15%        | 0.93%         |

|  | Yen (billions)         |               |              |               |
|--|------------------------|---------------|--------------|---------------|
|  | Direct financing lease | Retail        | Wholesale    | Total         |
| <b>For the year ended March 31, 2010</b>             |                        |               |              |               |
| Provisions for credit losses                         |                        |               |              |               |
| Balance at beginning of year                         | ¥ 1.2                  | ¥ 29.7        | ¥ 0.4        | ¥ 31.4        |
| Provision  | 1.4                    | 25.7          | 0.1          | 27.3          |
| Charge-offs (Net of recoveries)                      | (1.6)                  | (27.0)        | (0.1)        | (28.8)        |
| Change due to securitization activity                |                        |               |              |               |
| Adjustments from foreign currency translation        | 0.1                    | (1.3)         | (0.0)        | (1.2)         |
| <b>Balance at end of year</b>                        | <b>¥ 1.1</b>           | <b>¥ 27.1</b> | <b>¥ 0.4</b> | <b>¥ 28.6</b> |
| Ending receivable balance                            | ¥ 372.9                | ¥ 2,547.1     | ¥ 292.1      | ¥ 3,212.2     |
| Average receivable balance, net                      | ¥ 417.7                | ¥ 2,490.5     | ¥ 274.1      | ¥ 3,182.4     |
| Net Charge-offs as a % of average receivable balance | 0.41%                  | 1.08%         | 0.06%        | 0.91%         |
| Allowance as a % of ending receivable balance        | 0.30%                  | 1.06%         | 0.15%        | 0.89%         |

The following table provides information related to losses on operating leases due to customer defaults:

|  | Yen (billions) |       |       |
|--|----------------|-------|-------|
|  | 2008           | 2009  | 2010  |
| Provision for credit losses on past due rental payments        | ¥ 0.6          | ¥ 2.0 | ¥ 1.9 |
| Impairment losses on operating leases due to early termination | ¥ 5.8          | ¥ 8.7 | ¥ 3.3 |

*Fiscal Year 2010 Compared with Fiscal Year 2009*

The provision for credit losses on finance receivables decreased by ¥22.4 billion, or 45%, and net charge-offs decreased by ¥15.5 billion, or 35%. Impairment losses on operating leases due to early termination decreased by ¥5.4 billion, or 62%. The declines in losses and delinquencies reflect the improvement in the overall credit quality of our North American portfolio as a result of stricter purchasing standards implemented in prior years, focused collection efforts, stabilization of the economy, and improvements in used vehicle prices.



*Fiscal Year 2009 Compared with Fiscal Year 2008*

The provision for credit losses increased by ¥4.9 billion, or 11%, reflecting the continued deterioration of the U.S. economy which negatively affected certain customers' ability to meet their contractual obligations despite the effect of exchange rate changes. Net charge-offs increased by ¥4.5 billion, or 11%. The ending allowance balance increased by ¥3.0 billion, or 11%, reflecting the higher estimate of losses incurred despite the effect of exchange rate changes.

## **Table of Contents**

Losses due to customer defaults on operating leases are not recognized in the provision for credit losses. These losses are recognized as a component of impairment losses on operating leases. Impairment losses recognized totaled ¥8.7 billion and ¥5.8 billion for fiscal years 2009 and 2008, respectively. Higher losses were due to the increasing volume of leases that are accounted for as operating leases.

### **Losses on Lease Residual Values**

Our finance subsidiaries in North America establish contract residual values of lease vehicles at lease inception based on expectations of future used vehicle values, taking into consideration external industry data. End-customers of leased vehicles typically have an option to buy the leased vehicle for the contractual residual value of the vehicle or to return the vehicle to our finance subsidiaries through the dealer at the end of the lease term. Likewise, dealers have the option to buy the vehicle returned by the customer or to return the vehicle to our finance subsidiaries. The likelihood that the leased vehicle will be purchased varies depending on the difference between the contractual residual value and the actual market value of the vehicle at the end of the lease term. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values at the end of the lease term. For direct financing leases, our finance subsidiaries in North America purchase insurance to cover a portion of the estimated residual value.

Our finance subsidiaries in North America have historically accounted for all leases as direct financing leases. However, starting in the fiscal year ended March 31, 2007, some of the leases which do not qualify for direct financing leases accounting treatment are accounted for as operating leases.

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

For vehicle leases accounted for as direct financing leases, downward adjustments are made for declines in estimated residual values that are deemed to be other-than-temporary. The adjustments on the uninsured portion of the vehicle's residual value are recognized as a loss in the period in which the estimate changed.

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

We also test our operating leases for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable.

Recoverability of operating leases to be held is measured by a comparison of the carrying amount of operating leases to future net cash flows (undiscounted and without interest charges) expected to be generated by the operating leases. If such operating leases are considered to be impaired, impairment losses to be recognized is measured by the amount by which the carrying amount of the operating leases exceeds the estimated fair value of the operating leases.

We believe that our estimated losses on lease residual values and impairment losses is a critical accounting estimate because it is highly susceptible to market volatility and requires us to make assumptions about future economic trends and lease residual values, which are inherently uncertain. We believe that the assumptions used are appropriate. However actual losses incurred may differ from original estimates as a result of actual results varying from those assumed in our estimates.

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**Table of Contents**

If future auction values for all Honda and Acura vehicles in our North American operating lease portfolio as of March 31, 2010, were to decrease by approximately ¥10,000 per unit from our present estimates, holding all other assumption constant, the total impact would be an increase in depreciation expense by approximately ¥2.3 billion, which would be recognized over the remaining lease terms. Similarly, if future return rates for our existing portfolio of all Honda and Acura vehicles were to increase by one percentage point from our present estimates, the total impact would be an increase in depreciation expense by approximately ¥ 0.5 billion, which would be recognized over the remaining lease terms. With the same prerequisites shown above, the impacts to the direct financing lease portfolio would be an increase in losses on lease residual values by approximately ¥ 0.3 billion and ¥ 0.2 billion. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2010. Also, declines in auction values are likely to have a negative effect on return rates which could affect the sensitivities.

*Fiscal Year 2010 Compared with Fiscal Year 2009*

During fiscal year 2010, used vehicle prices recovered from the severe declines that were experienced in prior years. The improvement in prices was attributable in part to lower used vehicle supplies and stabilization in the economy during the year. No impairment losses as a result of declines in estimated residual values were recognized during fiscal year 2010.

Incremental depreciation on operating leases due to the declines in estimated residual values increased by ¥0.6 billion, or 5%. Losses on lease residual values declined by ¥15.8 billion, or 69%, primarily due to the declines in direct financing leases.

*Fiscal Year 2009 Compared with Fiscal Year 2008*

Despite a declining portfolio of direct financing leases and the effect of exchange rate changes, losses on lease residual values increased by ¥11.1 billion or 94% as a result of the declines in used vehicle prices. Despite the effect of exchange rate changes, incremental depreciation increased by ¥11.6 billion or 545% due to the increase in operating lease assets and declines in estimated residual values.

As a result of declines in estimated residual values, certain operating lease assets met impairment conditions and impairment losses of ¥9.7 billion were recognized during the year.

**Pension and Other Postretirement Benefits**

We have various pension plans covering substantially all of our employees in Japan and certain employees in foreign countries. Benefit obligations and pension costs are based on assumptions of many factors, including the discount rate, the rate of salary increase and the expected long-term rate of return on plan assets. The discount rate is determined mainly based on the rates of high quality corporate bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. The salary increase assumptions reflect our actual experience as well as near-term outlook. Honda determines the expected long-term rate of return based on the investment policies. Honda considers the eligible investment assets under investment policies, historical experience, expected long-term rate of return under the investing environment, and the long-term target allocations of the various asset categories. Our assumed discount rate and rate of salary increase as of March 31, 2010 were 2.0% and 2.3%, respectively, and our assumed expected long-term rate of return for the year ended March 31, 2010 was 3.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2010 were 5.6-6.5% and 1.5-5.3%, respectively, and our assumed expected long-term rate of return for fiscal 2010 was 6.5-8.0% for foreign plans.

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

**Table of Contents**

Actual results may differ from our assumptions, and the difference is accumulated and amortized over future periods. Therefore, the difference generally will be reflected as our recognized expenses in future periods. We believe that the assumptions currently used are appropriate, however, differences in actual expenses or changes in assumptions could affect our pension costs and obligations, including our cash requirements to fund such obligations.

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

**Japanese Plans**

| Assumptions                       | Yen (billions)      |             |             |           |
|-----------------------------------|---------------------|-------------|-------------|-----------|
|                                   | Percentage          | Funded      | Equity      | Pension   |
|                                   | Point<br>Change (%) | status      |             | expense   |
| Discount rate                     | +0.5/-0.5           | -84.9/+95.7 | +36.9/-47.7 | -4.0/+4.2 |
| Expected long-term rate of return | +0.5/-0.5           |             |             | -3.7/+3.7 |

**Foreign Plans**

| Assumptions                       | Yen (billions)      |             |             |           |
|-----------------------------------|---------------------|-------------|-------------|-----------|
|                                   | Percentage          | Funded      | Equity      | Pension   |
|                                   | Point<br>Change (%) | status      |             | expense   |
| Discount rate                     | +0.5/-0.5           | -31.0/+34.2 | +18.5/-20.2 | -3.0/+3.3 |
| Expected long-term rate of return | +0.5/-0.5           |             |             | -1.8/+1.8 |

(\*1) Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions at March 31, 2010.

(\*2) Funded status for fiscal 2010 is affected by March 31, 2010 assumptions.  
Pension expense for fiscal 2010 is affected by March 31, 2009 assumptions.

**Income Taxes**

Honda adopted the provision of Financial Accounting Standards Board (FASB) Interpretation (FIN) No.48, Accounting for Uncertainty in Income Taxes which is now codified in the FASB Accounting Standards Codification (ASC) 740 Income Taxes on April 1, 2007. Honda is subject to income tax examinations in many tax jurisdictions because Honda conducts its operations in various regions of the world. We recognize the tax benefit from an uncertain tax position based on the technical merits of the position when the position is more likely than not to be sustained upon examination. Benefits from tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is greater than 50% likelihood of being realized upon ultimate resolution. We performed a comprehensive review of any uncertain tax positions in accordance with this statement.

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

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

## **Table of Contents**

### **New Accounting Pronouncements**

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13 Multiple Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force, which will amend the FASB Accounting Standards Codification (ASC) 605 Revenue Recognition for arrangements with multiple deliverables to allow vendors to account for products and services separately rather than as a combined unit. This standard requires allocation of the overall consideration to each deliverable in an arrangement with multiple deliverables using the estimated selling price in the absence of vendor-specific objective evidence or third-party evidence of selling price for deliverables and eliminate residual method of allocation. This standard is effective as of an entity's fiscal year beginning after June 15, 2010. Management is currently evaluating the impact of this standard on the Company's consolidated financial position or results of operations.

### *B. Liquidity and Capital Resources*

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

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

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

Honda requires operating capital mainly to purchase parts and raw materials required for production, as well as to maintain inventory of finished products and cover receivables from dealers and for providing financial services. Honda also requires funds for capital expenditures, mainly to introduce new models, upgrade, rationalize and renew production facilities, as well as to expand and reinforce sales and R&D facilities.

Honda meets its operating capital requirements primarily through cash generated by operations, bank loans and the issuance of corporate bonds. The year-end balance of liabilities associated with the Company and its subsidiaries' funding for non-financial services businesses was ¥410.3 billion as of March 31, 2010. In addition, the Company's finance subsidiaries fund financial programs for customers and dealers primarily from medium-term notes, commercial paper, corporate bonds, bank loans, securitization of finance receivables and intercompany loans. The year-end balance of liabilities associated with these finance subsidiaries' funding for financial services business was ¥4,243.7 billion as of March 31, 2010.

#### **Cash Flows**

Consolidated cash and cash equivalents for the year ended March 31, 2010 increased by ¥429.5 billion from March 31, 2009, to ¥1,119.9 billion. The reasons for the increases or decreases for each cash flow activity are as follows:



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Net cash provided by operating activities amounted to ¥1,544.2 billion of cash inflows. Cash inflows from operating activities increased by ¥1,160.5 billion compared with the previous fiscal year, due mainly to decreased payments for parts and raw materials primarily due to a decrease in automobile production and decreased payments for operating expenses, which was partially offset by a decrease in cash received from customers, primarily due to lower unit sales in the automobile business.

Net cash used in investing activities amounted to ¥595.7 billion of cash outflows, due mainly to the acquisitions of finance subsidiaries-receivables, the purchase of operating lease assets and capital expenditures, which was partially offset by collections of finance subsidiaries-receivables and proceeds from sales of operating lease assets. Cash outflows from investing activities decreased by ¥537.6 billion compared with the previous fiscal year, due mainly to a decrease in acquisitions of finance subsidiaries-receivables, capital expenditures and purchases of operating lease assets, which was partially offset by a decrease in collections of finance subsidiaries-receivables and proceeds from sales of finance subsidiaries-receivables.

**Table of Contents**

Net cash used in financing activities amounted to ¥559.2 billion of cash outflows, due mainly to repayments of long-term debts, a decrease in short-term debt and dividends paid, which was partially offset by proceeds from long-term debt. Cash outflows from financing activities increased by ¥1,090.1 billion compared with the previous fiscal year, due mainly to a decrease in short-term debt.

**Liquidity**

The ¥1,119.9 billion in cash and cash equivalents at the end of the fiscal 2010 year corresponds to approximately 1.6 months of net sales, and Honda believes it has sufficient liquidity for its business operations.

At the same time, Honda is aware of the possibility that various factors, such as recession-induced market contraction and financial and foreign exchange market volatility, may adversely affect liquidity. For this reason, finance subsidiaries that carry total short-term borrowings of ¥1,385.0 billion have committed lines of credit equivalent to ¥859.9 billion that serve as alternative liquidity for the commercial paper issued regularly to replace debt. Honda believes it currently has sufficient credit limits, extended by prominent international banks, as of the date of the filing of Honda's form 20-F.

Honda's short- and long-term debt securities are rated by credit rating agencies, such as Moody's Investors Service, Inc., Standard & Poor's Rating Services, and Rating and Investment Information, Inc. The following table shows the ratings of Honda's unsecured debt securities by Moody's, Standard & Poor's and Rating and Investment Information as of March 31, 2010.

|                                   | Credit ratings for                      |  |
|-----------------------------------|---|--|
|                                   | Short-term<br>unsecured debt securities | Long-term<br>unsecured debt securities |
| Moody's Investors Service         | P-1                                     | A1                                     |
| Standard & Poor's Rating Services | A-1                                     | A+                                     |
| Rating and Investment Information | a-1+                                    | AA                                     |

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

**C. Research and Development**

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

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Total consolidated R&D expenses for the year ended March 31, 2010 amounted to ¥463.3 billion. Total consolidated R&D expenses for the year ended March 31, 2009 amounted to ¥563.1 billion.

### **Motorcycle Business**

In the motorcycle business, Honda is committed to developing products with new value-added features that meet the needs of customers around the world and to implementing the timely local development of products suited to specific regions at its overseas locations. Along with these activities, we are focusing on developing technologies that address safety and environmental issues.

## **Table of Contents**

Major developments in Japan in fiscal 2010 included the development of the world's first dual clutch transmission that converts a multispeed motorcycle transmission to fully automatic operation and gives both sportier riding performance and better fuel economy. In addition, in Japan and North America, by separating the swinger arm and final gear and adopting the Honda original floating final gear, which is the first of its kind in the world, we were able to launch the *VT1300CX* large cruiser model motorcycle (sold under the name *Fury* in North America). This new model takes the combination of stable driving performance and a beautiful design to new heights. Also, in Japan as well as North America, Europe, Oceania, and elsewhere, we launched the *VFR1200F* large sports tourer motorcycle incorporating a throttle-by-wire system, which is optimal for a wide range of driving scenes, equipped for the first time on Honda motorcycles with a newly developed, fully electronically operated throttle valve. In addition, in Japan and Thailand, we introduced the 125cc class *PCX* scooter, which is the first of its kind in the world to incorporate an ACG starter that offers a quieter engine start-up. The *PCX* scooter is also the first domestic scooter in its class to have an idling stop system that automatically cuts off the engine temporarily when stopping at traffic signals and in other situations. Additionally, in Thailand, we developed a new-type CV-matic automatic transmission, which can be combined with *Cub*-type engines, and installed it on the newly launched *WAVE 100iAT* cub-type bike.

R&D expenses in this segment in fiscal 2010 were ¥64.7 billion. R&D expenses in this segment in fiscal 2009 were ¥85.5 billion, which reflects a correction from the amount previously disclosed. No revisions have been made to the prior year's consolidated financial statements or to the notes thereto.

## **Automobile Business**

In the Automobile Business segment, we have substantially strengthened our drive to develop innovative and creative technologies as well as offer products with new value-added that exceed the expectations of our customers. We are also actively developing technologies that provide advanced safety performance and address environmental issues.

Major achievements in Japan during fiscal 2010 included a full model change on the *STEPWGN*. The new model lineup provides the largest possible interior space in the 2,000cc-or-lower five series number plate as well as greatly improved flexibility through the inclusion of a space for folding and storing the third row of seats under the floor, the first time for this feature to be made available on this vehicle class. The *STEPWGN* also delivers the top fuel economy performance in its class. We also made a full model change in the *ACTY* truck, improving its turning ratio and cornering performance. The new *ACTY* model features a bigger cabin, is easier to mount and dismount, and gives a more comfortable ride. We have also expanded the use of galvanized sheet iron in the new *ACTY*'s design to improve the vehicle's resistance to corrosion. Also, we introduced a new sports-type hybrid car, the *CR-Z*, which combines the fun of driving with top-class fuel economy. The *CR-Z* is the first hybrid car in the world to offer a six-speed manual transmission, and it combines Honda's 1.5-liter *i-VTEC* engine with Honda's original integrated motor assist (IMA) hybrid system. The *CR-Z* offers a three-mode driving system to suit driver preferences and meet the needs of a broad range of driving scenes and styles. Moreover, in North America, we newly launched the *Accord Crosstour*, which combines excellent fuel economy through incorporation of variable cylinder management and a high degree of utility in use. We also introduced the *Acura ZDX*, which offers both our newly developed, six-speed automatic transmission for a powerful ride and top-class fuel economy.

R&D expenses in this segment in fiscal 2010 were ¥369.3 billion. R&D expenses in this segment in fiscal 2009 were ¥445.7 billion, which reflects a correction from the amount previously disclosed. No revisions have been made to the prior year's consolidated financial statements or to the notes thereto.

## **Power Product and Other Businesses**

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

## **Table of Contents**

Principal developments in this segment in Japan included the announcement of our *enepoEU9iGB* electric generators, which are powered by household LPG butane gas canisters. This fuel input method makes it easier for users to purchase fuel and use these generators as well as store the generator units for long periods without being concerned about fuel clogging. These generators also have large wheels, which make them easier to move, as well as fold-up handles, making them easier to put away and store. Also in Japan, we introduced the *UMR425* backpack-style brush cutter, which retains the ease of use on slopes and in narrow spaces of portable brush cutters but helps to reduce accidents in farming work by allowing the immediate release of the device's belt at the touch of a button. In addition, we implemented the global launch of the *EU26i* handy electric power generator. This generator is based on Honda's original sine-wave inverter technology and supplies electricity comparable in quality and reliability to commercially-generated power, but is also light, compact and relatively quiet (This product is sold under the name *EU3000iHandy* in North America and in other areas as the *EU30i*).

R&D expenses in this segment in fiscal 2010 were ¥29.2 billion. R&D expenses in this segment in fiscal 2009 were ¥31.9 billion, which reflects a correction from the amount previously disclosed. No revisions have been made to the prior year's consolidated financial statements or to the notes thereto.

## **Fundamental Research**

In fundamental research, Honda is pursuing steady and broad-ranging research activities into technologies that may lead to the development of innovative, future products.

Principal fundamental research initiatives include the public announcement of the *U3-X* test-model, personal mobility unit. This compact, one-wheel personal mobility device combines the balance control technology developed for Honda's *ASIMO* bipedal humanoid robot with the Honda *Omni Traction Drive System*, which is the first device of its kind in the world that can move not only back and forth but also right and left as well as at any angle. Looking ahead, we will continue R&D in this area, including the verification of the device in practical situations. In addition, Honda has announced success in synthesizing high-purity metal carbon nanotube compounds through joint research conducted by Honda Research Institute USA, Inc., Purdue University (in Indiana) and the University of Louisville (in Kentucky). This breakthrough is expected to open up new possibilities for the development of high-performance, high-efficiency, compact materials and compound materials that will find application in energy storage, solar batteries, fuel cells, power transmission systems, automobiles, aircraft, and other areas. We are moving ahead with R&D to make commercial use of these carbon nanotube compounds possible.

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

## ***Patents and Licenses***

At March 31, 2010, Honda owned more than 14,800 patents in Japan and more than 22,900 patents abroad. Honda also had applications pending for more than 16,500 patents in Japan and for more than 17,800 patents abroad. While Honda considers that, in the aggregate, Honda's patents are important, it does not consider any one of such patents, or any related group of them, to be of such importance that the expiration or termination thereof would materially affect Honda's business.

## ***D. Trend Information***

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

*E. Off-Balance Sheet Arrangements*

(Securitization)

For the purpose of accelerating the receipt of cash related to our finance receivables, our finance subsidiaries periodically securitize and sell pools of these receivables. In these securitizations, our finance subsidiaries sell a portfolio of finance receivables to a special purpose entity, which is established for the limited

**Table of Contents**

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

We have not historically consolidated trusts since these trusts meet the definitions of a qualifying special purpose entity (QSPE). The trusts which were structured in North America in the fiscal year ended March 31, 2010 did not meet the conditions to be a QSPE. In addition, we deemed that the total equity investments of these trusts at risk were not sufficient to finance their activities without additional subordinated financial support provided by our finance subsidiaries. Accordingly we recognized these trusts as VIEs. Furthermore, as the finance subsidiaries retain certain subordinated interests of these trusts and it is expected that we would absorb the majority of the expected losses of these trusts, we have consolidated these trusts. Information about finance subsidiaries-receivables and securitizations is described in Note (2), information about variable interest entities is described in Note (3) to the accompanying consolidated financial statements.

(Guarantee)

At March 31, 2010, we guaranteed ¥31.7 billion of employee bank loans for their housing costs. If an employee defaults on his/her loan payments, we are required to perform under the guarantee. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is ¥31.7 billion. As of March 31, 2010, no amount was accrued for any estimated losses under the obligations, as it was probable that the employees would be able to make all scheduled payments.

*F. Tabular Disclosure of Contractual Obligations*

The following table shows our contractual obligations at March 31, 2010:

*Contractual Obligations*

|   | At March 31, 2010<br>Yen(millions) |                        |              |              |                  |
|---|------------------------------------|------------------------|--------------|--------------|------------------|
|   | Total                              | Payments due by period |              |              |                  |
|   |                                    | Less than<br>1 year    | 1-3<br>years | 3-5<br>years | After<br>5 years |
| Long-term debt                                    | 3,035,331                          | 722,296                | 1,496,585    | 730,820      | 85,630           |
| Operating leases                                  | 117,027                            | 22,556                 | 28,892       | 17,362       | 48,217           |
| Purchase commitments *1                           | 47,436                             | 47,436                 |              |              |                  |
| Interest payments *2                              | 337,573                            | 146,794                | 155,062      | 33,597       | 2,120            |
| Contributions to defined benefit pension plans *3 | 81,544                             | 81,544                 |              |              |                  |
| Total   | 3,618,911                          | 1,020,626              | 1,680,539    | 781,779      | 135,967          |



\* 1 Honda had commitments for purchases of property, plant and equipment at March 31, 2010.

\*2 To estimate the schedule of interest payments, the company utilized the balances and average interest rates of borrowings and debts and derivative instruments as of March 31, 2010.

\*3 Since contributions beyond the next fiscal year are not currently determinable, contributions to defined benefit pension plans reflect only contributions expected for the next fiscal year.

## **Table of Contents**

If our estimates of unrecognized tax benefits and potential tax benefits are not representative of actual outcomes, our consolidated financial statements could be materially affected in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. Since it is difficult to estimate actual payment in the future related to our uncertain tax positions, unrecognized tax benefit totaled ¥109,473 million is not represented in the table above.

At March 31, 2010, we had no material capital lease obligations or long-term liabilities reflected on our balance sheet under U.S. GAAP other than those set forth in the table above.

### *G. Safe Harbor*

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

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

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

### *A. Directors and Senior Management*

Honda's articles of incorporation provide for a Board of Directors of not more than 30 Directors and for a Board of Corporate Auditors of not more than seven Corporate Auditors. Directors and Corporate Auditors are elected by resolutions of the general meetings of shareholders. The Corporate Auditors are nominated by the Board of Directors as candidates for election with approval by the Board of Corporate Auditors. The normal term of office of a Director is one year and that of a Corporate Auditor is four years. Directors and Corporate Auditors may serve any number of consecutive terms.

The Board of Directors appoints one President and Director and may appoint one Chairman of the Board of Directors and several Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors from among its members. The President represents the Company. In addition, the Board of Directors may appoint, pursuant to its resolutions, Directors who shall each represent the Company. Under the Company Law of Japan, a representative director individually has authority to represent the Company generally in the conduct of its affairs. The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company.

Under the Company Law, the Corporate Auditors of the Company have the duty to audit the Director's execution of their duties. Corporate Auditors are not required to be, and the Corporate Auditors of the Company are not, certified public accountants, and may not at the same time be Directors or employees of the Company or any of its subsidiaries. They are entitled to participate in meetings of the Board of Directors but

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are not entitled to vote. Corporate Auditors of the Company form the Board of Corporate Auditors, which must consist of at least three Corporate Auditors. Not less than half of the members of the Board of Corporate Auditors must be outside Corporate Auditors, each of whom has never served as a director, accounting councilor, operating officer, manager or employee of the Company or any of its subsidiaries. Corporate Auditors are required to elect from among themselves at least one Standing Corporate Auditor. Corporate Auditors also have a statutory duty to provide their report to the Board of Corporate Auditors, which must submit its audit report to the Representative Director each year. A Corporate Auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The Board of Corporate Auditors is empowered to

**Table of Contents**

establish audit principles, methods of investigation by Corporate Auditors of the status of the corporate affairs, and assets of the Company and other matters concerning the performance of the Corporate Auditors' duties. In addition, the Company is required to appoint independent certified public accountants as accounting auditor. Such independent certified public accountants have as their primary statutory duties to audit the consolidated and non-consolidated financial statements of the Company prepared in accordance with the Company Law to be submitted by the Representative Director to general meetings of shareholders and to prepare an accounting audit report thereon and to notify the contents of such report to the specified Corporate Auditor and the specified Director in charge.

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

| Name<br><br>(Date of birth)                  | Current Positions and Biographies with Registrant  | Term | Number of<br>Shares Owned |
|--|--|------|---------------------------|
| <b>Representative Directors</b>              |  |      |                           |
| <b>Takanobu Ito</b><br><br>(August 29, 1953) | Director of the Company from June 2000<br><br>President and Director of the Company,<br><br>appointed in June 2009<br><br>President and Director of Honda R&D Co., Ltd.,<br><br>appointed in April 2009<br><br>Senior Managing Director of the Company,<br><br>appointed in June 2007<br><br>Chief Operating Officer for Automobile Operations,<br><br>appointed in April 2007<br><br>Managing Officer of the Company,<br><br>appointed in June 2005<br><br>General Manager of Suzuka Factory of Production Operations,<br><br>appointed in April 2005 | *3   | 12,900                    |

General Supervisor, Motor Sports,

appointed in April 2004

Managing Director of the Company,

appointed in June 2003

Motor Sports,

appointed in June 2003

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

appointed in June 2003

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

appointed in June 2001

Director of the Company,

appointed in June 2000

Executive Vice President of Honda R&D Americas, Inc.,

appointed in April 1998

Joined Honda in April 1978

**Table of Contents**

| Name  | Current Positions and Biographies with Registrant   | Term | Number of Shares Owned |
|---|---|------|------------------------|
| <p><b>Koichi Kondo</b><br/><br/>(February 13, 1947)</p> | <p>Director of the Company from June 1997</p> <p>Compliance Officer,<br/>appointed in April 2010 (presently held)</p> <p>Government &amp; Industrial Affairs,<br/>appointed in April 2010 (presently held)</p> <p>Executive Vice President and Director of the Company,<br/>appointed in June 2007</p> <p>Chief Operating Officer for Regional Sales Operations (Japan),<br/>appointed in April 2007</p> <p>Chairman and Director of American Honda Motor Co., Inc.,<br/>appointed in April 2007</p> <p>Senior Managing Director of the Company,<br/>appointed in June 2005</p> <p>President and Director of Honda North America, Inc.,<br/>appointed in April 2005</p> <p>Chief Operating Officer for Regional Operations<br/>(North America),<br/>appointed in April 2004</p> | *3   | 16,900                 |

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

appointed in June 2003

Executive Vice President and Director of

American Honda Motor Co., Inc.,

appointed in April 2003

Managing Director of the Company,

appointed in June 2002

Chief Operating Officer for Regional Operations

(Latin America),

appointed in April 2000

Director of the Company,

appointed in June 1997

President and Director of Honda Motor do Brasil Ltda.

(presently Honda South America Ltda.),

appointed in June 1996

President and Director of Moto Honda da Amazonia Ltda.,

appointed in June 1996

President and Director of Honda Automoveis do Brasil Ltda.,

appointed in June 1996

Joined Honda in April 1970





**Table of Contents**

| Name                  | Current Positions and Biographies with Registrant   | Term | Number of Shares Owned |
|-----------------------|---|------|------------------------|
| (Date of birth)       |   |      |                        |
| <b>Directors</b>      |   |      |                        |
| <b>Shigeru Takagi</b> | Director of the Company from June 1998  | *3   | 16,200                 |
| (February 4, 1952)    | Senior Managing Director of the Company,<br>appointed in June 2008  |      |                        |
|                       | Managing Director of the Company,<br>appointed in June 2004   |      |                        |
|                       | Chief Operating Officer for Regional Operations<br>(Europe, the Middle & Near East and Africa),<br>appointed in April 2004 (presently held) |      |                        |
|                       | President and Director of Honda Motor Europe Limited,<br>appointed in April 2004 (presently held)   |      |                        |
|                       | President and Director of Honda Canada Inc.,<br>appointed in June 1998  |      |                        |
|                       | Director of the Company,<br>appointed in June 1998  |      |                        |
|                       | Joined Honda in April 1974  |      |                        |
| <b>Akio Hamada</b>    | Director of the Company from June 1999  | *3   | 12,600                 |
| (December 2, 1948)    | General Supervisor, Quality,  |      |                        |

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appointed in April 2009 (presently held)

Senior Managing Director of the Company,

appointed in June 2008

Chief Operating Officer for Production Operations,

appointed in April 2008 (presently held)

Risk Management Officer,

appointed in April 2008 (presently held)

General Supervisor, Information Systems,

appointed in April 2008 (presently held)

Managing Officer of the Company,

appointed in June 2005

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

appointed in April 2005

President and Director of Honda Engineering Co., Ltd.,

appointed in June 2001

Director of the Company,

appointed in June 1999

Stationed at Honda Canada Inc. in June 1998

Joined Honda in April 1971



**Table of Contents**

| Name  | Current Positions and Biographies with Registrant  | Term | Number of Shares Owned |
|---|--|------|------------------------|
| <p data-bbox="169 317 300 342">(Date of birth)</p> <p data-bbox="92 344 264 369"><b>Tetsuo Iwamura</b></p> <p data-bbox="92 407 245 432">(May 30, 1951)</p> | <p data-bbox="429 344 831 369">Director of the Company from June 2000</p> <p data-bbox="429 470 852 558">Senior Managing Director of the Company,<br/>appointed in June 2008</p> <p data-bbox="429 659 903 810">Chief Operating Officer for Regional Operations<br/>(North America),<br/>appointed in April 2007 (presently held)</p> <p data-bbox="429 911 951 999">President and Director of Honda North America, Inc.,<br/>appointed in April 2007 (presently held)</p> <p data-bbox="429 1100 1007 1188">President and Director of American Honda Motor Co., Inc.,<br/>appointed in April 2007 (presently held)</p> <p data-bbox="429 1289 783 1377">Managing Director of the Company,<br/>appointed in June 2006</p> <p data-bbox="429 1478 903 1629">Chief Operating Officer for Regional Operations<br/>(Latin America),<br/>appointed in April 2003</p> <p data-bbox="429 1730 959 1818">President and Director of Honda South America Ltda.,<br/>appointed in April 2003</p> <p data-bbox="429 1919 999 1936">President and Director of Moto Honda da Amazonia Ltda.,</p> | *3   | 13,800                 |

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appointed in April 2003

President and Director of Honda Automoveis do Brasil Ltda.,

appointed in April 2003

Director of the Company,

appointed in June 2000

Chief Operating Officer for Parts Operations,

appointed in April 2000

Joined Honda in April 1978

**Tatsuhiko Oyama**

Director of the Company from June 2001

\*3

16,300

(July 9, 1950)

Senior Managing Director of the Company,

appointed in June 2010

Chief Officer of Driving Safety Promotion Center,

appointed in April 2010 (presently held)

Chief Operating Officer for Motorcycle Operations,

appointed in April 2008 (presently held)

Managing Director of the Company,

appointed in June 2006

Chief Operating Officer for Regional Operations

(Asia & Oceania),

appointed in April 2006

President and Director of Asian Honda Motor Co., Ltd.,  
appointed in April 2006

**Table of Contents**

| Name                | (Date of birth) | Current Positions and Biographies with Registrant  | Term | Number of Shares Owned |
|---------------------|-----------------|--|------|------------------------|
|                     |                 | <p>Chief Operating Officer for Parts Operations,<br/>appointed in April 2003</p> <p>President and Director of Honda Motorcycle Japan Co., Ltd.,<br/>appointed in August 2001</p> <p>Director of the Company,<br/>appointed in June 2001</p> <p>General Manager of Motorcycle Sales Division for Regional Sales Operations (Japan),<br/>appointed in April 2001</p> <p>Joined Honda in April 1969</p> |      |                        |
| <b>Fumihiko Ike</b> | (May 26, 1952)  | <p>Director of the Company from June 2003</p> <p>Chief Operating Officer for Regional Operations (Asia &amp; Oceania),<br/>appointed in April 2008 (presently held)</p> <p>President and Director of Asian Honda Motor Co., Ltd.,<br/>appointed in April 2008 (presently held)</p> <p>Managing Director of the Company,<br/>appointed in June 2007</p>   | *3   | 15,100                 |

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Chief Operating Officer for Business Management Operations,

appointed in April 2006

Director of the Company,

appointed in June 2003

Chief Operating Officer for Power Product Operations,

appointed in April 2003

Joined Honda in February 1982

**Masaya Yamashita**

Director of the Company from June 2003

\*3

12,600

(April 5, 1953)

Managing Director of the Company,

appointed in June 2008

Chief Operating Officer for Purchasing Operations,

appointed in April 2008 (presently held)

General Manager of Kumamoto Factory of Production Operations,

appointed in April 2006

Operating Officer of the Company,

appointed in June 2005

Director of the Company,

appointed in June 2003

General Manager of Automobile Purchasing Division 1 in Purchasing Operations,

appointed in April 2002



Joined Honda in April 1977

65

**Table of Contents**

| Name  | Current Positions and Biographies with Registrant  | Term | Number of Shares Owned |
|---|--|------|------------------------|
| <b>Tomohiko Kawanabe</b><br><br>(Date of birth)<br>(May 17, 1952) | Director of the Company from June 2010<br><br>Managing Director of the Company,<br>appointed in June 2010<br><br>President and Director of Honda R&D Co., Ltd.,<br>appointed in April 2010 (presently held)<br><br>Senior Managing Director of Honda R&D Co., Ltd.,<br>appointed in June 2005<br><br>Managing Director of Honda R&D Co., Ltd.,<br>appointed in June 2002<br><br>Joined Honda in April 1977 | *3   | 7,400                  |
| <b>Kensaku Hogen</b><br><br>(August 2, 1941)                      | Director of the Company from June 2005<br><br>Director of the Company,<br>appointed in June 2005<br><br>Ambassador to Canada,<br>appointed in April 2001   | *3   | 800                    |
| <b>Nobuo Kuroyanagi</b><br><br>(December 18, 1941)                | Director of the Company from June 2009<br><br>Director of Mitsubishi UFJ Financial Group, Inc. (MUFG),<br>appointed in April 2010 (presently held)   | *3   | 300                    |

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Director of the Company,

appointed in June 2009

Chairman of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU),

appointed in April 2008 (presently held)

President and CEO of MUFG,

appointed in October 2005

**Takeo Fukui**

Director of the Company from June 1988

\*3

31,900

(November 28, 1944)

Director and Advisor of the Company,

appointed in June 2009

President and Director of the Company,

appointed in June 2003

Motor Sports,

appointed in June 1999

Senior Managing Director of the Company,

appointed in June 1999

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

appointed in June 1998

Managing Director of the Company,

appointed in June 1996

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

appointed in June 1996

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

appointed in June 1994

**Table of Contents**

| Name                     | Current Positions and Biographies with Registrant   | Term | Number of Shares Owned |
|--------------------------|---|------|------------------------|
| (Date of birth)          | Senior Managing Director of Honda R&D Co., Ltd.,<br>appointed in June 1990  |      |                        |
|                          | Director of the Company,<br>appointed in June 1988  |      |                        |
|                          | President and Director of Honda Racing Corporation,<br>appointed in May 1987  |      |                        |
|                          | Managing Director of Honda R&D Co., Ltd.,<br>appointed in May 1987  |      |                        |
|                          | Joined Honda in April 1969  |      |                        |
| <b>Hiroshi Kobayashi</b> | Director of the Company from June 2009  | *3   | 16,100                 |
| (November 12, 1954)      | Director of the Company,<br>appointed in June 2009  |      |                        |
|                          | Chief Operating Officer for Regional Sales Operations (Japan),<br>appointed in April 2009 (presently held)  |      |                        |
|                          | Deputy Chief Operating officer for Regional Sales Operations (Japan); General Manager of Automobile Sales Operations for Regional Sales Operations (Japan); General Manager of Aftermarket Operations in Regional Sales Operations (Japan); General Manager of ASIMO Business Office in Regional Sales Operations (Japan),<br>appointed in April 2008 |      |                        |

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Operating Officer of the Company,

appointed in June 2005

President and Director of Honda Canada Inc.,

appointed in April 2004

Director of the Company,

appointed in June 2003

Executive Vice President and Director of Honda Motor Europe Limited,

appointed in April 2003

Joined Honda in April 1978

Director of the Company from June 2007

\*3

14,400

**Sho Minekawa**

(October 27, 1954)

Director of the Company,

appointed in June 2007

Chief Operating Officer for Regional Operations

(Latin America),

appointed in April 2007 (presently held)

President and Director of Honda South America Ltda.,

appointed in April 2007 (presently held)

President and Director of Moto Honda da Amazonia Ltda.,

appointed in April 2007 (presently held)

**Table of Contents**

| Name  | (Date of birth)      | Current Positions and Biographies with Registrant                    | Term | Number of Shares Owned |
|---|----------------------|--|------|------------------------|
| President and Director of Honda Automoveis do Brasil Ltda., |                      | appointed in April 2007 (presently held)                             |      |                        |
| Operating Officer of the Company,                           |                      | appointed in June 2005   |      |                        |
| Director of the Company,                                    |                      | appointed in June 2004   |      |                        |
| President of Guangzhou Honda Automobile Co., Ltd.           |                      | (presently, Guangqi Honda Automobile Co., Ltd.),                     |      |                        |
|   |                      | appointed in April 2004  |      |                        |
| <b>Takuji Yamada</b>  | (September 28, 1956) | Joined Honda in April 1978<br>Director of the Company from June 2008 | *3   | 12,600                 |
|   |                      | Director of the Company,   |      |                        |
|   |                      | appointed in June 2008   |      |                        |
|   |                      | Chief Operating Officer for Power Product Operations,                |      |                        |
|   |                      | appointed in April 2008 (presently held)                             |      |                        |
|   |                      | President and Director of Honda Motor Europe (North) GmbH,           |      |                        |
|   |                      | appointed in April 2006  |      |                        |
|   |                      | Operating Officer of the Company,                                    |      |                        |

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appointed in June 2005

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

appointed in December 2004

Joined Honda in April 1980

**Yoichi Hojo**

Director of the Company from June 2008

\*3

13,200

(February 17, 1956)

Director of the Company,

appointed in June 2008

Chief Operating Officer for Business Management Operations,

appointed in April 2008 (presently held)

Operating Officer of the Company,

appointed in June 2006

General Manager of Automobile Purchasing Division 2 in Purchasing Operations,

appointed in April 2006

Joined Honda in April 1978

**Tsuneo Tanai**

Director of the Company from June 2009

\*3

13,100

(January 24, 1957)

Director of the Company,

appointed in June 2009

Chief Operating Officer for Automobile Operations,

appointed in April 2009 (presently held)





**Table of Contents**

| Name                    | Current Positions and Biographies with Registrant  | Term | Number of Shares Owned |
|-------------------------|--|------|------------------------|
| (Date of birth)         | President and Director of Honda of America Mfg, Inc.,<br>appointed in April 2008                     |      |                        |
|                         | Operating Officer of the Company,<br>appointed in June 2006  |      |                        |
|                         | Executive Vice President and Director of Honda of America Mfg., inc.,<br>appointed in April 2006     |      |                        |
|                         | Joined Honda in April 1981<br>Director of the Company from June 2010                                 | *3   | 10,000                 |
| <b>Masahiro Yoshida</b> | Director of the Company,<br>appointed in June 2010   |      |                        |
| (March 5, 1957)         | Chief Operating Officer for Business Support Operations,<br>appointed in April 2010 (presently held) |      |                        |
|                         | General Manager of Hamamatsu Factory of Production Operations,<br>appointed in April 2008            |      |                        |
|                         | Operating Officer of the Company,<br>appointed in June 2007  |      |                        |
|                         | Human Resources and Associate Relations for Business Support Operations,<br>appointed in April 2007  |      |                        |

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General Manager of Human Resources Division for Business Support Operations,

appointed in April 2006

Executive Vice President of Honda of America Mfg., inc.,

appointed in June 2004

Joined Honda in April 1979

**Seiji Kuraishi**

Director of the Company from June 2010

\*3

9,100

(July 10, 1958)

Director of the Company,

appointed in June 2010

Chief Operating Officer for Regional Operations (China),

appointed in April 2010 (presently held)

President of Honda Motor (China) Investment Corporation Limited,

appointed in April 2010 (presently held)

President of Dongfeng Honda Automobile Co., Ltd.

appointed in January 2008

Operating Officer of the Company

appointed in June 2007

Executive Vice President of Honda Motor (China) Investment Corporation, Limited,

appointed in April 2007

**Table of Contents**

| Name                      | Current Positions and Biographies with Registrant  | Term | Number of Shares Owned |
|---------------------------|--|------|------------------------|
| (Date of birth)           | General Manager of Product Planning and Marketing Office for Automobile Operations,<br><br>appointed in April 2005 |      |                        |
| <b>Hiroyuki Yamada</b>    | Joined Honda in April 1982<br>Director of the Company from June 2009   | *3   | 5,400                  |
| (December 14, 1956)       | Director of the Company,<br><br>appointed in June 2009   |      |                        |
|                           | Chief Operating Officer for Customer Service Operations,<br><br>appointed in April 2009 (presently held)           |      |                        |
|                           | Joined Honda in April 1982   |      |                        |
| <b>Corporate Auditors</b> |  |      |                        |
| <b>Toru Onda</b>          | Corporate Auditor of the Company (full-time),<br><br>appointed in June 2008  | *5   | 14,600                 |
| (March 18, 1949)          | Managing Director of the Company,<br><br>appointed in June 2002  |      |                        |
|                           | Chief Operating Officer for Purchasing Operations,<br><br>appointed in April 2000                                  |      |                        |
|                           | Director of the Company,<br><br>appointed in June 1999   |      |                        |

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General Manager of Automobile Purchasing Division 1 in Purchasing Operations,

appointed in June 1998

**Hideki Okada**

(June 1, 1953)

Joined Honda in January 1977

Corporate Auditor of the Company (full-time),

\*6

12,500

appointed in June 2009

General Manager of Regional Operation Planning Office

(North America),

appointed in April 2007

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

appointed in April 2007

Operating Officer of the Company,

appointed in June 2006

General Manager of Accounting Division for Business Management Operation,

appointed in June 2004

**Koukei Higuchi**

(March 14, 1936)

Joined Honda in April 1977

Corporate Auditor of the Company,

\*4

800

appointed in June 2003

Advisor of the Board of The Tokio Marine & Fire Insurance Co., Ltd.

(presently Tokio Marine & Nichido Fire Insurance Co., Ltd.),

appointed in June 2003 (presently held)

**Table of Contents**

| Name                  | Current Positions and Biographies with Registrant   | Term | Number of Shares Owned |
|-----------------------|---|------|------------------------|
| (Date of birth)       | Chairman of The Tokio Marine & Fire Insurance Co., Ltd.<br><br>(presently Tokio Marine & Nichido Fire Insurance Co., Ltd.),<br><br>appointed in June 2001 |      |                        |
|                       | Joined The Tokio Marine and Fire Insurance Co., Ltd.<br><br>(presently Tokio Marine & Nichido Fire Insurance Co., Ltd.)<br><br>in April 1960              |      |                        |
| <b>Fumihiko Saito</b> | Corporate Auditor of the Company,<br><br>appointed in June 2004   | *5   | 800                    |
| (June 9, 1945)        | Representative of the Saito Law Office in February 2006 (presently held)<br><br>Partner of Haarmann Hemmelrath Saito Law Office<br><br>in June 2003       |      |                        |
|                       | Registered as a lawyer in April 1973<br><br>Corporate Auditor of the Company,<br><br>appointed in June 2007   |      |                        |
| <b>Yuji Matsuda</b>   | President and Director of Mitsubishi UFJ Trust<br><br>Investment Technology Institute Co., Ltd.,<br><br>appointed in June 2006 (presently held)           | *4   | 1,800                  |
| (August 27, 1951)     | Joined The Mitsubishi Trust and Banking Corporation<br><br>(presently The Mitsubishi UFJ Trust and Banking Corp.)   |      |                        |

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in April 1975

- \*1. Mr. Kensaku Hogen and Mr. Nobuo Kuroyanagi satisfy the required conditions for the outside director provided for in Article 2, Paragraph 1, Item 15 of the Company Law.
- \*2. Corporate Auditors Mr. Koukei Higuchi, Mr. Fumihiko Saito and Mr. Yuji Matsuda are outside corporate auditors as provided for in Article 2, Paragraph 1, Item 16 of the Company Law.
- \*3. The term of office of a Director is one year after his/her election to office at the close of the ordinary general meeting of shareholders on June 24, 2010.
- \*4. The term of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 22, 2007.
- \*5. The term of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 24, 2008.
- \*6. The term of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 23, 2009.
- \*7. The Company has introduced an operating officer system to strengthen operations in regions and local workplaces, and implement quick and appropriate decisions. **Managing Officers** and **Operating Officers** under the operating officer system are not statutory positions under the Japanese Company Law and do not conform to the definition of Directors and Senior Management as defined in Form 20-F. The Company's Managing Officers and Operating Officers, as voluntarily disclosed in Japan, are listed below.

### **Managing Officers**

#### **Suguru Kanazawa**

Executive Vice President and Director of Honda Motor Europe Limited  
President and Director of Honda of the U.K. Manufacturing Ltd.

#### **Hideobu Iwata**

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

#### **Manabu Nishimae**

CIS countries, the Middle & Near East and Africa for Regional Operations (Europe,  
the Middle & Near East and Africa)

**Table of Contents**

|                            |  |
|----------------------------|--|
| <b>Koichi Fukuo</b>        | Quality, Certification & Regulation Compliance                               |
| <b>Operating Officers</b>  |  |
| <b>Masahiro Takedagawa</b> | President and Director of Honda Canada Inc.                                  |
| <b>Yoshiyuki Matsumoto</b> | General Manager of Suzuka Factory of Production Operations                   |
| <b>Eiji Okawara</b>        | President and Director of Honda Engineering Co., Ltd.                        |
| <b>Ko Katayama</b>         | General Manager of Saitama Factory of Production Operations                  |
| <b>Takashi Nagai</b>       | President and Director of Honda Siel Cars India Limited                      |
|                            | President and Director of Honda Motor India Private Ltd.                     |
| <b>Katsushi Watanabe</b>   | General Manager of Kumamoto Factory of Production Operations                 |
| <b>Toshiaki Mikoshiba</b>  | President and Director of Honda Motor RUS LLC                                |
| <b>Yoshi Yamane</b>        | Production Operations  |
|                            | Production for Regional Operations (China)                                   |
| <b>Takashi Sekiguchi</b>   | Executive Vice President and Director of American Honda Motor Co., Inc.      |
| <b>Takahiro Hachigo</b>    | General Manager of Automobile Purchasing Division 2 in Purchasing Operations |
| <b>Hiroshi Sasamoto</b>    | Manufacturing of Honda Canada Inc.   |
| <b>Chitoshi Yokota</b>     | Automobile Products for Automobile Operations                                |
| <b>Michimasa Fujino</b>    | President and Director of Honda Aircraft Company, Inc.                       |

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

*B. Compensation*

Directors and Corporate Auditors receive monthly remuneration, the aggregate maximum monthly amount of which is approved at the annual general meeting of shareholders. Also, Directors and Corporate Auditors receive bonuses, the aggregate amount of which is approved at the annual general meeting of shareholders and is based on the Company's performance for prior fiscal year. The amounts of the remuneration and bonuses approved to pay to Directors and Corporate Auditors are allocated among them at meetings of the Board of Directors and Corporate Auditors. All the directors and corporate auditors contribute a portion of their remuneration to the officer shareholders' association, purchase shares of the Company's Common Stock and keep holding those shares during their services.

The total amount of remuneration paid to the Company's directors and corporate auditors during the fiscal year ended March 31, 2010 was ¥1,177 million. This amount includes remuneration paid to four directors and one corporate auditor, who retired during the fiscal year. The amount of remuneration paid to the directors includes amount of wages paid to those directors who were also directors of subsidiaries of the Company.



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The total amount of bonuses paid to the Company's directors and corporate auditors during the fiscal year ended March 31, 2010 was ¥293 million.

**Table of Contents**

The amounts of remuneration and bonuses that were paid during the year ended March 31, 2010 are as follows:

|              | Yen (millions)                           |              |   |            |                  |           |        |              |
|--------------|--|--------------|---|------------|------------------|-----------|--------|--------------|
|              | Directors excluding<br>outside directors |              | Corporate auditors<br>excluding outside<br>corporate auditors |            | Outside Officers |           | Total  |              |
|              | number                                   | amount       | number  | amount     | number           | amount    | number | amount       |
| Remuneration | 22                                       | 1,036        | 3   | 88         | 6                | 53        | 31     | 1,177        |
| Bonuses      | 19                                       | 261          | 2   | 21         | 5                | 11        | 26     | 293          |
| <b>Total</b> |  | <b>1,297</b> |   | <b>109</b> |                  | <b>64</b> |        | <b>1,471</b> |

The amount of remuneration paid to Takanobu Ito during the fiscal year ended March 31, 2010 was ¥82 million. The amount of bonuses for Takanobu Ito accrued for the fiscal year ended March 31, 2010 was ¥33 million.

*C. Board Practices*

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

*D. Employees*

The following tables list the number of Honda full-time employees as of March 31, 2010, 2009 and 2008.

**As of March 31, 2010**

| Total   | Motorcycle<br>Business | Automobile<br>Business | Financial Services<br>Business | Power Product and<br>Other Businesses |
|---------|------------------------|------------------------|--------------------------------|---------------------------------------|
| 176,815 | 34,808                 | 129,663                | 2,145                          | 10,199                                |

At March 31, 2010, Honda had 176,815 full-time employees, including 106,230 local nationals employed in its overseas operations.

**As of March 31, 2009**

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| <b>Total</b> | <b>Motorcycle<br/>Business</b> | <b>Automobile<br/>Business</b> | <b>Financial Services<br/>Business</b> | <b>Power Product and<br/>Other Businesses</b> |
|--------------|--------------------------------|--------------------------------|--|---|
| 181,876      | 35,908                         | 133,114                        | 2,071                                  | 10,783  |

At March 31, 2009, Honda had 181,876 full-time employees, including 111,581 local nationals employed in its overseas operations.

**As of March 31, 2008**

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

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

**Table of Contents**

Most of the Company's regular employees in Japan, except management personnel, are required by the terms of the Company's collective bargaining agreement with its labor union to become members of the Federation of All Honda Workers' Union (AHWU), which is affiliated with the Japan Council of the International Metalworkers' Federation. Approximately 85% of the employees of the Company and its Japanese subsidiaries were members of AHWU at March 31, 2010.

In Japan, basic wages are negotiated annually and the average increases in wages of the Company's employees in fiscal 2008, 2009 and 2010 were 2.0%, 1.9% and 1.9%, respectively. In addition, in accordance with Japanese custom, each employee is paid a semi-annual bonus. Bonuses are negotiated during wage negotiations and are based on the overall performance of the Company or the applicable subsidiary in the previous year, the outlook for the current year and other factors.

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

*E. Share Ownership*

The total amount of the Company's voting securities owned by its officers, directors and corporate auditors as a group as of June 24, 2010 is as follows.

| <b>Title of Class</b> | <b>Amount Owned</b> | <b>% of Class</b> |
|-----------------------|---------------------|-------------------|
| Common Stock          | 281,200 shares      | 0.015%            |

The Company's full-time employees are eligible to participate in the Honda Employee Shareholders' Association, whereby participating employees contribute a portion of their salaries to the Association and the Association purchases shares of the Company's Common Stock on their behalf. As of March 31, 2010, the Association owned 5,057,252 shares of the Company's common stock.

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

As of March 31, 2010, 1,834,828,430 shares of Honda's Common Stock were issued and 1,814,602,736 shares were outstanding.

The following table shows the shareholders that owned of record 5% or more of the issued shares of Honda's Common Stock as of March 31, 2010:

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| <b>Name</b>                                       | <b>Shares owned<br/>(thousands)</b> | <b>Ownership<br/>(%)</b> |
|---|-------------------------------------|--------------------------|
| Japan Trustee Services Bank, Ltd. (trust account) | 133,296                             | 7.26%                    |

According to a statement on Schedule 13G (Amendment No. 6) filed by Mitsubishi UFJ Financial Group, Inc. with the Securities and Exchange Commission on February 10, 2010, Mitsubishi UFJ Financial Group, Inc. directly and indirectly held, as of December 31, 2009, 117,071,145 shares, or 6.4% of the then issued shares, of Honda's Common Stock.

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

## **Table of Contents**

ADSs representing American Depositary Shares are issued by JPMorgan Chase Bank, N.A., as Depositary. The normal trading unit is 100 American Depositary Shares. Total issued shares of Honda as of the close of business on March 31, 2010 were 1,834,828,430 shares of Common Stock, of which 71,107,703 shares represented by ADSs and 291,253,341 shares not represented by ADSs were owned by residents of the United States. The number of holders of record of the Company's shares of Common Stock in the United States was 279 at March 31, 2010.

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

### *B. Related Party Transactions*

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

During the fiscal year ended March 31, 2010, Honda had sales of ¥510.6 billion and purchases of ¥771.3 billion with equity affiliates accounted under the equity method. As of March 31, 2010, Honda had receivables of ¥152.2 billion from affiliated companies, and had payables of ¥133.2 billion to affiliated companies. In addition, the amounts of Honda's sales to affiliates during the fiscal years ended March 31, 2008 and 2009 have been corrected in Note (5) to the accompanying consolidated financial statements from the amounts previously disclosed. Honda's sales to affiliates during the fiscal year ended March 31, 2008 and 2009 were ¥500.7 billion and ¥ 515.5 billion, respectively.

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

### *C. Interests of Experts and Counsel*

Not applicable.

## ***Item 8. Financial Information***

### *A. Consolidated Statements and Other Financial Information*

#### **1 3. Consolidated Financial Statements**

Honda's audited consolidated financial statements are included under **Item 18 Financial Statements**.

4. Not applicable.

5. Not applicable.

6. Export Sales.

See Information on the Company Marketing and Distribution Overseas Sales .

7. Legal Proceedings.

Various legal proceedings are pending against us. We believe that such proceedings constitute ordinary routine litigation incidental to our business. With respect to product liability, personal injury claims or lawsuits, we believe that any judgment that may be recovered by any plaintiff for general and special damages and court

**Table of Contents**

costs will be adequately covered by our insurance and accrued liabilities. Punitive damages are claimed in certain of these lawsuits. We are also subject to potential liability under other various lawsuits and claims including 44 purported class actions in the United States.

Honda recognizes an accrued liability for loss contingencies when it is probable that an obligation has been incurred and the amount of loss can be reasonably estimated. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recorded for these contingent liabilities, if necessary, by considering the nature of lawsuits and claims, the progress of the case and the opinions of legal counsel. After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the ultimate outcome of such lawsuits and pending claims including 44 purported class actions in the United States should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position, results of operations or cash flows.

**8. Profit Redistribution Policy**

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

In addition, the Company's basic policy for dividends is to make quarterly distributions. The Company may determine dividends from surplus by a resolution of the Board of Directors. Annual dividends for the fiscal year ended March 31 of each year require a resolution at the general meeting of shareholders.

The Company may also acquire its own shares at a timing that it deems optimal, with the goal of improving efficiency of the Company's capital structure. The present goal is to maintain a shareholders' return ratio (i.e. the ratio of the total of the dividend payment and the repurchase of the Company's own shares to consolidated net income attributable to Honda Motor Co., Ltd.) of approximately 30%. Retained earnings will be allocated toward financing R&D activities that are essential for the future growth of the Company and capital expenditures and investment programs that will expand its operations for the purpose of improving business results and strengthening the Company's financial condition.

The Company determined year-end dividends of ¥12 per share for the year ended March 31, 2010. As a result, total dividends for the year ended March 31, 2010, together with the first quarter dividends of ¥8, the second quarter dividends of ¥8 and the third quarter dividends of ¥10, were ¥38 per share, a decrease of ¥25 from the annual dividends paid for the year ended March 31, 2009.

Details of Distribution of Surplus (Record dates of the fiscal year ended March 31, 2010)

|  | <b>Resolution of<br/>the Board of<br/>Directors<br/>July 29, 2009</b> | <b>Resolution of<br/>the Board of<br/>Directors<br/>October 27, 2009</b> | <b>Resolution of<br/>the Board of<br/>Directors<br/>February 3, 2010</b> | <b>Resolution at<br/>General Meeting of<br/>Shareholders<br/>June 24, 2010</b> |
|--|---|--|--|--|
| Dividend per Share of Common Stock (yen) | 8.00  | 8.00   | 10.00  | 12.00  |
| Total Amount of Dividends Yen (millions) | 14,516  | 14,516   | 18,146   | 21,775   |



*B. Significant Changes*

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

**Table of Contents****Item 9. The Offer and Listing****A. Offer and Listing Details**

Honda's shares have been listed on the Tokyo Stock Exchange (TSE) since 1957 and as of March 31, 2010, Honda's shares were traded on two stock exchanges in Japan.

Since February 11, 1977, American Depositary Shares (each representing one share of Common Stock and evidenced by American Depositary Receipts (ADRs)) have been listed and traded on the New York Stock Exchange (the NYSE), having been traded on the over-the-counter markets in the United States since 1962. In addition, European Shares (each representing ten shares of Common Stock and evidenced by European Depositary Receipts (EDRs)) have been traded in bearer form on the over-the-counter markets in several European countries since 1963. In June 1981, the shares of Common Stock were admitted to the official list of The Stock Exchange of London. In May 1983, the Company listed its shares on the stock exchanges in Zurich, Geneva and Basel in the form of Swiss Bearer Depositary Receipts. In June 1985, the shares of Common Stock were admitted to trading on the Paris Stock Exchange. As for the stock exchanges in Switzerland, the floor exchanges in Zurich, Basel and Geneva were consolidated to form a single national bourse—the Swiss Exchange, in 1995. The Paris Stock Exchange was merged with the exchanges in Amsterdam and Brussels and created Euronext in September 2000. The Company delisted itself from Euronext Paris and SWX Swiss Exchange and terminated European Depositary Receipts during fiscal year 2008.

The monthly average turnover of Honda's shares of Common Stock and American Depositary Shares for the fiscal year ended March 31, 2010 was approximately 151,972,000 shares of Common Stock on the TSE and approximately 14,450,400 American Depositary Shares on the NYSE.

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

| Fiscal year | Yen per share of<br>Common Stock on<br>the TSE* |         | U.S. dollars per<br>American<br>Depositary Share on<br>the NYSE |          |
|-------------|---|---------|---|----------|
|             | High  | Low     | High  | Low      |
| 2006        | ¥ 3,750   | ¥ 2,510 | \$ 31.74  | \$ 23.75 |
| 2007        | 4,940   | 3,270   | 40.82   | 29.13    |
| 2008        | 4,600   | 2,610   | 37.80   | 27.01    |
| 2009        |   |         |   |          |
| 1st quarter | ¥ 3,910   | ¥ 2,765 | \$ 36.40  | \$ 27.69 |
| 2nd quarter | 3,850   | 3,000   | 35.67   | 28.20    |
| 3rd quarter | 3,190   | 1,643   | 30.08   | 17.35    |
| 4th quarter | 2,515   | 1,860   | 25.58   | 20.28    |
| 2010        |   |         |   |          |
| 1st quarter | ¥ 3,070   | ¥ 2,390 | \$ 31.00  | \$ 24.83 |
| 2nd quarter | 3,230   | 2,300   | 32.99   | 25.00    |
| 3rd quarter | 3,170   | 2,590   | 34.52   | 28.82    |
| 4th quarter | 3,410   | 2,951   | 37.23   | 33.27    |

CY 2010

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|     |         |         |          |          |
|-----|---------|---------|----------|----------|
| Jan | ¥ 3,410 | ¥ 3,035 | \$ 37.23 | \$ 33.29 |
| Feb | 3,320   | 2,951   | 36.64    | 33.27    |
| Mar | 3,355   | 3,055   | 36.70    | 34.51    |
| Apr | 3,405   | 3,160   | 36.16    | 33.73    |
| May | 3,120   | 2,700   | 34.00    | 30.16    |

\* The Company executed a two-for-one stock split for the Company's common stock effective July 1, 2006. The reported high and low sales prices of Honda's shares on the TSE in yen have been adjusted based on the shares after stock split.

**Table of Contents**

*B. Plan of Distribution*

Not applicable.

*C. Markets*

See Item 9.A, Offer and Listing Details

*D. Selling Shareholders*

Not applicable.

*E. Dilution*

Not applicable.

*F. Expenses of the Issue*

Not applicable.

***Item 10. Additional Information***

*A. Share Capital*

Not applicable.

*B. Memorandum and Articles of Association*

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

## General

Honda's authorized share capital as of the date of the filing of this Form 20-F is 7,086,000,000 shares of common stock, of which 1,834,828,430 shares were issued. Effective as of July 1, 2006, Honda implemented a two for one stock split. The registered beneficial holder of shares underlying the ADSs is the depository for the ADSs. Accordingly, holders of ADSs will not be able directly to assert shareholders' rights.

On January 5, 2009, a new central clearing system for shares of Japanese listed companies was established pursuant to the Law Concerning Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan (including the cabinet order and ministerial ordinances promulgated thereunder; the Book-Entry Law), and since then the shares of all Japanese companies listed on any Japanese financial instruments exchange, including Honda's shares, have become subject to this new system. On the same day, all existing shares were dematerialized and all existing share certificates for such shares became null and void. At present, the Japan Securities Depository Center, Inc. (JASDEC) is the sole institution that is designated by the relevant authorities as a book-entry transfer institution which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Law. Under the new clearing system, in order for any person to hold, sell or otherwise dispose of shares of Japanese listed companies, such person must have an account at an account management institution unless such person has an account directly at JASDEC. Account management institutions are, in general, financial instruments firms engaged in type 1 financial instruments business (i.e., securities brokers/dealers), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Law.

## **Table of Contents**

Under the Book-Entry Law, any transfer of shares of Japanese listed companies is effected through book entry, and title to the shares passes to the transferee at the time when the transferred number of the shares is by an application for book entry recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares recorded in such account.

Under the Company Law and the Book-Entry Law, in order to assert shareholders' rights against Honda, a shareholder must have its name and address registered in the register of shareholders, except in limited circumstances. Although, in general, holders of an account with shares recorded are to be registered in the register of shareholders on the basis of an all shareholders notice from JASDEC to Honda at certain prescribed times, in order to exercise minority shareholders' rights (other than those the record dates for which are fixed) against Honda, a holder of an account with shares needs to make an application through an account management institution to JASDEC, which will then give a notice of the name and address of such holder, the number of shares held by such holder and other requisite information to Honda, and to exercise rights within four weeks from such notice.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of such standing proxy or mailing address to the relevant account management institution. Such notice will be forwarded to Honda through JASDEC. Japanese financial instruments firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from Honda to non-resident shareholders are delivered to such standing proxies or mailing addresses.

## **Objects and Purposes**

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

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

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

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

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

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

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

Publishing business, advertising business, translation business, interpretation business, management consultancy business, information services including information processing, information and communication and information provision, industrial planning and design,

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comprehensive security business and labor dispatch services.

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

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

## **Table of Contents**

### **Dividends**

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

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

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

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

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

### **Capital and Reserves**

The entire amount of the issue price of the shares to be issued in the future will generally be required to be accounted for as stated capital. However, Honda may account for an amount not exceeding one-half of such issue price as additional paid-in capital by resolution of the board of directors in accordance with the Company Law. Honda may at any time reduce the whole or any part of its additional paid-in capital or transfer them to stated capital by resolution of a general meeting of shareholders. The whole or any part of surplus may also be transferred to stated capital, additional paid-in capital or legal reserve by resolution of a general meeting of shareholders.

### **Stock Splits**



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Honda may at any time split its shares into greater number of shares by resolution of the board of directors. When the board of directors approves a stock split, it may also amend the articles of incorporation of Honda without approval of shareholders to increase the number of its authorized shares in proportion to the stock split, so long as Honda does not issue more than one class of shares.

Under the Book-Entry Law, Honda must give notice to JASDEC regarding a stock split at least two weeks prior to the relevant record date. On the effective date of the stock split, the numbers of shares recorded in all accounts held by its shareholders at account management institutions or at JASDEC will be increased in accordance with the applicable ratio.

## **Table of Contents**

### **Consolidation of Shares**

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

Under the Book-Entry Law, Honda must give notice to JASDEC regarding a consolidation of shares at least two weeks prior to the relevant record date. On the effective date of the consolidation of shares, the number of shares recorded in all accounts held by its shareholders at account management institutions or at JASDEC will be decreased in accordance with the applicable ratio.

### **Japanese Unit Share System**

Consistent with the requirements of the Company Law, the articles of incorporation of Honda adopts unit share system called as *tan-gen-kabu*, under which 100 shares constitute one voting unit of shares. The board of directors of Honda by itself may reduce, but not to increase, the number of shares that constitute one voting unit or abolish the unit share system entirely by amendments to the articles of incorporation by a board resolution without approval of shareholders. An increase in the number of shares that constitute one voting unit requires an amendment to the articles of incorporation by a special resolution of a general shareholders meeting. In any case, the number of shares constituting one voting unit may not exceed 1,000 shares or 0.5% of the total issued shares.

Under the Book-Entry Law, shares constituting less than one unit are transferable. Under the rules of the Japanese financial instruments exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese financial instruments exchanges.

The holder of shares constituting less than one voting unit may at any time require Honda to purchase or sell such shares to constitute one voting unit at the market price in accordance with Honda's share handling regulations (see below). Because the transfer of ADRs does not require changes in the ownership of the underlying shares, holders of ADRs evidencing ADSs that constitute less than one voting unit of shares are not affected by these restrictions in their ability to transfer the ADRs. However, because transfers of less than one voting unit of the underlying shares are normally prohibited under the unit share system, under the deposit agreement, the right of ADR holders to surrender their ADRs and withdraw the underlying shares for sale in Japan may only be exercised as to whole voting units.

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

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



## **Table of Contents**

### ***Other Rights of a Holder of Shares Representing Less Than One Voting Unit***

In addition to the right described in the preceding paragraph, a holder of shares representing less than one voting unit also has the rights including the followings and these rights may not be restricted by the articles of incorporation:

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

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

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

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

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

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

### ***Voting rights under the unit share system***

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

## **Voting Rights**

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

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

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shareholders by a majority of the shares having voting rights represented at the meeting. The Company Law and Honda's articles of incorporation require a quorum for the election of directors and corporate auditors of not less than one-third of the total number of voting rights of all shareholders and the resolution shall be adopted by majority voting. Honda's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder whose voting rights are in turn more than one-quarter directly or indirectly owned by Honda does not have voting rights. Also, Honda does not have voting rights with respect to its own shares.

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

**Table of Contents**

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

acquisition of its own shares by Honda from a specific shareholder other than its subsidiary,

acquisition of special shares all of which may be acquired by Honda (zembu shutoku joukou tsuki shurui kabushiki),

consolidation of the shares,

reduction of stated capital (with certain exceptions),

issuance or transfer of new shares or existing shares held by Honda as treasury stock to persons other than the shareholders at a specially favorable price,

issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under specially favorable conditions,

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

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

amendments to the articles of incorporation,

transfer of whole or important part of business,

dissolution of a corporation,

reorganization of a corporation.

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

of the Registrant or other securities, property or cash received by the Depositary or the Custodian in respect thereof.

**Subscription Rights and Stock Acquisition Rights**

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

## **Table of Contents**

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

## **Liquidation Rights**

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

## **Liability to Further Calls or Assessments**

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

## **Shareholders' Register Manager**

The Chuo Mitsui Trust and Banking Company, Limited is the Shareholders' Register Manager for the shares. Chuo Mitsui's office is located at 33-1, Shiba 3-chome, Minato-ku, Tokyo, 105-8574, Japan. Chuo Mitsui maintains Honda's register of shareholders and records the names and addresses of its shareholders and other relevant information in its register of shareholders upon notice thereof from JASDEC, as described in Record Date below.

## **Record Date**

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

Under the Book-Entry Law, Honda is required to give notice of each record date to JASDEC at least two weeks prior to such record date. JASDEC is required to promptly give notice to Honda of the names and addresses of all of its shareholders of record, the numbers of shares held by them and other relevant information as of such record date.

The shares generally trade ex-dividend or ex-rights on the Japanese financial instruments exchanges on the third business day prior to a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings. On April 1, 2009, the Tokyo Stock Exchange announced that, with respect to record dates on or after November 19, 2009, shares will trade



ex-dividend or ex-rights on the Tokyo Stock Exchange on the second business day prior to such record date.

**Acquisition by Honda of Shares**

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

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

## **Table of Contents**

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

Upon due authorization, Honda may acquire its own shares:

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

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

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

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

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

## **Reports to Shareholders**

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

## **Report of Substantial Shareholdings**

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

**Daily Price Limits under Japanese Financial Instruments Exchange Rules**

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

## **Table of Contents**

### *C. Material Contracts*

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

### *D. Exchange Controls*

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

### *E. Taxation*

#### **Japanese Taxes**

The following is a summary of the principal Japanese tax consequences as of the date of filing of this Form 20-F to owners of Honda's shares or ADSs who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which income from Honda's shares is attributable. The tax treatment is subject to possible changes in the applicable Japanese laws or double taxation conventions occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor. Potential investors should consult their own tax advisers as to:

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

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

any tax treaty between Japan and their country of residence.

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

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to a non-resident of Japan or a non-Japanese corporation is 20%. With respect to dividends paid on listed shares issued by Japanese corporations (such as Honda's shares) to a non-resident of Japan or a non-Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends to be paid until December 31, 2011, and (ii) 15% for dividends to be paid thereafter, except for dividends paid to any individual shareholder who holds 5% or more of the issued shares of that corporation. Japan has entered into income tax treaties, conventions or agreements, whereby the maximum withholding tax rate is generally set at 15% for portfolio investors with, among others, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands,

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New Zealand, Norway, Singapore, Spain, Sweden, and Switzerland.

Pursuant to the Convention Between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the U.S.-Japan Tax Treaty ), a portfolio investor that is a U.S. holder is generally subject to Japanese withholding tax on dividends on shares at a rate of 10%. A similar withholding tax treatment applies under the renewed tax treaties between the United Kingdom and Japan and between France and Japan. In addition, the tax treaty between Australia and Japan has also been renewed, effective from December 3, 2008, under which the standard treaty withholding rate on dividends taxed on or after January 1, 2009 will be reduced in general from 15% to 10%. Under Japanese tax law, the maximum rate applicable under the tax treaties, conventions or agreements shall be applicable except when such maximum rate is more than the Japanese statutory rate.

Gains derived from the sale outside Japan of common stock or Depository Receipts by a non-resident of Japan or a non-Japanese corporation, or from the sale of common stock within Japan by a non-resident of Japan

## **Table of Contents**

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

## **United States Taxes**

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

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

For purposes of the U.S.-Japan Tax Treaty and the Code, U.S. holders of ADRs evidencing ADSs will be treated as the owners of the Shares represented by those ADRs. Exchanges of shares for ADRs and ADRs for shares generally will not be subject to U.S. federal income tax. For purposes of this discussion, a U.S. holder is a beneficial owner of shares or ADSs that is for U.S. federal income tax purposes, (i) a citizen or resident individual of the United States, (ii) a domestic corporation, (iii) an estate whose income is subject to United States federal income tax regardless of its source, or (iv) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust; and that, for purposes of the U.S.-Japan Tax Treaty, (i) holds the shares and ADSs that do not form part of the business property of a permanent establishment through which the beneficial owner carries on or has carried on business and (ii) is not otherwise ineligible for benefits under the U.S.-Japan Tax Treaty, as the case may be, with respect to income and gain from the shares or ADSs.

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

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

## **Taxation of Dividends**

Under the U.S. federal income tax laws and subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of any dividend paid by Honda out of its current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) is subject to U.S. federal income taxation. A U.S. holder must include any Japanese tax withheld from the dividend payment in this gross amount even though it does not in fact receive it.

Dividends paid to a noncorporate U.S. holder in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to such holder at a maximum tax rate of 15% provided that the noncorporate U.S. holder holds the shares or ADSs with respect to which the dividends are paid for more than 60 days during the 121 day period beginning 60 days before the ex-dividend date and meets other holding period

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## **Table of Contents**

requirements. Dividends that Honda pays with respect to the shares or ADSs generally will be qualified dividend income. A U.S. holder must include the dividend in its taxable income when the holder, in the case of shares, or the Depositary, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The amount of the dividend distribution that a U.S. holder must include in its income will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date of the dividend distribution, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the U.S. holder includes the dividend payment in income to the date it converts the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the U.S. for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of U.S. holder's basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with the U.S.-Japan Tax Treaty and paid over to Japan will be creditable against a U.S. holder's United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to a U.S. holder under Japanese law or under the U.S.-Japan Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. holder's United States federal income tax liability.

Dividends will be income from sources outside the United States. Dividends will, depending on your circumstances, be either passive or general income for purposes of computing the foreign tax credit allowable to a U.S. holder.

## **Taxation of Capital Gains**

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

## **Passive Foreign Investment Company (PFIC) Rules**

Honda believes its shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes. This conclusion is a factual determination that is made annually and thus may be subject to change.

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

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



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

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

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**Table of Contents**

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

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

any excess distribution that Honda makes to the U.S. holder (generally, any distributions to it during a single taxable year that are greater than 125% of the average annual distributions received by it in respect of the shares or ADSs during the three preceding taxable years or, if shorter, its holding period for the shares or ADSs).

Under these rules:

the gain or excess distribution will be allocated ratably over the U.S. holder's holding period for the shares or ADSs,

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

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

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

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

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

In addition, notwithstanding any election that a U.S. holder makes with regard to the shares or ADSs, dividends that a U.S. holder receives from Honda will not constitute qualified dividend income to such holder if Honda is a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, shares or ADSs held by a U.S. holder will be treated as stock in a PFIC if Honda was a PFIC at any time during the U.S. holder's holding period in its shares or ADSs, even if Honda is not currently a PFIC. For purposes of this rule, if a U.S. holder makes a mark-to-market election with respect to its shares or ADSs, the U.S. holder will be treated as having a new holding period in its shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that a U.S. holder receives that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, the U.S. holder must include the gross amount of any such dividend paid by Honda out of Honda's accumulated earnings and profits (as determined for United States federal income tax purposes) in the U.S. holder's gross income, and it will be subject to tax at rates applicable to ordinary income.

If a U.S. holder owns shares or ADSs during any year that Honda is a PFIC with respect to such U.S. holder, it must file Internal Revenue Service Form 8621. U.S. holders should consult their own tax advisors regarding the PFIC rules and potential filing and other requirements.

**Table of Contents**

*F. Dividends and Paying Agents*

Not applicable.

*G. Statement by Experts*

Not applicable.

*H. Documents on Display*

Honda is subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, it will file annual reports on Form 20-F within six months of its fiscal year-end and furnish other reports and information on Form 6-K with the Securities and Exchange Commission. These reports and other information can be inspected without charge at the public reference room at the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You can also obtain copies of such material by mail from the public reference room of the Securities and Exchange Commission at prescribed fees. You may obtain information on the operation of the Securities and Exchange public reference room by calling the Securities and Exchange Commission in the United States at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. Also, as a foreign private issuer, Honda is exempt from the rules under the Securities Exchange Act of 1934 prescribing the furnishing and content of proxy statements to shareholders.

*I. Subsidiary Information*

Not applicable.

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

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

**Foreign Currency Exchange Rate Risk**

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Foreign currency forward exchange contracts and purchased option contracts are used to hedge currency risk of 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.

**Table of Contents**

The tables below provide information about our derivatives related to foreign currency exchange rate risk as of March 31, 2009 and 2010. For forward exchange contracts and currency options, the table presents the contract amounts and fair value. All forward exchange contracts and currency contracts to which we are a party have original maturities of less than one year.

**Foreign Exchange Risk**

|                                   | 2009             |                 |                  | 2010             |                |                  |
|-----------------------------------|------------------|-----------------|------------------|------------------|----------------|------------------|
|                                   | Yen (millions)   |                 | Average          | Yen (millions)   |                | Average          |
|                                   | Contract amount  | Fair value      | contractual rate | Contract amount  | Fair value     | contractual rate |
| <b>Forward Exchange Contracts</b> |                  |                 |                  |                  |                |                  |
| To sell US\$                      | ¥ 182,941        | (8,966)         | 93.33            | ¥ 257,822        | (6,076)        | 90.80            |
| To sell EUR                       | 42,324           | (2,086)         | 123.40           | 32,188           | 456            | 126.70           |
| To sell CAS                       | 379              | (5)             | 76.99            | 24               | 57             | 88.58            |
| To sell GBP                       | 49,681           | (2,673)         | 133.42           | 29,931           | (108)          | 139.69           |
| To sell other foreign currencies  | 16,549           | (387)           | various          | 20,761           | (829)          | various          |
| To buy US\$                       | 3,287            | 131             | 94.26            | 3,207            | 102            | 90.02            |
| To buy other foreign currencies   | 1,933            | (11)            | various          | 3,537            | 34             | various          |
| Cross-currencies                  | 234,521          | 94              | various          | 231,657          | (1,134)        | various          |
| <b>Total</b>                      | <b>¥ 531,615</b> | <b>(13,903)</b> |                  | <b>¥ 579,127</b> | <b>(7,498)</b> |                  |

|   | Yen (millions)                   |                | Average          | Yen (millions)  |              | Average          |
|---|----------------------------------|----------------|------------------|-----------------|--------------|------------------|
|   | Contract amount                  | Fair value     | contractual rate | Contract amount | Fair value   | contractual rate |
|   | <b>Currency Option Contracts</b> |                |                  |                 |              |                  |
| Option purchased to sell US\$             | ¥ 24,548                         | 304            | various          | ¥ 27,865        | 78           | various          |
| Option written to sell US\$               | 51,551                           | (1,743)        | various          | 55,731          | (829)        | various          |
| Option purchased to sell other currencies |                                  |                |                  | 3,123           | (50)         | various          |
| Option written to sell other currencies   |                                  |                |                  | 6,246           | (26)         | various          |
| <b>Total</b>                              | <b>¥ 76,099</b>                  | <b>(1,439)</b> |                  | <b>¥ 92,965</b> | <b>(827)</b> |                  |

**Interest Rate Risk**

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

**Table of Contents**

The following tables provide information about Honda's financial instruments that were sensitive to changes in interest rates at March 31, 2009 and 2010. For finance receivables and long-term debt, these tables present principal cash flows, fair value and related weighted average interest rates. For interest rate swaps and currency and interest rate swaps, the table presents notional amounts, fair value and weighted average interest rates. Variable interest rates are determined using formulas such as LIBOR+a and an index.

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

|  | 2009<br>Yen (millions) |               |             | 2010<br>Yen (millions)<br>Expected maturity date |                        |             |             |             |                 |  | Fair<br>value | Average<br>interest<br>rate |
|--|------------------------|---------------|-------------|--|------------------------|-------------|-------------|-------------|-----------------|--|---------------|-----------------------------|
|  | Total                  | Fair<br>value | Total       | Within<br>1 year                                 | Expected maturity date |             |             |             |                 |  |               |                             |
|  |                        |               |             |  | 1-2<br>year            | 2-3<br>year | 3-4<br>year | 4-5<br>year | There-<br>after |  |               |                             |
| Direct financing leases                          |                        |               |             |  |                        |             |             |             |                 |  |               |                             |
| JP¥  | ¥ 24,720               | * ¥           | ¥ 29,401    | 17,702   | 5,997                  | 3,341       | 1,650       | 711         |                 |  | *             | 5.08%                       |
| US\$   | 199,172                | *             | 7,349       | 7,349  |                        |             |             |             |                 |  | *             | 7.62%                       |
| Other  | 475,409                | *             | 412,709     | 136,358  | 128,378                | 93,254      | 48,649      | 6,070       |                 |  | *             | 3.15%                       |
| Total Direct financing leases                    | ¥ 699,301              | * ¥           | ¥ 449,459   | 161,409  | 134,375                | 96,595      | 50,299      | 6,781       |                 |  | *             |                             |
| Other finance subsidiaries-<br>receivables       |                        |               |             |  |                        |             |             |             |                 |  |               |                             |
| JP¥  | ¥ 450,177              | 445,588 ¥     | ¥ 456,525   | 153,206  | 115,599                | 85,998      | 54,199      | 29,624      | 17,899          |  | 449,776       | 5.08%                       |
| US\$   | 2,561,667              | 2,481,293     | 2,504,187   | 879,316  | 603,330                | 504,849     | 329,515     | 146,556     | 40,621          |  | 2,536,110     | 5.07%                       |
| Other  | 504,599                | 499,198       | 617,507     | 291,614  | 152,020                | 97,427      | 54,097      | 18,711      | 3,638           |  | 625,523       | 6.92%                       |
| Total Other finance subsidiaries-<br>receivables | ¥ 3,516,443            | 3,426,079 ¥   | ¥ 3,578,219 | 1,324,136  | 870,949                | 688,274     | 437,811     | 194,891     | 62,158          |  | 3,611,409     |                             |
| Retained interests in securitizations**          | 45,648                 | 45,648        | 27,555      |  |                        |             |             |             |                 |  | 27,555        |                             |
| Total***   | ¥ 4,261,392            |               | ¥ 4,055,233 |  |                        |             |             |             |                 |  |               |                             |

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

\*\* : The retained interests in securitizations is accounted for as trading securities and is reported at fair value.

\*\*\* : The finance subsidiaries-receivables include finance subsidiaries-receivables included in trade receivables and other assets in the consolidated balance sheets. Additional detailed information is described in Note (2) to the accompanying consolidated financial statements.

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

|  | 2009<br>Yen (millions) |               |       | 2010<br>Yen (millions)<br>Expected maturity date |                        |             |             |             |                 |  | Fair<br>value | Average<br>interest<br>rate |
|--|------------------------|---------------|-------|--|------------------------|-------------|-------------|-------------|-----------------|--|---------------|-----------------------------|
|  | Total                  | Fair<br>value | Total | Within<br>1 year                                 | Expected maturity date |             |             |             |                 |  |               |                             |
|  |                        |               |       |  | 1-2<br>year            | 2-3<br>year | 3-4<br>year | 4-5<br>year | There-<br>after |  |               |                             |

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|  |                    |                  |                    |                |                |                |                |                |               |                  |       |
|--|--------------------|------------------|--------------------|----------------|----------------|----------------|----------------|----------------|---------------|------------------|-------|
| Japanese yen bonds                             | ¥ 260,000          | 290,411          | ¥ 320,000          | 60,000         | 70,000         | 120,000        | 40,000         | 30,000         |               | 323,852          | 1.05% |
| Japanese yen medium-term notes (Fixed rate)    | 220,263            | 213,717          | 151,998            | 77,642         | 33,744         | 25,184         | 6,470          | 5,972          | 2,986         | 153,250          | 1.30% |
| Japanese yen medium-term notes (Floating rate) | 125,865            | 118,553          | 114,676            | 28,767         | 25,588         | 58,330         | 1,991          |                |               | 114,599          | 0.61% |
| U.S. dollar medium-term notes (Fixed rate)     | 390,098            | 359,107          | 391,272            | 48,099         | 32,375         | 46,250         | 135,048        | 50,875         | 78,625        | 420,970          | 5.14% |
| U.S. dollar medium-term notes (Floating rate)  | 796,545            | 780,050          | 211,685            | 62,206         | 140,229        |                |                | 9,250          |               | 213,695          | 3.16% |
| Asset backed notes                             |                    |                  | 311,222            | 119,862        | 117,340        | 74,020         |                |                |               | 316,596          | 2.15% |
| Loans and others primarily fixed rate          | 1,117,389          | 1,023,938        | 1,534,478          | 325,720        | 503,948        | 249,577        | 285,866        | 165,348        | 4,019         | 1,582,083        | 4.04% |
| <b>Total</b>                                   | <b>¥ 2,910,160</b> | <b>2,785,776</b> | <b>¥ 3,035,331</b> | <b>722,296</b> | <b>923,224</b> | <b>573,361</b> | <b>469,375</b> | <b>261,445</b> | <b>85,630</b> | <b>3,125,045</b> |       |



**Table of Contents****Interest Rate Swaps**

| Notional principal | currency    | Receive/Pay | 2009            |             | 2010            |               |           |          |          |          |            | Average receive rate | Average pay rate |            |
|--------------------|-------------|-------------|-----------------|-------------|-----------------|---------------|-----------|----------|----------|----------|------------|----------------------|------------------|------------|
|                    |             |             | Yen (millions)  |             | Yen (millions)  |               |           |          |          |          |            |                      |                  | Fair value |
|                    |             |             | Contract amount | Fair value  | Contract amount | Within 1 year | 1-2 year  | 2-3 year | 3-4 year | 4-5 year | Thereafter |                      |                  |            |
| JP¥                | Float/Fix   | ¥ 510       | (3)             | ¥ 770       | 200             |               |           | 270      | 300      |          | (24)       | 1.26%                | 2.76%            |            |
| US\$               | Float/Fix   | 2,866,860   | (88,322)        | 2,476,108   | 383,890         | 619,493       | 967,913   | 431,915  | 72,897   |          | (47,762)   | 0.33%                | 2.85%            |            |
|                    | Fix/Float   | 599,600     | 36,867          | 525,362     | 48,381          | 32,564        | 118,977   | 182,358  | 63,998   | 79,084   | 24,473     | 4.68%                | 1.41%            |            |
|                    | Float/Float | 24,558      | (76)            |             |                 |               |           |          |          |          |            |                      |                  |            |
| CAS\$              | Float/Fix   | 570,945     | (25,298)        | 525,099     | 106,896         | 121,397       | 146,153   | 130,108  | 19,794   | 751      | (10,905)   | 0.45%                | 3.39%            |            |
|                    | Fix/Float   | 210,427     | 17,372          | 233,677     | 41,237          | 54,983        | 54,983    | 82,474   |          |          | 10,036     | 5.16%                | 1.58%            |            |
|                    | Float/Float | 32,222      | (143)           |             |                 |               |           |          |          |          |            |                      |                  |            |
| GBP                | Float/Fix   | 22,002      | (691)           | 45,075      | 19,803          | 22,464        | 2,808     |          |          |          | (528)      | 1.80%                | 2.63%            |            |
| Total              |             | ¥ 4,327,124 | (60,294)        | ¥ 3,806,091 | 600,407         | 850,901       | 1,290,834 | 827,125  | 156,989  | 79,835   | (24,710)   |                      |                  |            |

**Currency & Interest Rate Swaps**

| Receiving side | Paying side | currency    | currency  | Receive/Pay | 2009            |            | 2010            |               |          |          |          |          |            | Average receive rate | Average pay rate |            |
|----------------|-------------|-------------|-----------|-------------|-----------------|------------|-----------------|---------------|----------|----------|----------|----------|------------|----------------------|------------------|------------|
|                |             |             |           |             | Yen (millions)  |            | Yen (millions)  |               |          |          |          |          |            |                      |                  | Fair value |
|                |             |             |           |             | Contract amount | Fair value | Contract amount | Within 1 year | 1-2 year | 2-3 year | 3-4 year | 4-5 year | Thereafter |                      |                  |            |
| JP¥            | US\$        | Fix/Float   | ¥ 190,565 | 29,896      | ¥ 124,721       | 63,913     | 26,653          | 19,652        | 5,692    | 6,196    | 2,615    | 29,735   | 1.30%      | 0.48%                |                  |            |
|                |             | Float/Float | 163,797   | 12,220      | 137,850         | 23,213     | 65,530          | 47,384        | 1,723    |          |          | 17,403   | 0.81%      | 0.95%                |                  |            |
| JP¥            | CAS\$       | Fix/Float   | 2,137     | 42          |                 |            |                 |               |          |          |          |          |            |                      |                  |            |
| Other          | Other       | Fix/Float   | 275,013   | 17,461      | 405,289         | 55,475     |                 | 98,571        | 110,910  | 140,333  |          | 12,613   | 4.82%      | 1.47%                |                  |            |
|                |             | Float/Float | 35,499    | 1,578       | 51,104          |            | 29,911          |               |          | 21,193   |          | (3,953)  | 1.28%      | 1.96%                |                  |            |
| Total          |             |             | ¥ 667,011 | 61,197      | ¥ 718,964       | 142,601    | 122,094         | 165,607       | 118,325  | 167,722  | 2,615    | 55,798   |            |                      |                  |            |

**Equity Price Risk**

Honda is exposed to equity price risk as a result of its holdings of marketable equity securities. Marketable equity securities included in Honda's investment portfolio are held for purposes other than trading, and are reported at fair value, with unrealized gains or losses, net of deferred taxes, included in accumulated other comprehensive income (loss) in equity section of the consolidated balance sheets. At March 31, 2009 and 2010, the estimated fair value of marketable equity securities was ¥54.8 billion and ¥94.5 billion, respectively.

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

Not applicable.

*B. Warrants and Rights*

Not applicable.

*C. Other Securities*

Not applicable.

*D. American Depositary Shares*

1.2.3. Fees and charges.

JP Morgan Chase Bank, N.A., as ADR depositary, collects fees for delivery and surrender of ADSs directly from investors, or from intermediaries acting for them, depositing ordinary shares or surrendering ADSs for the purpose of withdrawal. The ADR depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees.

**Table of Contents**

The charges of the ADR depositary payable by investors are as follows:

| Category<br><br>(as defined by SEC)  | Depositary Actions   | Associated Fee   |
|--|--|--|
| (a) Depositing or substituting the underlying shares                           | Each person to whom ADRs are issued against deposits of Shares, including deposits and issuances in respect of:<br><br>Share distributions, stock split, rights, merger<br><br>Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the Deposited Securities   | USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered  |
| (b) Receiving or distributing dividends  | Not applicable.  |  |
| (c) Selling or exercising rights   | Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities   | USD 5.00 for each 100 ADSs (or portion thereof)  |
| (d) Withdrawing an underlying security   | Acceptance of ADRs surrendered for withdrawal of deposited securities  | USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered  |
| (e) Transferring, splitting or grouping receipts;                              | Transfers, combining or grouping of depositary receipts  | USD 2.50 per ADS certificate   |
| (f) General depositary services, particularly those charged on an annual basis | Not applicable.  |  |
| (g) Expenses of the depositary   | Expenses incurred on behalf of Holders in connection with<br><br>Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment<br><br>The depositary's or its custodian's compliance with applicable law, rule or regulation<br><br>Stock transfer or other taxes and other governmental charges<br><br>Cable, telex, facsimile transmission/delivery | Expenses payable at the sole discretion of the depositary by billing Holders or by deducting charges from one or more dividends or other cash distributions. |

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Expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency)

Any other charge payable by depositary or its agents

94

**Table of Contents**

4. Direct / Indirect Payment Disclosure

Honda does not receive any reimbursement from the depository bank. JPMorgan agreed to waive an out-of-pocket expense of \$50,000 associated with the administration of the ADR program. The out-of-pocket expenses relate to depository service administration, including but not limited to, dividend disbursement and proxy process.

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

None.

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

None.

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

**Disclosure Controls and Procedures**

Under the supervision and participation of our management, including our Chief Executive Officer and Chief Operating Officer for Business Management Operations (who is our principal financial officer), we performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934) as of March 31, 2010. Based on that evaluation, our Chief Executive Officer and Chief Operating Officer for Business Management Operations concluded that our disclosure controls and procedures were effective as of that date.

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

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

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

Our management assessed the effectiveness of internal control over financial reporting as of March 31, 2010 based on the criteria established in Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on that assessment, our management concluded that our internal control over financial reporting was effective as of March 31, 2010.

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

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

No significant changes were made in our internal control over financial reporting during the fiscal year ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Honda's Board of Auditors has determined that Mr. Hideki Okada is qualified as an audit committee financial expert as defined by the rules of the SEC. He was elected as one of Honda's corporate auditors at the general meeting of shareholders held on June 23, 2009. See Item 6.A. for additional information regarding Mr. Okada. Mr. Okada meets the independence requirements imposed on corporate auditors under the Company Law of Japan. See Item 6.C. for an explanation of such independence requirements.

***Item 16B. Code of Ethics***

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

***Item 16C. Principal Accountant Fees and Services***

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

|                    | <b>Yen (millions)</b> |              |
|--------------------|-----------------------|--------------|
|                    | <b>2009</b>           | <b>2010</b>  |
| Audit Fees         | 2,970                 | 2,573        |
| Audit-Related Fees | 54                    | 114          |
| Tax Fees           | 10                    |              |
| All Other Fees     | 7                     |              |
| <b>Total</b>       | <b>3,041</b>          | <b>2,687</b> |

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

Audit-related fees means fees for audit-related services, which are assurance services provided by independent auditors that are reasonably related to the carrying out of auditing or reviewing of our financial reports and other related services. This category includes fees for agreed-upon or expanded audit procedures related to accounting and/or other records.

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

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

***Pre-approval policies and procedures of the Board of Auditors***

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



## **Table of Contents**

While, as a general rule, specific pre-approval must be obtained for these services to be provided, our Board of Corporate Auditors has adopted pre-approval policies and procedures which list particular audit and non-audit services that may be provided without specific pre-approval. Our Board of Corporate Auditors reviews this list of services on an annual basis, and is informed of each such service that is actually provided.

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

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

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

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

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

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

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

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

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

To the extent permitted by Japanese law:

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

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

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

**Table of Contents**

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

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

The following table sets forth certain information with respect to purchases by Honda of its own shares during the year ended March 31, 2010. There were no purchases of Honda's shares by its affiliated purchasers during that year.

| Period                            | (a)<br>Total<br>Number of<br>Shares<br>Purchased* | (b)<br>Average<br>Price Paid<br>per Share | (c)<br>Total<br>Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum<br>Number of<br>Shares<br>that May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|-----------------------------------|---|---|---|--|
| April 1 to April 30, 2009         | 739   | ¥ 2,698                                   | 0   | 0  |
| May 1 to May 31, 2009             | 1,015   | ¥ 2,766                                   | 0   | 0  |
| June 1 to June 30, 2009           | 627   | ¥ 2,778                                   | 0   | 0  |
| July 1 to July 31, 2009           | 248   | ¥ 2,489                                   | 0   | 0  |
| August 1 to August 31, 2009       | 644   | ¥ 3,028                                   | 0   | 0  |
| September 1 to September 30, 2009 | 411   | ¥ 2,896                                   | 0   | 0  |
| October 1 to October 31, 2009     | 414   | ¥ 2,775                                   | 0   | 0  |
| November 1 to November 30, 2009   | 511   | ¥ 2,834                                   | 0   | 0  |
| December 1 to December 31, 2009   | 403   | ¥ 3,016                                   | 0   | 0  |
| January 1, to January 31, 2010    | 743   | ¥ 3,249                                   | 0   | 0  |
| February 1, to February 28, 2010  | 591   | ¥ 3,053                                   | 0   | 0  |
| March 1 to March 31, 2010         | 641   | ¥ 3,193                                   | 0   | 0  |
| <b>Total</b>                      | <b>6,987</b>                                      | <b>¥ 2,917</b>                            | <b>0</b>  | <b>0</b>   |

\* For each month, the number of shares shown in column (a) in excess of the number of shares shown in column (c) represents the aggregate number of shares representing less than one unit that Honda purchased from the holders thereof upon their request. For an explanation of the right of such holders, see "Japanese Unit Share System - Right of a Holder of Shares Representing Less Than One Voting Unit to Require Honda to Purchase or Sell Its Shares" under Item 10.B of this Annual Report.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

*Item 16G. Corporate Governance*

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

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

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**Table of Contents**

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

**Corporate Governance Practices Followed by**

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

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

**Corporate Governance Practices Followed by Honda**

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

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

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

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

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

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**Table of Contents**

**Corporate Governance Practices Followed by**

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

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

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

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

***Item 17. Financial Statements***

Not applicable.

***Item 18. Financial Statements***

**Corporate Governance Practices Followed by Honda**

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

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

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

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

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

Currently, Honda does not adopt stock option compensation plans. If Honda were to adopt such a plan, Honda must obtain shareholder approval for stock options only if the stock options are issued with specifically favorable conditions or price concerning the issuance and exercise of the stock options.

See Consolidated Financial Statements attached hereto.

**Table of Contents**

***Item 19. Exhibits***

|         |  |
|---------|--|
| 1.1     | Articles of Incorporation of the registrant (English translation)  |
| 1.2     | Share Handling Regulations of the registrant (English translation)   |
| 1.3     | Regulations of Board of Directors of the registrant (English translation)  |
| 1.4     | Regulations of the Board of Corporate Auditors of the registrant (English translation)   |
| 2.1     | Specimen common stock certificates of the registrant (English translation) (1)   |
| 2.2     | Deposit Agreement dated as of December 19, 1962, as amended and restated as of October 1, 1982 (including changes from Amendment to Deposit Agreement dated as of April 1, 1989) among the registrant, Morgan Guaranty Trust Company of New York (now JP Morgan Chase Bank), as Depositary, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (2) |
| 2.3     | Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (2)   |
| 2.4     | Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (3)   |
| 2.5     | Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006, among the parties referred to in Exhibit 2.2 above (4)  |
| 2.6     | Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)  |
| 8.1     | List of Significant Subsidiaries (See Organizational Structure in Item 4.C of this Form 20-F)  |
| 11.1    | Code of Ethics (6)   |
| 12.1    | Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a)   |
| 12.2    | Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a)   |
| 13.1    | Certification of the chief executive officer required by 18 U.S.C. Section 1350  |
| 13.2    | Certification of the chief financial officer required by 18 U.S.C. Section 1350  |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

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

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





**Table of Contents**

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

**Consolidated Financial Statements**

**and**

**Reports of Independent Registered**

**Public Accounting Firm**

**March 31, 2010**

**To be Included in**

**The Annual Report**

**Form 20-F**

**Filed with**

**The Securities and Exchange Commission**

**Washington, D.C., U.S.A.**

**Table of Contents**

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

**Index to Consolidated Financial Statements**

|   |      |
|---|------|
| <u>Reports of Independent Registered Public Accounting Firm</u>                               | F-3  |
| <u>Consolidated Balance Sheets March 31, 2009 and 2010</u>                                    | F-5  |
| <u>Consolidated Statements of Income Years ended March 31, 2008, 2009 and 2010</u>            | F-6  |
| <u>Consolidated Statements of Changes in Equity Years ended March 31, 2008, 2009 and 2010</u> | F-7  |
| <u>Consolidated Statements of Cash Flows Years ended March 31, 2008, 2009 and 2010</u>        | F-9  |
| <u>Notes to Consolidated Financial Statements</u>   | F-10 |

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

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Honda Motor Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries ( Honda ) as of March 31, 2009 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2010. These consolidated financial statements are the responsibility of Honda's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2009 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2010, in conformity with U.S. generally accepted accounting principles.

As further described in Note 1(c) to the consolidated financial statements, Honda adopted retrospectively the presentation and disclosure provisions of FASB Statement of Financial Accounting Standard No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, which is now codified in the FASB Accounting Standard Codification (ASC) 810, *Consolidation*, as of April 1, 2009. As described in Note 1(m) to the consolidated financial statements, Honda adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which is now codified in the FASB ASC 740, *Income Taxes*, as of April 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Honda Motor Co., Ltd.'s internal control over financial reporting as of March 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 24, 2010 expressed an unqualified opinion on the effectiveness of Honda Motor Co., Ltd.'s internal control over financial reporting.

/S/ KPMG AZSA & Co.

Tokyo, Japan

June 24, 2010



**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Honda Motor Co., Ltd.:

We have audited Honda Motor Co., Ltd.'s internal controls over financial reporting as of March 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Honda Motor Co., Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Honda Motor Co., Ltd.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Honda Motor Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2009 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2010, and our report dated June 24, 2010 expressed an unqualified opinion on those consolidated financial statements.

/S/ KPMG AZSA & Co.

Tokyo, Japan

June 24, 2010

F-4

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Balance Sheets****March 31, 2009 and 2010**

|  | Yen (millions)      |                     |
|--|---------------------|---------------------|
|  | 2009                | 2010                |
| <b>Assets</b>  |                     |                     |
| Current assets:  |                     |                     |
| Cash and cash equivalents  | ¥ 690,369           | ¥ 1,119,902         |
| Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥7,455 million in 2009 and ¥8,555 million in 2010 (notes 2, 8 and 19) | 854,214             | 883,476             |
| Finance subsidiaries-receivables, net (notes 2, 3, 8 and 19)   | 1,172,030           | 1,100,158           |
| Inventories (notes 4 and 8)  | 1,243,961           | 935,629             |
| Deferred income taxes (note 10)  | 198,158             | 176,604             |
| Other current assets (notes 6, 8 and 16)   | 462,446             | 397,955             |
| <b>Total current assets</b>  | <b>4,621,178</b>    | <b>4,613,724</b>    |
| Finance subsidiaries-receivables, net (notes 2, 3, 8 and 19)   | 2,400,282           | 2,361,335           |
| Investments and advances:  |                     |                     |
| Investments in and advances to affiliates (note 5)   | 505,835             | 457,834             |
| Other, including marketable equity securities (note 6)   | 133,234             | 184,847             |
| <b>Total investments and advances</b>  | <b>639,069</b>      | <b>642,681</b>      |
| Property on operating leases (note 7):   |                     |                     |
| Vehicles   | 1,557,060           | 1,651,672           |
| Less accumulated depreciation  | 269,261             | 343,525             |
| <b>Net property on operating leases</b>  | <b>1,287,799</b>    | <b>1,308,147</b>    |
| Property, plant and equipment, at cost (note 8):   |                     |                     |
| Land   | 469,279             | 489,769             |
| Buildings  | 1,446,090           | 1,509,821           |
| Machinery and equipment  | 3,133,439           | 3,257,455           |
| Construction in progress   | 159,567             | 143,862             |
|  | 5,208,375           | 5,400,907           |
| Less accumulated depreciation and amortization   | 3,060,654           | 3,314,244           |
| <b>Net property, plant and equipment</b>   | <b>2,147,721</b>    | <b>2,086,663</b>    |
| Other assets (notes 2, 8, 10, 12 and 16)   | 722,868             | 616,565             |
| <b>Total assets</b>  | <b>¥ 11,818,917</b> | <b>¥ 11,629,115</b> |

**Liabilities and Equity**

Current liabilities:



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|   |                     |                     |
|---|---------------------|---------------------|
| Short-term debt (notes 3 and 8)   | ¥ 1,706,819         | ¥ 1,066,344         |
| Current portion of long-term debt (notes 3 and 8)                               | 977,523             | 722,296             |
| Trade payables:   |                     |                     |
| Notes   | 31,834              | 24,704              |
| Accounts  | 674,498             | 802,464             |
| Accrued expenses (note 12)  | 562,673             | 542,521             |
| Income taxes payable (note 10)  | 32,614              | 23,947              |
| Other current liabilities (notes 8, 10 and 16)                                  | 251,407             | 236,854             |
| <b>Total current liabilities</b>  | <b>4,237,368</b>    | <b>3,419,130</b>    |
| Long-term debt, excluding current portion (notes 3 and 8)                       | 1,932,637           | 2,313,035           |
| Other liabilities (notes 9, 10 and 12)  | 1,518,568           | 1,440,520           |
| <b>Total liabilities</b>  | <b>7,688,573</b>    | <b>7,172,685</b>    |
| <b>Equity:</b>  |                     |                     |
| Honda Motor Co., Ltd. shareholders' equity:                                     |                     |                     |
| Common stock, authorized 7,086,000,000 shares; issued 1,834,828,430 shares      | 86,067              | 86,067              |
| Capital surplus   | 172,529             | 172,529             |
| Legal reserves (note 11)  | 43,965              | 45,463              |
| Retained earnings (note 11)   | 5,099,267           | 5,304,473           |
| Accumulated other comprehensive income (loss), net (notes 6, 10, 12, 14 and 16) | (1,322,828)         | (1,208,162)         |
| Treasury stock, at cost 20,219,430 shares in 2009 and 20,225,694 shares in 2010 | (71,712)            | (71,730)            |
| <b>Total Honda Motor Co., Ltd. shareholders' equity</b>                         | <b>4,007,288</b>    | <b>4,328,640</b>    |
| Noncontrolling interests (note 1(c))  | 123,056             | 127,790             |
| <b>Total equity (note 1(c))</b>   | <b>4,130,344</b>    | <b>4,456,430</b>    |
| Commitments and contingent liabilities (notes 17 and 18)                        |                     |                     |
| <b>Total liabilities and equity</b>   | <b>¥ 11,818,917</b> | <b>¥ 11,629,115</b> |

See accompanying notes to consolidated financial statements.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Income****Years ended March 31, 2008, 2009 and 2010**

|   | 2008         | Yen (millions)<br>2009 | 2010        |
|---|--------------|------------------------|-------------|
| Net sales and other operating revenue (note 2)                                      | ¥ 12,002,834 | ¥ 10,011,241           | ¥ 8,579,174 |
| Operating costs and expenses:   |              |                        |             |
| Cost of sales (note 2)  | 8,543,170    | 7,419,582              | 6,414,721   |
| Selling, general and administrative   | 1,918,596    | 1,838,819              | 1,337,324   |
| Research and development  | 587,959      | 563,197                | 463,354     |
|   | 11,049,725   | 9,821,598              | 8,215,399   |
| Operating income  | 953,109      | 189,643                | 363,775     |
| Other income (expenses):  |              |                        |             |
| Interest income   | 50,144       | 41,235                 | 18,232      |
| Interest expense  | (16,623)     | (22,543)               | (12,552)    |
| Other, net (notes 1(p), 6 and 16)   | (90,789)     | (46,601)               | (33,257)    |
|   | (57,268)     | (27,909)               | (27,577)    |
| Income before income taxes and equity in income of affiliates                       | 895,841      | 161,734                | 336,198     |
| Income tax expense (note 10):   |              |                        |             |
| Current   | 356,095      | 68,062                 | 90,263      |
| Deferred  | 31,341       | 41,773                 | 56,606      |
|   | 387,436      | 109,835                | 146,869     |
| Income before equity in income of affiliates  | 508,405      | 51,899                 | 189,329     |
| Equity in income of affiliates (note 5)   | 118,942      | 99,034                 | 93,282      |
| Net income (note 1(c))  | 627,347      | 150,933                | 282,611     |
| Less: Net income attributable to noncontrolling interests (note 1(c))               | 27,308       | 13,928                 | 14,211      |
| Net income attributable to Honda Motor Co., Ltd. (note 1(c))                        | ¥ 600,039    | ¥ 137,005              | ¥ 268,400   |
|   | 2008         | Yen<br>2009            | 2010        |
| Basic net income attributable to Honda Motor Co., Ltd. per common share (note 1(o)) | ¥ 330.54     | ¥ 75.50                | ¥ 147.91    |

See accompanying notes to consolidated financial statements.



**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity**

Years ended March 31, 2008, 2009 and 2010

|  | Yen (millions)  |                    |                   |                      |   |                   | Total<br>Honda<br>Motor Co.,<br>Ltd.<br>shareholders<br>equity | Noncontrolling<br>interests<br>(note 1(c)) | Total<br>equity<br>(note 1(c)) |
|--|-----------------|--------------------|-------------------|----------------------|---|-------------------|--|--|--------------------------------|
|  | Common<br>stock | Capital<br>surplus | Legal<br>reserves | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss), net | Treasury<br>stock |  |  |                                |
| Balance at March 31, 2007                                | ¥ 86,067        | ¥ 172,529          | ¥ 37,730          | ¥ 4,661,104          | ¥ (427,166)   | ¥ (41,439)        | ¥ 4,488,825  | ¥ 122,907                                  | ¥ 4,611,732                    |
| Transfer to legal reserves                               |                 |                    | 2,081             | (2,081)              |   |                   |  |  |                                |
| Dividends paid to Honda Motor Co., Ltd. shareholders     |                 |                    |                   | (152,590)            |   |                   | (152,590)  |  | (152,590)                      |
| Dividends paid to noncontrolling interests               |                 |                    |                   |                      |   |                   |  | (9,663)                                    | (9,663)                        |
| Capital transactions and others                          |                 |                    |                   |                      |   |                   |  | 2,556                                      | 2,556                          |
| Comprehensive income (loss) :                            |                 |                    |                   |                      |   |                   |  |  |                                |
| Net income   |                 |                    |                   | 600,039              |   |                   | 600,039  | 27,308                                     | 627,347                        |
| Other comprehensive income (loss), net of tax (note 14)  |                 |                    |                   |                      |   |                   |  |  |                                |
| Adjustments from foreign currency translation            |                 |                    |                   |                      | (312,267)   |                   | (312,267)  | (3,283)                                    | (315,550)                      |
| Unrealized gains (losses) on marketable securities, net  |                 |                    |                   |                      | (26,459)  |                   | (26,459)   | (147)                                      | (26,606)                       |
| Unrealized gains (losses) on derivative instruments, net |                 |                    |                   |                      | 440   |                   | 440  |  | 440                            |
| Pension and other postretirement benefits adjustments    |                 |                    |                   |                      | (16,746)  |                   | (16,746)   | (1,633)                                    | (18,379)                       |
| Total comprehensive income (loss)                        |                 |                    |                   |                      |   |                   | 245,007  | 22,245                                     | 267,252                        |
| Purchase of treasury stock                               |                 |                    |                   |                      |   | (34,404)          | (34,404)   |  | (34,404)                       |
| Reissuance of treasury stock                             |                 |                    |                   | (275)                |   | 3,916             | 3,641  | 3,761                                      | 7,402                          |
| Balance at March 31, 2008                                | ¥ 86,067        | ¥ 172,529          | ¥ 39,811          | ¥ 5,106,197          | ¥ (782,198)   | ¥ (71,927)        | ¥ 4,550,479  | ¥ 141,806                                  | ¥ 4,692,285                    |
| Transfer to legal reserves                               |                 |                    | 4,154             | (4,154)              |   |                   |  |  |                                |
| Dividends paid to Honda Motor Co., Ltd. shareholders     |                 |                    |                   | (139,724)            |   |                   | (139,724)  |  | (139,724)                      |
| Dividends paid to noncontrolling interests               |                 |                    |                   |                      |   |                   |  | (10,841)                                   | (10,841)                       |
| Capital transactions and others                          |                 |                    |                   |                      |   |                   |  | (172)                                      | (172)                          |
| Comprehensive income (loss) :                            |                 |                    |                   |                      |   |                   |  |  |                                |
| Net income   |                 |                    |                   | 137,005              |   |                   | 137,005  | 13,928                                     | 150,933                        |
| Other comprehensive income (loss), net of tax (note 14)  |                 |                    |                   |                      |   |                   |  |  |                                |
| Adjustments from foreign currency translation            |                 |                    |                   |                      | (477,316)   |                   | (477,316)  | (19,865)                                   | (497,181)                      |

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|  |          |           |          |             |               |            |             |
|--|----------|-----------|----------|-------------|---------------|------------|-------------|
| Unrealized gains (losses) on marketable securities, net  |          |           | (25,063) |             | (25,063)      | (60)       | (25,123)    |
| Unrealized gains (losses) on derivative instruments, net |          |           | (460)    |             | (460)         |            | (460)       |
| Pension and other postretirement benefits adjustments    |          |           | (37,791) |             | (37,791)      | (1,740)    | (39,531)    |
| Total comprehensive income (loss)                        |          |           |          |             | (403,625)     | (7,737)    | (411,362)   |
| Purchase of treasury stock                               |          |           |          |             | (62)          | (62)       | (62)        |
| Reissuance of treasury stock                             |          |           | (57)     |             | 277           | 220        | 220         |
| Balance at March 31, 2009                                | ¥ 86,067 | ¥ 172,529 | ¥ 43,965 | ¥ 5,099,267 | ¥ (1,322,828) | ¥ (71,712) | ¥ 4,007,288 |
|  |          |           |          |             |               | ¥ 123,056  | ¥ 4,130,344 |

F-7

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity (Continued)**

Years ended March 31, 2008, 2009 and 2010

|   | Yen (millions)  |                    |                   |                      |   |                   | Total<br>Honda<br>Motor Co.,<br>Ltd.<br>shareholders<br>equity | Noncontrolling<br>interests<br>(note 1(c)) | Total<br>equity<br>(note 1(c)) |
|---|-----------------|--------------------|-------------------|----------------------|---|-------------------|--|--|--------------------------------|
|   | Common<br>stock | Capital<br>surplus | Legal<br>reserves | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss), net | Treasury<br>stock |  |  |                                |
| Transfer to legal reserves                                  |                 |                    | 1,498             | (1,498)              |   |                   |  |  |                                |
| Dividends paid to Honda Motor<br>Co., Ltd. shareholders     |                 |                    |                   | (61,696)             |   |                   | (61,696)   |  | (61,696)                       |
| Dividends paid to<br>noncontrolling interests               |                 |                    |                   |                      |   |                   |  | (16,278)                                   | (16,278)                       |
| Capital transactions and others                             |                 |                    |                   |                      |   |                   |  | 127  | 127                            |
| Comprehensive income (loss):                                |                 |                    |                   |                      |   |                   |  |  |                                |
| Net income  |                 |                    |                   | 268,400              |   |                   | 268,400  | 14,211                                     | 282,611                        |
| Other comprehensive income<br>(loss), net of tax (note 14)  |                 |                    |                   |                      |   |                   |  |  |                                |
| Adjustments from foreign<br>currency translation            |                 |                    |                   |                      | 91,097  |                   | 91,097   | 5,750                                      | 96,847                         |
| Unrealized gains (losses) on<br>marketable securities, net  |                 |                    |                   |                      | 23,107  |                   | 23,107   | 111  | 23,218                         |
| Unrealized gains (losses) on<br>derivative instruments, net |                 |                    |                   |                      | (324)   |                   | (324)  |  | (324)                          |
| Pension and other<br>postretirement benefits<br>adjustments |                 |                    |                   |                      | 786   |                   | 786  | 813  | 1,599                          |
| Total comprehensive income<br>(loss)                        |                 |                    |                   |                      |   |                   | 383,066  | 20,885                                     | 403,951                        |
| Purchase of treasury stock                                  |                 |                    |                   |                      |   | (20)              | (20)   |  | (20)                           |
| Reissuance of treasury stock                                |                 |                    |                   |                      |   | 2                 | 2  |  | 2                              |
| Balance at March 31, 2010                                   | ¥ 86,067        | ¥ 172,529          | ¥ 45,463          | ¥ 5,304,473          | ¥ (1,208,162)   | ¥ (71,730)        | ¥ 4,328,640  | ¥ 127,790                                  | ¥ 4,456,430                    |

See accompanying notes to consolidated financial statements.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****Years ended March 31, 2008, 2009 and 2010**

|  | Yen (millions) |             |             |
|--|----------------|-------------|-------------|
|  | 2008           | 2009        | 2010        |
| Cash flows from operating activities (note 13):  |                |             |             |
| Net income (note 1(c))   | ¥ 627,347      | ¥ 150,933   | ¥ 282,611   |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                |             |             |
| Depreciation excluding property on operating leases                                      | 417,393        | 441,868     | 401,743     |
| Depreciation of property on operating leases   | 101,032        | 195,776     | 227,931     |
| Deferred income taxes  | 31,341         | 41,773      | 56,606      |
| Equity in income of affiliates   | (118,942)      | (99,034)    | (93,282)    |
| Dividends from affiliates  | 67,764         | 65,140      | 140,901     |
| Provision for credit and lease residual losses on finance subsidiaries-receivables       | 58,011         | 77,016      | 40,062      |
| Impairment loss on investments in securities   | 577            | 26,001      | 603         |
| Impairment loss on long-lived assets and goodwill excluding property on operating leases |                | 21,597      | 548         |
| Impairment loss on property on operating leases  | 5,850          | 18,528      | 3,312       |
| Loss (gain) on derivative instruments, net   | 70,251         | (15,506)    | (37,753)    |
| Decrease (increase) in assets:   |                |             |             |
| Trade accounts and notes receivable  | (67,696)       | (30,025)    | (6,910)     |
| Inventories  | (100,622)      | (262,782)   | 352,994     |
| Other current assets   | (2,609)        | (82,838)    | 103,071     |
| Other assets   | (130,666)      | 8,640       | 24,150      |
| Increase (decrease) in liabilities:  |                |             |             |
| Trade accounts and notes payable   | 32,327         | (133,662)   | 151,345     |
| Accrued expenses   | (24,768)       | (102,711)   | (20,457)    |
| Income taxes payable   | 20             | (12,861)    | (14,524)    |
| Other current liabilities  | 2,301          | 10,630      | 5,662       |
| Other liabilities  | 179,537        | 74,872      | (30,146)    |
| Other, net   | (21,530)       | (9,714)     | (44,255)    |
| Net cash provided by operating activities  | 1,126,918      | 383,641     | 1,544,212   |
| Cash flows from investing activities:  |                |             |             |
| Increase in investments and advances   | (6,417)        | (4,879)     | (19,419)    |
| Decrease in investments and advances   | 1,270          | 1,921       | 14,078      |
| Payments for purchases of available-for-sale securities                                  | (158,426)      | (31,936)    | (5,871)     |
| Proceeds from sales of available-for-sale securities                                     | 179,911        | 26,896      | 4,945       |
| Payments for purchases of held-to-maturity securities                                    | (39,482)       | (17,348)    | (21,181)    |
| Proceeds from redemptions of held-to-maturity securities                                 | 32,557         | 32,667      | 6,283       |
| Capital expenditures   | (668,228)      | (635,190)   | (392,062)   |
| Proceeds from sales of property, plant and equipment                                     | 26,868         | 18,843      | 24,472      |
| Acquisitions of finance subsidiaries-receivables   | (2,712,775)    | (2,303,930) | (1,448,146) |
| Collections of finance subsidiaries-receivables  | 2,312,311      | 2,023,031   | 1,595,235   |
| Sales (repurchases) of finance subsidiaries-receivables, net                             | 158,497        | 324,672     | (55,168)    |
| Purchases of operating lease assets  | (839,261)      | (668,128)   | (544,027)   |
| Proceeds from sales of operating lease assets  | 26,776         | 100,017     | 245,110     |
| Net cash used in investing activities  | (1,686,399)    | (1,133,364) | (595,751)   |
| Cash flows from financing activities:  |                |             |             |
| Increase (decrease) in short-term debt, net  | 601,957        | 270,795     | (649,641)   |
| Proceeds from long-term debt   | 1,061,792      | 1,299,984   | 1,132,222   |
| Repayments of long-term debt   | (782,749)      | (889,483)   | (963,833)   |
| Dividends paid (note 11)   | (152,590)      | (139,724)   | (61,696)    |

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|  |             |           |             |
|--|-------------|-----------|-------------|
| Dividends paid to noncontrolling interests                   | (9,663)     | (10,841)  | (16,278)    |
| Sales (purchases) of treasury stock, net                     | (30,746)    | 131       | (18)        |
| Net cash provided by (used in) financing activities          | 688,001     | 530,862   | (559,244)   |
| Effect of exchange rate changes on cash and cash equivalents | (23,164)    | (141,672) | 40,316      |
| Net change in cash and cash equivalents                      | 105,356     | (360,533) | 429,533     |
| Cash and cash equivalents at beginning of year               | 945,546     | 1,050,902 | 690,369     |
| Cash and cash equivalents at end of year                     | ¥ 1,050,902 | ¥ 690,369 | ¥ 1,119,902 |

See accompanying notes to consolidated financial statements.

F-9



**Table of Contents**

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

**Notes to Consolidated Financial Statements**

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

*(a) Description of Business*

Honda Motor Co., Ltd. (the Company) and its subsidiaries (collectively Honda) mainly develop, manufacture and distribute motorcycles, automobiles, power products, and also provide financing for the sale of those products. Principal manufacturing facilities are located in Japan, the United States of America, Canada, Mexico, the United Kingdom, Italy, China, India, Thailand, Vietnam, Argentina, Brazil and Turkey.

*(b) Basis of Presenting Consolidated Financial Statements*

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

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

*(c) Consolidation Policy*

The consolidated financial statements include the accounts of the Company, its subsidiaries and those variable interest entities where Honda is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Honda adopted Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51, which is now codified in the FASB Accounting Standards Codification (ASC) 810 *Consolidation*, effective April 1, 2009. This statement requires a noncontrolling interest in a subsidiary to be reported as equity in the consolidated financial statements, and requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions. Upon the adoption of this statement, noncontrolling interests, which were previously referred to as minority interests and classified between total liabilities and stockholders' equity on the consolidated balance sheets, are now included as a separate component of total equity. In addition, the presentation of consolidated statements of income, changes in equity and cash flows has been changed. The presentation and disclosure requirements of this statement have been applied retrospectively.

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

There are some subsidiaries and affiliates of which the fiscal year-end is December 31.

### *(d) Use of Estimates*

Management of Honda has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare its consolidated financial statements in conformity with U.S. generally accepted accounting principles. Significant items subject to such estimates and assumptions include, but are not limited to, allowance for credit losses, losses on lease residual values, retained interests in securitizations, realizable values of inventories, realization of deferred tax assets, impairment of long-lived assets, unrecognized tax benefits, product warranty obligations, the

F-10

**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

fair values of assets and obligations related to employee benefits, and the fair value of derivative financial instruments. A sustained loss of consumer confidence which may be caused by continued economic slowdown, recession, changes in consumer preferences, rising fuel prices, financial crisis or other factors have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from those estimates.

*(e) Revenue Recognition*

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

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

Operating lease revenues are recorded on a straight-line basis over the term of the lease.

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

Finance subsidiaries of the Company periodically sell finance receivables. Gain or loss is recognized equal to the difference between the cash proceeds received and the carrying value of the receivables sold and is recorded in the period in which the sale occurs. Honda allocates the recorded investment in finance receivables between the portion(s) of the receivables sold and portion(s) retained, based on the relative fair values of those portions on the date the receivables are sold. Honda recognizes gains or losses attributable to the change in the fair value of the retained interests, which are recorded at estimated fair value and accounted for as trading securities. Honda determines the fair value of the retained interests by discounting the future cash flows. Those cash flows are estimated based on prepayments, credit losses and other information as available and are discounted at a rate which Honda believes is commensurate with the risk free rate plus a risk premium. Finance subsidiaries of the Company have applied the FASB Accounting Standards Codification (ASC) 860 Transfers and Servicing which requires the finance subsidiaries of the Company to measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur. Servicing assets and servicing liabilities at March 31, 2009 and 2010 were not significant.

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Taxes collected from customers and remitted to governmental authorities on revenue-producing transactions are accounted for on a net basis and therefore are excluded from revenues in consolidated statements of income.

### *(f) Cash Equivalents*

Honda considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents mainly consist of money market funds, and amount to ¥94,454 million and ¥260,896 million as of March 31, 2009 and 2010, respectively.

F-11

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**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

*(g) Inventories*

Inventories are stated at the lower of cost or market. Cost is determined principally on a first-in, first-out basis.

*(h) Investments in Securities*

Investments in securities consist of investment to affiliates and debt and equity securities. Investments in affiliates in which Honda has the ability to exercise significant influence over their operating and financial policies, but where Honda does not have a controlling financial interest are accounted for using the equity method. Differences between the cost of investments in affiliates and the amount of underlying equity of the affiliates principally represent investor level goodwill.

Honda considers whether the fair value of any of its equity method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If Honda considers any such decline to be other-than-temporary based on various factors, then a write-down will be recorded to estimated fair value.

Honda classifies its debt and marketable equity securities into the following categories: available-for-sale, trading, or held-to-maturity. Debt securities classified as held-to-maturity securities are reported at amortized cost. Debt and 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 equity section of the consolidated balance sheets. The costs of available-for-sale securities sold are accounted for using the moving-average method. Honda did not hold any trading securities at March 31, 2009 and 2010, except for retained interests in securitizations of finance receivables, which are accounted for as trading securities and included in finance subsidiaries-receivables.

Honda periodically compares the fair value of debt and marketable equity securities with their cost basis. If the fair value of the securities has declined below the cost basis and such decline is judged to be other-than-temporary, Honda recognizes the impairment of the securities 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 assessing impairment of securities, Honda considers the factors such as degree and period of the decline in fair value, financial position and results of operations of investees and forecast earnings based on market and economic trend in which the investees operate. For the years ended March 31, 2008, 2009 and 2010, Honda recognized ¥577 million, ¥26,001 million and ¥603 million impairment loss on investments in securities, respectively. The impairment loss on investments in securities for the year ended March 31, 2009 was principally related to the securities which our consolidated subsidiary holds in the United States market. Honda recognized impairment loss because of significant declines in the fair value of the securities caused by stock market slump and we considered the decline in fair value below our cost basis was other-than-temporary based on the factors such as financial position and results of operations of the investee and the industry which the investee operates. The impairment loss on securities is included in other income (expenses)-other, net in the consolidated statements of income.

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

F-12

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

Goodwill, all of which is allocated to Honda's reporting units, is not amortized but is tested for impairment at least annually. Honda recognized ¥8,006 million impairment loss on goodwill reported by a reporting unit in its automobile segment for the year ended March 31, 2009, because of a decision principally to withdraw from certain racing activities and estimated that it will not generate future cash flows. The impairment loss on goodwill is included in selling, general and administrative in the consolidated statements of income. For the year ended March 31, 2008 and 2010, Honda did not recognize impairment loss on goodwill.

The carrying amount of goodwill at March 31, 2009 and 2010 was ¥12,091 million and ¥12,062 million, respectively and is included in other assets of the consolidated balance sheets.

*(j) Property on Operating Leases*

Property on operating leases is reported at cost, less accumulated depreciation. Depreciation of the vehicles is generally provided on a straight-line basis to an estimated residual value over the lease term. The residual values of the vehicles related to the operating leases are estimated by using the estimate of future used vehicle values, taking into consideration data obtained from third parties.

*(k) Depreciation and Amortization*

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

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

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

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

Honda's long-lived assets and identifiable intangible assets other than goodwill having finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. For the years ended March 31, 2009 and 2010, Honda recognized ¥13,591 million and ¥548 million impairment loss on long-lived assets excluding property on operating leases, respectively. Honda recognized impairment loss on long-lived assets included mainly in the automobile business asset group for the year ended March 31, 2009, because of the decision principally to withdraw from certain racing activities and estimated that it will not generate future cash flows. The impairment loss on long-lived assets is included in selling, general and administrative in the consolidated statements of income.

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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**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

*(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.

Honda adopted the provision of Financial Accounting Standards Board (FASB) Interpretation (FIN) No.48 Accounting for Uncertainty in Income Taxes, which is now codified in the FASB Accounting Standards Codification (ASC) 740 Income Taxes on April 1, 2007. This statement requires that an entity recognizes in the consolidated financial statements the impact of a tax position, if any, based on the technical merits of the position, when that position is more likely than not to be sustained upon examination. Benefits from tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. This statement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Honda accounts for interest and penalties related to the liability for unrecognized tax benefits as a component of income tax expense in the consolidated statement of income.

*(n) Product-Related Expenses*

Advertising and sales promotion costs are expensed as incurred. Advertising expenses for each of the years in the three-year period ended March 31, 2010 were ¥315,656 million, ¥301,285 million and ¥196,713 million, respectively. Provisions for estimated costs related to product warranty are made at the time the products are sold to customers or new warranty programs are initiated. Estimated warranty expenses are provided based on historical warranty claim experience with consideration given to the expected level of future warranty costs as well as current information on repair costs. Included in warranty expenses accruals are costs for general warranties on vehicles Honda sells and product recalls.

*(o) Basic Net Income Attributable to Honda Motor Co., Ltd. per Common Share*

Basic net income attributable to Honda Motor Co., Ltd. per common share has been computed by dividing net income attributable to Honda Motor Co., Ltd. by the weighted average number of common shares outstanding during each year. The weighted average number of common shares outstanding for the years ended March 31, 2008, 2009 and 2010 was 1,815,356,440 shares, 1,814,560,728 shares and 1,814,605,803 shares, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2008, 2009 or 2010.

*(p) Foreign Currency Translation and Transactions*

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

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

All revenues and expenses associated with foreign currencies are converted at the rates of exchange prevailing when such transactions occur and foreign currency receivables and payables are re-measured at the applicable exchange rates on the balance sheet date. Foreign currency translation and transaction gains or losses are included in other income (expenses)-other, net and these net gains or losses for each of the years in the three-year period ended March 31, 2010 are as follows:

|             | Yen        |            |
|-------------|------------|------------|
|             | (millions) |            |
| 2008        | 2009       | 2010       |
| ¥ (116,102) | ¥ 3,148    | ¥ (37,417) |

The gains or losses on translation of receivables and payables dominated in foreign currencies intended to be hedged are presented on a net basis with derivative financial instruments. (see note 16)

*(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. (see notes 15 and 16)

Honda recognizes all derivative financial instruments at fair value in its consolidated balance sheets. Derivative asset and liability positions are presented net by counterparty on the consolidated balance sheets when valid master netting agreement exists and the other conditions set out in the FASB Accounting Standards Codification (ASC) 210-20 Balance Sheet-Offsetting are met.

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

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

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transactions affect earnings. When these cash flow hedges prove to be ineffective, changes in the fair value of the derivatives are immediately recognized in earnings.

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

Honda does not hold any derivative financial instruments for trading purposes.

F-15

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

Shipping and handling costs included in selling, general and administrative expenses for each of the years in the three-year period ended March 31, 2010 are as follows:

|           | Yen        |           |
|-----------|------------|-----------|
|           | (millions) |           |
| 2008      | 2009       | 2010      |
| ¥ 239,737 | ¥ 224,262  | ¥ 151,197 |

*(s) Asset Retirement Liability*

Honda recognizes an asset retirement liability if the fair value of the obligation can be reasonably estimated. Asset retirement obligations include those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

*(t) New Accounting Pronouncements*

In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-16 Accounting for Transfers of Financial Assets, and ASU 2009-17 Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which will amend the FASB Accounting Standards Codification (ASC) 860 Transfers and Servicing, and ASC 810 Consolidation. ASU 2009-16 removes the concept of a qualifying special purpose entity (QSPE) and removes the exception from applying consolidation accounting standards to QSPEs. ASU 2009-17 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining a variable interest entity's primary beneficiary from a mainly quantitative assessment to an exclusively qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity.

These standards are effective as of the beginning of an entity's first fiscal year beginning after November 15, 2009 and for subsequent interim and annual reporting periods. Former 10 QSPEs utilized in legacy off-balance sheet securitizations will be consolidated by the Company upon adoption of these standards. As a result, previously derecognized assets held by former QSPEs including finance subsidiaries receivables of ¥274,495 million and their related secured debt of ¥272,448 million will be included in the Company's consolidated financial statements. The assets and liabilities associated with legacy off-balance sheet securitizations including retained interests in securitizations and servicing assets will be removed from the Company's consolidated balance sheet. The cumulative effect adjustment to retained earnings is not expected to be material.

*(u) Reclassifications*

Certain reclassifications have been made to the prior years consolidated financial statements to conform to the presentation used for the fiscal year ended March 31, 2010.

**(2) Finance Subsidiaries-Receivables and Securitizations**

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

F-16

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

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

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

Finance subsidiaries-receivables, net, consisted of the following at March 31, 2009 and 2010:

|  | Yen<br>(millions) |                  |
|--|-------------------|------------------|
|  | 2009              | 2010             |
| Direct financing leases                                | ¥ 699,301         | ¥ 449,459        |
| Retail   | 3,138,804         | 3,246,493        |
| Wholesale  | 351,499           | 301,418          |
| Term loans to dealers                                  | 26,140            | 30,308           |
| <b>Total finance receivables</b>                       | <b>4,215,744</b>  | <b>4,027,678</b> |
| Retained interests in securitizations                  | 45,648            | 27,555           |
|  | 4,261,392         | 4,055,233        |
| Less:  |                   |                  |
| Allowance for credit losses                            | 38,070            | 37,320           |
| Allowance for losses on lease residual values          | 20,393            | 9,253            |
| Unearned interest income and fees                      | 35,135            | 27,672           |
|  | 4,167,794         | 3,980,988        |
| Less:  |                   |                  |
| Finance receivables included in trade receivables, net | 424,612           | 361,882          |
| Finance receivables included in other assets, net      | 170,870           | 157,613          |
| Finance subsidiaries-receivables, net                  | 3,572,312         | 3,461,493        |
| Less current portion                                   | 1,172,030         | 1,100,158        |
| Noncurrent finance subsidiaries-receivables, net       | ¥ 2,400,282       | ¥ 2,361,335      |

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The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2010 and thereafter:

| <b>Years ending March 31</b> | <b>Yen<br/>(millions)</b> |
|------------------------------|---------------------------|
| 2011                         | ¥ 1,485,545               |
| 2012                         | 1,005,324                 |
| 2013                         | 784,869                   |
| 2014                         | 488,110                   |
| 2015                         | 201,672                   |
| After five years             | 62,158                    |
|                              | 2,542,133                 |
| Total                        | ¥ 4,027,678               |

F-17



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

Net sales and other operating revenue and cost of sales include finance income and related cost of finance subsidiaries for each of the years in the three-year period ended March 31, 2010 as follows:

|                | Yen<br>(millions) |           |           |
|----------------|-------------------|-----------|-----------|
|                | 2008              | 2009      | 2010      |
| Finance income | ¥ 549,052         | ¥ 596,525 | ¥ 618,811 |
| Finance cost   | 303,890           | 341,282   | 321,491   |

Finance subsidiaries of the Company periodically sell finance receivables. Finance subsidiaries sold retail finance receivables subject to limited recourse provisions totaling approximately ¥232,474 million, ¥428,642 million, ¥13,346 million to investors in fiscal years 2008, 2009 and 2010, respectively. Pre-tax net gains or losses on such sales resulted in a gain of ¥9 million and a loss of ¥8,371 million in fiscal years 2008 and 2009, respectively, which are included in gain or loss on sale of receivables. There is no gain or loss recognized on such sales in fiscal year 2010.

Retained interests in securitizations were comprised of the following at March 31, 2009 and 2010:

|                           | Yen<br>(millions) |                 |
|---------------------------|-------------------|-----------------|
|                           | 2009              | 2010            |
| Subordinated certificates | ¥ 23,842          | ¥ 19,556        |
| Residual interests        | 21,806            | 7,999           |
| <b>Total</b>              | <b>¥ 45,648</b>   | <b>¥ 27,555</b> |

Key economic assumptions used in initially estimating the fair values at the date of the securitizations during each of the years in the three-year period ended March 31, 2010 are as follows (see note 3):

|                                   | 2008            | 2009            | 2010 |
|-----------------------------------|-----------------|-----------------|------|
| Weighted average life (years)     | 1.66 to 1.73    | 1.22 to 1.53    |      |
| Prepayment speed                  | 1.25%           | 1.30%           |      |
| Expected credit losses            | 0.21% to 0.30%  | 0.27% to 1.32%  |      |
| Residual cash flows discount rate | 5.82% to 12.00% | 6.53% to 40.13% |      |

At March 31, 2010, the significant assumptions used in estimating the retained interest in securitizations are as follows:

|                                   | Weighted average assumption |       |
|-----------------------------------|-----------------------------|-------|
|                                   | 2009                        | 2010  |
| Prepayment speed                  | 1.30%                       | 1.31% |
| Expected credit losses            | 0.60%                       | 0.44% |
| Residual cash flows discount rate | 22.38%                      | 6.53% |

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

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

The following table presents quantitative information about balances of outstanding securitized portfolios as of March 31, 2009 and 2010.

|                               | Yen<br>(millions) |           |
|-------------------------------|-------------------|-----------|
|                               | 2009              | 2010      |
| Securitized receivables       |                   |           |
| Retail                        | ¥ 622,367         | ¥ 263,222 |
| Direct financing leases       | 7,740             |           |
| Total securitized receivables | ¥ 630,107         | ¥ 263,222 |

**(3) Variable Interest Entities**

Honda considers its involvement with a variable interest entity (VIE) under the FASB Accounting Standards Codification (ASC) 810

Consolidation. This standard requires the reporting entity to consolidate a VIE when that enterprise has a variable interest that (1) absorbs a majority of the entity's expected losses, (2) receives a majority of the entity's expected residual returns, or (3) both.

For the purpose of accelerating the receipt of cash related to its finance receivables, the finance subsidiaries of the Company in North America periodically securitize and sell pools of these receivables, and newly establish the trust to issue asset-backed securities for each securitization. The trusts which were structured in North America in the year ended March 31, 2010 did not meet the conditions to be a qualifying special purpose entity. In addition, Honda deemed that the total equity investments of these trusts at risk were not sufficient to finance their activities without additional subordinated financial support provided by our finance subsidiaries. Accordingly, Honda recognized these trusts as VIEs. Furthermore, as the finance subsidiaries retain certain subordinated interests of these trusts and it is expected that Honda would absorb the majority of the expected losses of these trusts, Honda has consolidated these trusts.

The assets of consolidated VIEs totaled ¥358,271 million as of March 31, 2010. The majority of the assets were included in short-term and long-term finance subsidiaries-receivables on the consolidated balance sheet. The liabilities of consolidated VIEs totaled ¥348,941 million as of March 31, 2010, of which the majority were included in short-term and long-term debt on the consolidated balance sheet. The restricted cash as collateral for the payment of the related secured debt obligation was included in investments and advances other, and amounted to ¥5,653 million as of March 31, 2010 in the consolidated balance sheet.

The creditors of these trusts do not have recourse to the finance subsidiaries' general credit with the exception of representations and warranties customary in the industry provided by the finance subsidiaries to these trusts.

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There is no VIE in which Honda holds significant variable interest but is not the primary beneficiary as of March 31, 2010.

### (4) Inventories

Inventories at March 31, 2009 and 2010 are summarized as follows:

|                 | Yen<br>(millions) |           |
|-----------------|-------------------|-----------|
|                 | 2009              | 2010      |
| Finished goods  | ¥ 830,973         | ¥ 559,569 |
| Work in process | 45,196            | 35,558    |
| Raw materials   | 367,792           | 340,502   |
|                 | ¥ 1,243,961       | ¥ 935,629 |

F-19

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(5) Investments in and Advances to affiliates**

The difference between the carrying amount of investment in affiliates and the amount of underlying equity is mainly investor level goodwill. The amounts are not material as of March 31, 2009 and 2010.

Investments in affiliates include equity securities which have quoted market values at March 31, 2009 and 2010 compared with related carrying amounts as follows:

|                 | Yen<br>(millions) |           |
|-----------------|-------------------|-----------|
|                 | 2009              | 2010      |
| Carrying amount | ¥ 187,468         | ¥ 177,766 |
| Market value    | 207,855           | 405,596   |

Certain combined financial information in respect of affiliates accounted for under the equity method at March 31, 2009 and 2010, and for each of the years in the three-year period ended March 31, 2010 is shown below (see notes 1(c) and 20):

|   | Yen (millions)         |                        |  |                    |
|---|------------------------|------------------------|--|--------------------|
|   | Motorcycle<br>Business | Automobile<br>Business | Power Product<br>and Other<br>Businesses | Total              |
| <b>As of March 31, 2009</b>                             |                        |                        |  |                    |
| Current assets  | ¥ 199,692              | ¥ 1,132,897            | ¥ 23,460                                 | ¥ 1,356,049        |
| Other assets, principally property, plant and equipment | 204,465                | 1,104,998              | 27,437                                   | 1,336,900          |
| <b>Total assets</b>                                     | <b>404,157</b>         | <b>2,237,895</b>       | <b>50,897</b>                            | <b>2,692,949</b>   |
| Current liabilities                                     | 149,946                | 830,078                | 11,708                                   | 991,732            |
| Other liabilities                                       | 10,924                 | 231,672                | 4,952                                    | 247,548            |
| <b>Total liabilities</b>                                | <b>160,870</b>         | <b>1,061,750</b>       | <b>16,660</b>                            | <b>1,239,280</b>   |
| <b>Equity</b>   | <b>¥ 243,287</b>       | <b>¥ 1,176,145</b>     | <b>¥ 34,237</b>                          | <b>¥ 1,453,669</b> |

|                             | Yen (millions)         |                        |  |       |
|-----------------------------|------------------------|------------------------|--|-------|
|                             | Motorcycle<br>Business | Automobile<br>Business | Power Product<br>and Other<br>Businesses | Total |
| <b>As of March 31, 2010</b> |                        |                        |  |       |

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|   |                  |                    |          |               |                    |
|---|------------------|--------------------|----------|---------------|--------------------|
| Current assets  | ¥ 235,197        | ¥ 1,229,286        | ¥        | 16,554        | ¥ 1,481,037        |
| Other assets, principally property, plant and equipment | 232,885          | 1,033,739          |          | 31,049        | 1,297,673          |
| <b>Total assets</b>                                     | <b>468,082</b>   | <b>2,263,025</b>   |          | <b>47,603</b> | <b>2,778,710</b>   |
| Current liabilities                                     | 187,567          | 973,603            |          | 7,501         | 1,168,671          |
| Other liabilities                                       | 13,085           | 254,773            |          | 5,166         | 273,024            |
| <b>Total liabilities</b>                                | <b>200,652</b>   | <b>1,228,376</b>   |          | <b>12,667</b> | <b>1,441,695</b>   |
| <b>Equity</b>   | <b>¥ 267,430</b> | <b>¥ 1,034,649</b> | <b>¥</b> | <b>34,936</b> | <b>¥ 1,337,015</b> |

|   | Yen (millions)      |                     |                                    | Total       |
|---|---------------------|---------------------|------------------------------------|-------------|
|   | Motorcycle Business | Automobile Business | Power Product and Other Businesses |             |
| <b>For the year ended March 31, 2008</b>      |                     |                     |                                    |             |
| Net sales                                     | ¥ 1,128,118         | ¥ 4,118,283         | ¥ 29,147                           | ¥ 5,275,548 |
| Net income attributable to Honda's affiliates | 75,269              | 205,696             | 2,962                              | 283,927     |

F-20

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

|   | Yen (millions)         |                        |  |             |
|---|------------------------|------------------------|--|-------------|
|   | Motorcycle<br>Business | Automobile<br>Business | Power Product<br>and Other<br>Businesses | Total       |
| <b>For the year ended March 31, 2009</b>      |                        |                        |  |             |
| Net sales                                     | ¥ 1,064,366            | ¥ 3,988,672            | ¥ 28,823                                 | ¥ 5,081,861 |
| Net income attributable to Honda's affiliates | 73,945                 | 126,994                | 2,611                                    | 203,550     |

|   | Yen (millions)         |                        |  |             |
|---|------------------------|------------------------|--|-------------|
|   | Motorcycle<br>Business | Automobile<br>Business | Power Product<br>and Other<br>Businesses | Total       |
| <b>For the year ended March 31, 2010</b>      |                        |                        |  |             |
| Net sales                                     | ¥ 992,264              | ¥ 3,512,551            | ¥ 24,933                                 | ¥ 4,529,748 |
| Net income attributable to Honda's affiliates | 83,467                 | 137,471                | 2,684                                    | 223,622     |

Significant investments in affiliates accounted for under the equity method at March 31, 2009 and 2010 are shown below:

| Business   | Company                              | Percentage ownership |
|------------|--------------------------------------|----------------------|
| Motorcycle | P.T. Astra Honda Motor               | 50.0%                |
|            | Hero Honda Motors Ltd.               | 26.0%                |
| Automobile | Guangqi Honda Automobile Co., Ltd. * | 50.0%                |
|            | Dongfeng Honda Automobile Co., Ltd.  | 50.0%                |
|            | Dongfeng Honda Engine Co., Ltd.      | 50.0%                |

\* Guangqi Honda Automobile Co., Ltd. changed its name from Guangzhou Honda Automobile Co., Ltd. effective June, 2009.

There are no equity method affiliates that are in the financial services business.

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

Honda's equity in undistributed income of affiliates at March 31, 2009 and 2010 included in retained earnings was ¥427,578 million and ¥366,592 million, respectively.

Trade receivables and trade payables include the following balances with affiliates at March 31, 2009 and 2010, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2010. Honda mainly purchases materials, supplies and services from affiliates, and sells finished goods, parts used in its products, equipment and services to affiliates. The amount of Honda's sales to affiliates during the fiscal years ended March 31, 2008 and 2009 have been corrected from the amounts previously disclosed.

|                        | Yen<br>(millions) |           |
|------------------------|-------------------|-----------|
|                        | 2009              | 2010      |
| Trade receivables from | ¥ 104,333         | ¥ 152,215 |
| Trade payables to      | 96,335            | 133,250   |

|                | 2008        | Yen<br>(millions) |           |
|----------------|-------------|-------------------|-----------|
|                |             | 2009              | 2010      |
| Purchases from | ¥ 1,066,342 | ¥ 948,442         | ¥ 771,349 |
| Sales to       | 500,748     | 515,590           | 510,630   |



**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(6) Investments and Advances-Other**

Investments and advances at March 31, 2009 and 2010 consist of the following:

|  | Yen<br>(millions) |         |
|--|-------------------|---------|
|  | 2009              | 2010    |
| Current                                    |                   |         |
| Corporate debt securities                  | ¥ 235             | ¥ 31    |
| Government bonds                           | 1,000             |         |
| U.S. government and agency debt securities |                   | 1,861   |
| Money Market Fund (non-marketable)         | 3,913             |         |
| Advances                                   | 473               | 1,350   |
| Other                                      |                   | 472     |
|  | ¥ 5,621           | ¥ 3,714 |

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

|  | Yen<br>(millions) |           |
|--|-------------------|-----------|
|  | 2009              | 2010      |
| Noncurrent   |                   |           |
| Auction rate securities (non-marketable)                             | ¥ 9,906           | ¥ 10,041  |
| Marketable equity securities   | 54,807            | 94,560    |
| Government bonds   | 1,999             | 1,999     |
| U.S. government and agency debt securities                           |                   | 14,875    |
| Non-marketable equity securities accounted for under the cost method |                   |           |
| Non-marketable preferred stocks                                      | 2,000             | 2,000     |
| Other  | 13,824            | 9,888     |
| Guaranty deposits  | 28,755            | 25,452    |
| Advances   | 1,717             | 1,517     |
| Other  | 20,226            | 24,515    |
|  | ¥ 133,234         | ¥ 184,847 |

Certain information with respect to marketable securities at March 31, 2009 and 2010 is summarized below:

|                           | Yen<br>(millions) |          |
|---------------------------|-------------------|----------|
|                           | 2009              | 2010     |
| <b>Available-for-sale</b> |                   |          |
| Cost                      | ¥ 34,331          | ¥ 39,823 |
| Fair value                | 54,807            | 94,560   |
| Gross unrealized gains    | 23,531            | 55,242   |
| Gross unrealized losses   | 3,055             | 505      |
| <b>Held-to-maturity</b>   |                   |          |
| Amortized cost            | ¥ 3,234           | ¥ 18,766 |
| Fair value                | 3,320             | 18,862   |
| Gross unrealized gains    | 86                | 98       |
| Gross unrealized losses   |                   | 2        |

F-22

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

Maturities of debt securities classified as held-to-maturity at March 31, 2010 are as follows:

|  | Yen<br>(millions) |
|--|-------------------|
| Due within one year                    | ¥ 1,892           |
| Due after one year through five years  | 16,874            |
| Due after five years through ten years |                   |
| Total                                  | ¥ 18,766          |

Realized gains and losses from available-for-sale securities included in other income (expenses) other, net for each of the years in the three-year period ended March 31, 2010, were ¥232 million net losses, ¥4,308 million net losses and ¥3 million net losses, respectively.

Gross unrealized losses on marketable securities and fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2010 are as follows:

|                     | Fair value | Yen<br>(millions)<br>Unrealized<br>losses |
|---------------------|------------|---|
| Available-for-sale  |            |   |
| Less than 12 months | ¥ 1,169    | ¥ (49)                                    |
| 12 months or longer | 897        | (456)                                     |
|                     | ¥ 2,066    | ¥ (505)                                   |
| Held-to-maturity    |            |   |
| Less than 12 months | ¥ 1,859    | ¥ (2)                                     |
| 12 months or longer |            |   |
|                     | ¥ 1,859    | ¥ (2)                                     |

Honda does not believe the decline in fair value of any of its investment securities to be other than temporary, which is based on factors such as financial and operating conditions of the issuer, the industry in which the issuer operates, degree and period of the decline in fair value and other relevant factors.

**(7) Property on Operating Leases**

Future minimum lease rentals expected to be received from property on operating leases at March 31, 2010 are as follows:

| <b>Years ending March 31</b>           | <b>Yen<br/>(millions)</b> |
|--|---------------------------|
| 2011                                   | ¥ 239,341                 |
| 2012                                   | 142,930                   |
| 2013                                   | 46,464                    |
| 2014                                   | 2,367                     |
| 2015                                   | 216                       |
| <br>Total future minimum lease rentals | <br>¥ 431,318             |

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

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

**(8) Short-term and Long-term Debt**

Short-term debt at March 31, 2009 and 2010 is as follows:

|                       | Yen<br>(millions) |             |
|-----------------------|-------------------|-------------|
|                       | 2009              | 2010        |
| Short-term bank loans | ¥ 637,415         | ¥ 260,648   |
| Asset backed notes    |                   | 37,719      |
| Medium-term notes     | 234,154           | 129,903     |
| Commercial paper      | 835,250           | 638,074     |
|                       | ¥ 1,706,819       | ¥ 1,066,344 |

The weighted average interest rates on short-term debt outstanding at March 31, 2009 and 2010 were 1.87% and 0.81%, respectively.

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

Long-term debt at March 31, 2009 and 2010 is as follows:

|  | Yen<br>(millions) |                  |
|--|-------------------|------------------|
|  | 2009              | 2010             |
| <b>Honda Motor Co., Ltd.:</b>              |                   |                  |
| Loans, maturing through 2031:              |                   |                  |
| Unsecured, principally from banks          | ¥ 361             | ¥ 298            |
| 0.76% Japanese yen unsecured bond due 2012 |                   | 70,000           |
|  | 361               | 70,298           |
| <b>Subsidiaries:</b>                       |                   |                  |
| Loans, maturing through 2029:              |                   |                  |
| Secured, principally from banks            | 16,369            | 17,336           |
| Unsecured, principally from banks          | 551,214           | 881,872          |
| Asset backed notes, maturing through 2013  |                   | 311,222          |
| 0.99% Japanese yen unsecured bond due 2009 | 30,000            |                  |
| 1.14% Japanese yen unsecured bond due 2009 | 30,000            |                  |
| 0.31% Japanese yen unsecured bond due 2010 | 50                |                  |
| 0.66% Japanese yen unsecured bond due 2010 | 30,000            | 30,000           |
| 0.94% Japanese yen unsecured bond due 2010 | 30,000            | 30,000           |
| 1.30% Japanese yen unsecured bond due 2011 | 40,000            | 40,000           |
| 1.51% Japanese yen unsecured bond due 2011 | 30,000            | 30,000           |
| 1.48% Japanese yen unsecured bond due 2012 | 30,000            | 30,000           |
| 0.49% Japanese yen unsecured bond due 2012 |                   | 20,000           |
| 1.31% Japanese yen unsecured bond due 2013 | 40,000            | 40,000           |
| 1.05% Japanese yen unsecured bond due 2014 |                   | 30,000           |
| 3.82% Thai baht unsecured bond due 2009    | 2,760             |                  |
| 5.46% Thai baht unsecured bond due 2009    | 4,140             |                  |
| 4.40% Thai baht unsecured bond due 2009    | 4,692             |                  |
| 4.20% Thai baht unsecured bond due 2010    | 8,281             | 8,610            |
| 4.72% Thai baht unsecured bond due 2011    | 3,588             | 3,731            |
| Medium-term notes, maturing through 2023   | 2,062,707         | 1,498,379        |
| Less unamortized discount, net             | 4,002             | 6,117            |
|  | 2,909,799         | 2,965,033        |
| <b>Total long-term debt</b>                | <b>2,910,160</b>  | <b>3,035,331</b> |
| Less current portion                       | 977,523           | 722,296          |
|  | ¥ 1,932,637       | ¥ 2,313,035      |

Pledged assets at March 31, 2009 and 2010 is as follows:

|                                     | Yen<br>(millions) |         |
|-------------------------------------|-------------------|---------|
|                                     | 2009              | 2010    |
| Trade accounts and notes receivable | ¥                 | ¥ 8,655 |
| Inventories                         |                   | 3,777   |
| Property, plant and equipment       | 24,750            | 20,492  |
| Finance subsidiaries-receivables    |                   | 352,618 |

F-25

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

The loans maturing through 2031 and through 2029 include the loans secured by trade accounts and notes receivable, inventories, and property, plant and equipment presented above and subject to collateralization upon request, and their interest rates range from 0.78% to 14.71% per annum at March 31, 2010 and weighted average interest rate on total outstanding long-term debt at March 31, 2009 and 2010 is 3.32% and 3.73%, respectively. Asset backed notes are secured by finance subsidiaries-receivables, and their weighted average interest rate 2.15% at March 31, 2010. Medium-term notes are unsecured, and their interest rates range from 1.00% to 5.57% at March 31, 2009 and from 0.61% to 5.42% at March 31, 2010.

The following schedule shows the maturities of long-term debt for each of the five years following March 31, 2010 and thereafter:

| Years ending March 31 | Yen<br>(millions) |
|-----------------------|-------------------|
| 2011                  | ¥ 722,296         |
| 2012                  | 923,224           |
| 2013                  | 573,361           |
| 2014                  | 469,375           |
| 2015                  | 261,445           |
| After five years      | 85,630            |
|                       | 2,313,035         |
| Total                 | ¥ 3,035,331       |

Certain of the Company's subsidiaries have entered into currency swap and interest rate swap agreements for hedging currency and interest rate exposures resulting from the issuance of long-term debt. Fair value of contracts related to currency swaps and interest rate swaps is included in other assets and other current assets and/or liabilities in the consolidated balance sheets, as appropriate (see notes 15 and 16).

At March 31, 2010, Honda had unused line of credit facilities amounting to ¥2,656,404 million, of which ¥645,221 million related to commercial paper programs and ¥2,011,183 million related to medium-term notes programs. Honda is authorized to obtain financing at prevailing interest rates under these programs.

At March 31, 2010, Honda also had committed lines of credit amounting to ¥859,997 million, none of which was in use. The committed lines are used to back up the commercial paper programs. Borrowings under those committed lines of credit generally are available at the prime interest rate.



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

F-26

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(9) Other Liabilities**

Other liabilities at March 31, 2009 and 2010 consist of the following:

|   | Yen<br>(millions) |             |
|---|-------------------|-------------|
|   | 2009              | 2010        |
| Accrued liabilities for product warranty, excluding current portion | ¥ 132,884         | ¥ 118,498   |
| Pension and other postretirement benefits                           | 608,875           | 581,418     |
| Deferred income taxes   | 392,368           | 403,889     |
| Other   | 384,441           | 336,715     |
|   | ¥ 1,518,568       | ¥ 1,440,520 |

**(10) Income Taxes**

Total income tax expense (benefit) for each of the years in the three-year period ended March 31, 2010 are allocated as follows:

|   | 2008      | Yen<br>(millions) |           |
|---|-----------|-------------------|-----------|
|   |           | 2009              | 2010      |
| Income from continuing operations           | ¥ 387,436 | ¥ 109,835         | ¥ 146,869 |
| Other comprehensive income (loss) (note 14) | (89,519)  | (58,302)          | 27,708    |
|   | ¥ 297,917 | ¥ 51,533          | ¥ 174,577 |

Income (loss) before income taxes and equity in income of affiliates by domestic and foreign source and income tax expense (benefit) for each of the years in the three-year period ended March 31, 2010 consisted of the following:

|  | Yen<br>(millions)       |         |                          | Total |
|--|-------------------------|---------|--------------------------|-------|
|  | Income (loss)<br>before | Current | Income taxes<br>Deferred |       |
|  |                         |         |                          |       |

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|          | income<br>taxes |           |           |           |
|----------|-----------------|-----------|-----------|-----------|
| 2008:    |                 |           |           |           |
| Japanese | ¥ 228,868       | ¥ 181,010 | ¥ (4,064) | ¥ 176,946 |
| Foreign  | 666,973         | 175,085   | 35,405    | 210,490   |
|          | ¥ 895,841       | ¥ 356,095 | ¥ 31,341  | ¥ 387,436 |
| 2009:    |                 |           |           |           |
| Japanese | ¥ (132,652)     | ¥ 30,485  | ¥ 7,654   | ¥ 38,139  |
| Foreign  | 294,386         | 37,577    | 34,119    | 71,696    |
|          | ¥ 161,734       | ¥ 68,062  | ¥ 41,773  | ¥ 109,835 |
| 2010:    |                 |           |           |           |
| Japanese | ¥ (24,723)      | ¥ 36,633  | ¥ (7,018) | ¥ 29,615  |
| Foreign  | 360,921         | 53,630    | 63,624    | 117,254   |
|          | ¥ 336,198       | ¥ 90,263  | ¥ 56,606  | ¥ 146,869 |

F-27

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

The statutory income tax rate in Japan was approximately 40% for each of the years in the three-year period ended March 31, 2010. The foreign subsidiaries are subject to taxes based on income at rates ranging from 16% to 40%.

The effective income tax rate for Honda for each of the years in the three-year period ended March 31, 2010 differs from the Japanese statutory income tax rate for the following reasons:

|   | 2008  | 2009   | 2010  |
|---|-------|--------|-------|
| Statutory income tax rate   | 40.0% | 40.0%  | 40.0% |
| Recognition of valuation allowance <sup>*1</sup>  | 0.5   | 17.3   | 6.2   |
| Difference in statutory tax rates of foreign subsidiaries <sup>*2</sup>                               | (4.9) | (25.8) | (6.3) |
| Reversal of valuation allowance   | (0.9) | (0.4)  | (0.9) |
| Research and development credit   | (3.2) | (1.7)  | (0.3) |
| Dividend and royalty income from subsidiaries and affiliates, net of foreign tax credit <sup>*3</sup> | 1.2   | 21.7   | 4.1   |
| Undistributed earnings of subsidiaries and affiliates   | 1.6   | 11.6   | 3.7   |
| Other adjustments relating to prior years   |       | (5.9)  | (1.6) |
| Adjustments for unrecognized tax benefits   | 9.0   | 11.5   | 0.6   |
| Other   | (0.1) | (0.4)  | (1.8) |
| Effective tax rate  | 43.2% | 67.9%  | 43.7% |

<sup>\*1</sup> Due to the decrease in the amount of foreign tax credit carryforwards expected to be utilized in the future years, the Company had recorded a valuation allowance for the related deferred tax asset as of March 31, 2009.

<sup>\*2</sup> Income before income taxes of foreign subsidiaries whose statutory income tax rate is lower than the statutory income tax rate of 40% in Japan accounted for a larger portion of Honda's consolidated income before income taxes for the year ended March 31, 2009, which contributed to the lower effective tax rate.

<sup>\*3</sup> The Company did not utilize indirect foreign tax credit against dividend income from foreign subsidiaries and affiliates because of the decrease in taxable income for the year ended March 31, 2009, which resulted in the higher effective tax rate.

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

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2009 and 2010 are presented below:

|   | Yen<br>(millions) |                   |
|---|-------------------|-------------------|
|   | 2009              | 2010              |
| <b>Deferred tax assets:</b>                                 |                   |                   |
| Inventories   | ¥ 40,901          | ¥ 28,641          |
| Allowance for dealers and customers                         | 118,049           | 102,128           |
| Accrued bonus   | 27,878            | 30,938            |
| Property, plant and equipment                               | 63,732            | 67,879            |
| Foreign tax credit carryforwards                            | 30,743            | 1,367             |
| Operating loss carryforwards                                | 78,557            | 112,675           |
| Pension and other postretirement benefits                   | 266,529           | 239,087           |
| Other   | 142,117           | 136,275           |
| <b>Total gross deferred tax assets</b>                      | <b>768,506</b>    | <b>718,990</b>    |
| Less valuation allowance                                    | 48,538            | 53,410            |
| <b>Net deferred tax assets</b>                              | <b>719,968</b>    | <b>665,580</b>    |
| <b>Deferred tax liabilities:</b>                            |                   |                   |
| Inventories   | (11,793)          | (8,713)           |
| Prepaid pension expenses                                    | (29,328)          | (26,971)          |
| Property, plant and equipment, excluding lease transactions | (51,133)          | (50,134)          |
| Direct financing lease transactions                         | (80,193)          | (27,768)          |
| Operating lease transactions                                | (351,152)         | (405,062)         |
| Undistributed earnings of subsidiaries and affiliates       | (117,806)         | (108,933)         |
| Net unrealized gains on marketable securities               | (7,031)           | (20,057)          |
| Other   | (27,945)          | (38,944)          |
| <b>Total gross deferred tax liabilities</b>                 | <b>(676,381)</b>  | <b>(686,582)</b>  |
| <b>Net deferred tax asset (liability)</b>                   | <b>¥ 43,587</b>   | <b>¥ (21,002)</b> |

Deferred income tax assets and liabilities at March 31, 2009 and 2010 are reflected in the consolidated balance sheets under the following captions:

|  | Yen<br>(millions) |      |
|--|-------------------|------|
|  | 2009              | 2010 |

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|                                      |           |            |
|--------------------------------------|-----------|------------|
| Current assets-Deferred income taxes | ¥ 198,158 | ¥ 176,604  |
| Other assets                         | 239,423   | 208,376    |
| Other current liabilities            | (1,626)   | (2,093)    |
| Other liabilities                    | (392,368) | (403,889)  |
| Net deferred tax asset (liability)   | ¥ 43,587  | ¥ (21,002) |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income over the periods in which those temporary differences become deductible and operating loss carryforwards utilized. Management considers the scheduled

F-29

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

reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that Honda will realize the benefits of these deductible differences and operating loss carryforwards, net of the existing valuation allowances at March 31, 2009 and 2010. The amount of the deferred tax asset considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are reduced due to further decreases in consumer spending brought about by continued economic slowdown, recession, changes in consumer preferences, rising fuel prices, financial crisis or other factors. The net change in the total valuation allowance for the year ended March 31, 2008 was a decrease of ¥1,013 million, for the year ended March 31, 2009 was an increase of ¥14,104 million, and for the year ended March 31, 2010 was an increase of ¥4,872 million. The valuation allowance primarily relates to deferred tax assets associated with net operating loss and tax credit carryforwards.

At March 31, 2010, Honda has operating loss and tax credit carryforwards for income tax purposes of ¥309,405 million and ¥2,007 million, respectively, which are available to offset future taxable income and income taxes, if any. Periods available to offset future taxable income and income taxes vary in each tax jurisdiction and range from one year to an indefinite period as follows:

|                               |                   |
|-------------------------------|-------------------|
|                               | <b>Yen</b>        |
|                               | <b>(millions)</b> |
| Operating loss carryforwards: |                   |
| Within 1 year                 | ¥ 1,455           |
| 1 to 5 years                  | 10,434            |
| 5 to 15 years                 | 225,078           |
| Indefinite periods            | 72,438            |
|                               | ¥ 309,405         |
|                               |                   |
|                               | <b>Yen</b>        |
|                               | <b>(millions)</b> |
| Tax credit carryforwards:     |                   |
| Within 1 year                 | ¥ 115             |
| 1 to 5 years                  | 1,369             |
| 5 to 15 years                 | 340               |
| Indefinite periods            | 183               |
|                               | ¥ 2,007           |

At March 31, 2009 and 2010, Honda did not recognize deferred tax liabilities of ¥94,296 million and ¥104,239 million, respectively, for certain portions of the undistributed earnings of the Company's foreign subsidiaries and foreign corporate joint ventures because such portions were considered indefinitely reinvested. At March 31, 2009 and 2010, the undistributed earnings not subject to deferred tax liabilities were ¥3,391,895 million and ¥3,497,656 million respectively.

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Honda's unrecognized tax benefits totaled ¥99,527 million, ¥125,771 million and ¥109,473 million at March 31, 2008, 2009 and 2010, respectively. Of these amounts, the amounts that would impact Honda's effective income tax rate, if recognized, are ¥85,403 million, ¥103,982 million and ¥105,318 million in fiscal years 2008, 2009 and 2010, respectively.

F-30



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

Recognized interest and penalties included in income tax expense for each of the years in the three-year period ended March 31, 2010 were ¥3,011 million expense, ¥3,604 million expense and ¥335 million benefit, respectively. Honda had recorded approximately ¥9,496 million and ¥9,007 million for accrued interest and accrued penalties at March 31, 2009 and 2010, respectively. Reconciliations of the beginning and ending amount of unrecognized tax benefits for the years ended March 31 are as follows:

|   | 2008     | Yen<br>(millions)<br>2009 | 2010      |
|---|----------|---------------------------|-----------|
| Balance at beginning of year                            | ¥ 36,330 | ¥ 99,527                  | ¥ 125,771 |
| Additions for tax positions related to the current year | 9,213    | 6,515                     | 4,207     |
| Additions for tax positions of prior years              | 74,674   | 22,137                    | 2,422     |
| Reductions for tax positions of prior years             | (14,769) | (1,948)                   | (20,225)  |
| Settlements   | (51)     | (7)                       | (716)     |
| Reductions for statute of limitations                   | (555)    |                           |           |
| Effect of exchange rate changes                         | (5,315)  | (453)                     | (1,986)   |
| Balance at end of year                                  | ¥ 99,527 | ¥ 125,771                 | ¥ 109,473 |

Tax liabilities associated with uncertain tax positions are primarily classified as other noncurrent liabilities, as Honda does not expect to pay cash or settle on these positions within the next twelve months.

Honda has open tax years from primarily 2001 to 2010 with various significant taxing jurisdictions including the United States (fiscal years 2001-2010), Japan (fiscal years 2004-2010), Canada, the United Kingdom, Germany, France, Belgium, Thailand, India, Brazil, and Australia.

Honda is subject to income tax examinations in many tax jurisdictions. Tax examinations can involve complex issues and the resolution of issues may span multiple years, particularly if subject to negotiation or litigation. Although Honda believes its estimates of the total unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the amount of total unrecognized tax benefits in the future periods.

It is difficult to estimate the timing and range of possible change related to the uncertain tax positions, as finalizing audits with the relevant income tax authorities may involve formal administrative and legal proceedings. Accordingly, it is not possible to reasonably estimate the expected changes to the total unrecognized tax benefits over the next twelve months, although any settlements or statute expirations may result in a significant increase or decrease in the total unrecognized tax benefits, including those positions related to tax examinations being currently conducted.

**(11) Dividends and Legal Reserves**

The Company Law of Japan provides that earnings in an amount equal to 10% of dividends of retained earnings shall be appropriated as a capital surplus or a legal reserve on the date of distribution of retained earnings until an aggregated amount of capital surplus and a legal reserve equals 25% of stated capital. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of their respective countries.

Dividends and appropriations to the legal reserves charged to retained earnings during the years in the three-year period ended March 31, 2010 represent dividends paid out during those years and the related appropriations

F-31

**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

to the legal reserves. Dividends per share for each of the years in the three-year period ended March 31, 2010 were ¥84, ¥77 and ¥34, respectively. The accompanying consolidated financial statements do not include any provision for the dividend of ¥12 per share aggregating ¥21,775 million proposed and resolved in the general shareholders meeting held in June 2010.

**(12) Pension and Other Postretirement Benefits**

The Company and its subsidiaries have various pension plans covering substantially all of their employees in Japan and certain employees in foreign countries. Benefits under the plans are primarily based on the combination of years of service and compensation. The funding policy is to make periodic contributions as required by applicable regulations. Plan assets consist primarily of domestic and foreign equity and debt securities.

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

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

|  | Yen<br>(millions)  |                    |                  |                  |
|--|--------------------|--------------------|------------------|------------------|
|  | Japanese plans     |                    | Foreign plans    |                  |
|  | 2009               | 2010               | 2009             | 2010             |
| <b>Change in benefit obligations:</b>  |                    |                    |                  |                  |
| Benefit obligations at beginning of year   | ¥(1,233,359)       | ¥(1,129,636)       | ¥(378,354)       | ¥(296,305)       |
| Service cost   | (41,175)           | (37,215)           | (27,198)         | (15,210)         |
| Interest cost  | (24,201)           | (22,593)           | (26,558)         | (23,135)         |
| Plan participants' contributions   |                    |                    | (112)            | (129)            |
| Actuarial gain (loss)  | (4,132)            | (12,484)           | 81,398           | (99,498)         |
| Benefits paid  | 38,019             | 43,977             | 6,323            | 9,352            |
| Amendment  | 135,212            |                    | 7,146            | (1,325)          |
| Other  |                    |                    | (3,625)          | (7,162)          |
| Foreign currency translation   |                    |                    | 44,675           | 2,729            |
| <b>Benefit obligations at end of year</b>  | <b>(1,129,636)</b> | <b>(1,157,951)</b> | <b>(296,305)</b> | <b>(430,683)</b> |
| <b>Change in plan assets:</b>  |                    |                    |                  |                  |
| Fair value of plan assets at beginning of year   | 716,965            | 578,832            | 439,102          | 285,214          |
| Actual return on plan assets   | (129,916)          | 89,610             | (134,300)        | 94,507           |
| Employer contributions   | 29,802             | 70,273             | 17,975           | 11,405           |
| Plan participants' contributions   |                    |                    | 112              | 129              |
| Benefits paid  | (38,019)           | (43,977)           | (6,323)          | (9,352)          |
| Foreign currency translation   |                    |                    | (31,352)         | (2,255)          |
| <b>Fair value of plan assets at end of year</b>  | <b>578,832</b>     | <b>694,738</b>     | <b>285,214</b>   | <b>379,648</b>   |
| <b>Funded status</b>   | <b>(550,804)</b>   | <b>(463,213)</b>   | <b>(11,091)</b>  | <b>(51,035)</b>  |
| <b>Amounts recognized in the consolidated balance sheets consist of:</b>               |                    |                    |                  |                  |
| Noncurrent assets  | ¥ 603              | ¥ 1,259            | ¥ 1,382          | ¥ 9,479          |
| Current liabilities  | (334)              | (360)              | (1)              | (21)             |
| Noncurrent liabilities   | (551,073)          | (464,112)          | (12,472)         | (60,493)         |
| <b>Total</b>   | <b>(550,804)</b>   | <b>(463,213)</b>   | <b>(11,091)</b>  | <b>(51,035)</b>  |
| <b>Amounts recognized in accumulated other comprehensive income (loss) consist of:</b> |                    |                    |                  |                  |
| Actuarial loss (gain)  | ¥ 542,159          | ¥ 458,609          | ¥ 101,654        | ¥ 132,730        |
| Net transition obligation  |                    |                    | 202              | 171              |

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|  |               |               |           |             |
|--|---------------|---------------|-----------|-------------|
| Prior service cost (benefit)   | (186,887)     | (170,583)     | (496)     | 537         |
| Total  | 355,272       | 288,026       | 101,360   | 133,438     |
| Pension plans with accumulated benefit obligations in excess of plan assets: |               |               |           |             |
| Projected benefit obligations  | ¥ (1,126,360) | ¥ (1,147,349) | ¥ (8,822) | ¥ (368,470) |
| Accumulated benefit obligations  | (1,037,632)   | (1,070,640)   | (8,302)   | (317,593)   |
| Fair value of plan assets  | 574,953       | 683,298       | 7,006     | 307,988     |

F-33

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

The accumulated benefit obligations for all Japanese defined benefit plans at March 31, 2009 and 2010 were ¥1,040,276 million and ¥1,079,634 million, respectively. The accumulated benefit obligations for all foreign defined benefit plans at March 31, 2009 and 2010 were ¥259,123 million and ¥369,595 million, respectively.

*Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss)*

Pension expense and other amounts recognized in other comprehensive income (loss) for each of the years in the three-year period ended March 31, 2010 include the following:

|   | 2008             | Yen (millions)<br>2009 | 2010              |
|---|------------------|------------------------|-------------------|
| <b>Japanese plans:</b>  |                  |                        |                   |
| Pension Cost  |                  |                        |                   |
| Service cost-benefits earned during the year                                  | ¥ 41,133         | ¥ 41,175               | ¥ 37,215          |
| Interest cost on projected benefit obligations                                | 24,128           | 24,201                 | 22,593            |
| Expected return on plan assets  | (28,625)         | (30,213)               | (22,080)          |
| Amortization of actuarial loss (gain)   | 14,348           | 21,316                 | 27,288            |
| Amortization of net transition obligation                                     | 1,741            |                        |                   |
| Amortization of prior service cost (benefit)                                  | (7,289)          | (9,543)                | (16,304)          |
|   | ¥ 45,436         | ¥ 46,936               | ¥ 48,712          |
| <b>Other amounts recognized in other comprehensive income (loss)</b>          |                  |                        |                   |
| Actuarial loss (gain)   | 88,991           | 157,347                | (56,262)          |
| Amortization of actuarial loss (gain)   | (14,348)         | (21,316)               | (27,288)          |
| Amortization of net transition obligation                                     | (1,741)          |                        |                   |
| Prior service cost (benefit)  |                  | (135,212)              |                   |
| Amortization of prior service cost (benefit)                                  | 7,289            | 9,543                  | 16,304            |
|   | ¥ 80,191         | ¥ 10,362               | ¥ (67,246)        |
| <b>Total recognized in Pension cost and Other comprehensive income (loss)</b> | <b>¥ 125,627</b> | <b>¥ 57,298</b>        | <b>¥ (18,534)</b> |
| <b>Foreign plans:</b>   |                  |                        |                   |
| Pension Cost  |                  |                        |                   |
| Service cost-benefits earned during the year                                  | ¥ 30,259         | ¥ 27,198               | ¥ 15,210          |
| Interest cost on projected benefit obligations                                | 24,661           | 26,558                 | 23,135            |
| Expected return on plan assets  | (33,700)         | (38,297)               | (27,675)          |
| Amortization of actuarial loss (gain)   | 2,046            | 433                    | 1,403             |
| Amortization of net transition Obligation                                     | 45               | 32                     | 31                |
| Amortization of prior service cost (benefit)                                  | 759              | 808                    | (44)              |
| Other   |                  | 4,582                  | 7,162             |

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|  |            |          |          |
|--|------------|----------|----------|
|  | ¥ 24,070   | ¥ 21,314 | ¥ 19,222 |
| Other amounts recognized in other comprehensive income (loss)          |            |          |          |
| Actuarial loss (gain)  | (35,822)   | 83,040   | 32,479   |
| Amortization of actuarial loss (gain)                                  | (2,046)    | (433)    | (1,403)  |
| Amortization of net transition obligation                              | (45)       | (32)     | (31)     |
| Prior service cost (benefit)   | 84         | (6,932)  | 989      |
| Amortization of prior service cost (benefit)                           | (759)      | (808)    | 44       |
| Other  |            | (808)    |          |
|  | ¥ (38,588) | ¥ 74,027 | ¥ 32,078 |
| Total recognized in Pension cost and Other comprehensive income (loss) | ¥ (14,518) | ¥ 95,341 | ¥ 51,300 |

F-34

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

The estimated actuarial loss and prior service benefit for all Japanese defined pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are ¥21,783 million and ¥15,804 million, respectively. And the estimated actuarial loss, net transition obligation and prior service cost for all foreign defined pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are ¥5,853 million, ¥34 million and ¥5 million, respectively.

*Assumptions*

Weighted-average assumptions used to determine benefit obligation at March 31, 2009 and 2010 were as follows:

|                               | 2009       | 2010       |
|-------------------------------|------------|------------|
| <b><u>Japanese plans:</u></b> |            |            |
| Discount rate                 | 2.0%       | 2.0%       |
| Rate of salary increase       | 2.3%       | 2.3%       |
| <b><u>Foreign plans:</u></b>  |            |            |
| Discount rate                 | 6.9 ~ 8.0% | 5.6 ~ 6.5% |
| Rate of salary increase       | 1.5 ~ 6.4% | 1.5 ~ 5.3% |

Weighted-average assumptions used to determine net periodic benefit cost for each of the years in the three-year period ended March 31, 2010 were as follows:

|                                   | 2008       | 2009       | 2010       |
|-----------------------------------|------------|------------|------------|
| <b><u>Japanese plans:</u></b>     |            |            |            |
| Discount rate                     | 2.0%       | 2.0%       | 2.0%       |
| Rate of salary increase           | 2.3%       | 2.3%       | 2.3%       |
| Expected long-term rate of return | 4.0%       | 4.0%       | 3.0%       |
| <b><u>Foreign plans:</u></b>      |            |            |            |
| Discount rate                     | 5.2 ~ 6.0% | 5.5 ~ 6.8% | 6.9 ~ 8.0% |
| Rate of salary increase           | 2.9 ~ 6.4% | 2.9 ~ 6.4% | 1.5 ~ 6.4% |
| Expected long-term rate of return | 6.5 ~ 8.3% | 6.5 ~ 8.0% | 6.5 ~ 8.0% |

Honda determines the expected long-term rate of return based on its investment policies. Honda considers the eligible investment assets under its investment policies, historical experience, expected long-term rate of return under the investing environment, and the long-term target allocations of the various asset categories.



*Measurement date*

Honda uses the balance sheet date as the measurement date for its plans. Beginning in the year ended March 31, 2009, certain foreign subsidiaries of the Company changed their measurement date from December 31 to March 31 under Statement of Accounting Standards (SFAS) No.158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) which is now codified in the FASB Accounting Standards Codification (ASC) 715-30-35 Compensation Retirement Benefits - Defined Benefit Plans Pension - Subsequent Measurement . The effect of the change, which was immaterial, was included in pension cost and other comprehensive income (loss) in the consolidated financial statements for the year ended March 31, 2009.

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

In December 2008, the board of directors of the Company approved an amendment to the Honda Pension Fund, of which the Company and a part of its domestic subsidiaries and affiliates accounted for under the equity method were members. This plan amendment, effective from April 1, 2009, mainly revises pension benefits for those employees who retire on or after April 1, 2009, to be calculated using annuity pension conversion rates which are linked to market interest rates and contain a ceiling and a floor. Subsequent to the approval of the plan amendment, the Company remeasured and decreased its projected benefit obligation. The resulting prior service benefit has been amortized over the average remaining service period since January 1, 2009. The Company also remeasured the fair value of related plan assets as of December 31, 2008. The remeasurements of the projected benefit obligation and the related plan assets have resulted in the reduction in the liabilities for pension in the consolidated balance sheet.

*Plan assets*

Honda investment policies for the Japanese and foreign pension benefit are designed to maximize total medium-to-long term returns that are available to provide future payments of pension benefits to eligible participants under accepted risks. Plan assets are invested in well-diversified Japanese and foreign individual equity and debt securities using the target asset allocations, consistent with accepted tolerance for risks. Honda sets target asset allocations for each asset categories with future anticipated performance over medium-to-long term periods based on the expected returns, long-term risks and historical returns. Target asset allocations are adjusted as necessary when there are significant changes in the expected long-term returns of plan assets or the investment environment.

Honda's Japanese and foreign pension plan weighted-average asset allocations at March 31, 2009, by asset category are as follows:

|                   | Japanese<br>Plans | Foreign<br>Plans |
|-------------------|-------------------|------------------|
| Equity securities | 29%               | 62%              |
| Debt securities   | 52%               | 29%              |
| Other             | 19%               | 9%               |
|                   | 100%              | 100%             |

The following table presents the fair value of the Japanese pension plan assets by asset category as of March 31, 2010.

Yen (millions)

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|                                    | Level 1          | Level 2          | Level 3         | Total            |
|------------------------------------|------------------|------------------|-----------------|------------------|
| Cash and cash equivalents          | ¥ 12,222         | ¥                | ¥               | ¥ 12,222         |
| Short-term investments             |                  | 763              |                 | 763              |
| Equity securities                  | 221,048          |                  | 139             | 221,187          |
| Corporate bonds                    | 3,086            | 3,205            | 229             | 6,520            |
| Government, agency and local bonds | 170,302          | 82,542           | 274             | 253,118          |
| Group annuity insurance:           |                  |                  |                 |                  |
| General accounts                   |                  | 9,257            |                 | 9,257            |
| Separate accounts                  |                  | 13,069           |                 | 13,069           |
| Pooled funds:                      |                  |                  |                 |                  |
| Hedge funds                        |                  |                  | 28,444          | 28,444           |
| Commingled and other mutual funds  | 316              | 160,669          |                 | 160,985          |
| Derivative instruments             | (49)             | (10,778)         |                 | (10,827)         |
| <b>Total</b>                       | <b>¥ 406,925</b> | <b>¥ 258,727</b> | <b>¥ 29,086</b> | <b>¥ 694,738</b> |

\* Information about three hierarchy levels is described in note 15.

F-36

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

The following table presents a reconciliation during the year ended March 31, 2010 for Level 3 Japanese pension plan assets.

|   | Yen (millions)    |                 |                                    |                             | Total    |
|---|-------------------|-----------------|------------------------------------|-----------------------------|----------|
|   | Equity securities | Corporate bonds | Government, agency and local bonds | Pooled funds<br>Hedge funds |          |
| Balance at beginning of year                        | ¥ 114             | ¥ 332           | ¥ 1,304                            | ¥ 72,660                    | ¥ 74,410 |
| Actual return on plan assets:                       |                   |                 |                                    |                             |          |
| Relating to assets still held at the reporting date | 15                | 69              | 7                                  | 1,805                       | 1,896    |
| Relating to assets sold during the period           | 16                | 25              | 359                                | 285                         | 685      |
| Purchases, sales and settlements                    | (6)               | (402)           | (1,396)                            | (46,306)                    | (48,110) |
| Transfers in and/or out of Level 3                  |                   | 205             |                                    |                             | 205      |
| Balance at end of year                              | ¥ 139             | ¥ 229           | ¥ 274                              | ¥ 28,444                    | ¥ 29,086 |

The major valuation methodologies for Japanese pension plan assets are as follows:

Equity securities are mainly marketable securities and their fair value is estimated using quoted market prices. Fair value measurement for equity securities is mainly classified as Level 1. This class includes approximately 13% of Japanese equity securities, 43% of United States equity securities and 44% of other foreign equity securities.

Fair value measurement for corporate, government, agency and local bonds of which fair value is estimated using quoted market prices is classified as Level 1. Fair value measurement for the assets of which fair value is estimated based on market observable inputs such as market interest rates and conditions of issuances is classified as Level 2. This class includes approximately 26% of Japanese bonds, 23% of United States bonds and 51% of other foreign bonds.

General accounts of group annuity insurance are assets invested by life insurance companies to meet fixed guaranteed rates of return for policyholders, and that life insurance companies bear the investment risk on such assets. Fair value of general accounts is estimated based on inputs such as contractual interest rates. Fair value measurement for general accounts is classified as Level 2. Separate accounts of group annuity insurance mainly consist of marketable equity securities and corporate, government, agency and local bonds traded in active markets. Honda estimates the fair value of the separate accounts based on their net asset values and Honda's ownership percentage. Fair value measurement for separate accounts is classified as Level 2.

Hedge funds invest in various assets at the discretion of fund managers and their fair value is estimated based on prices reported by the fund managers which include unobservable inputs in valuation. Fair value measurement for hedge funds is classified as Level 3. Hedge funds are

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diversely invested in various funds in order to avoid excessive concentration on investment portfolio. Commingled and other mutual funds are pooled funds which have the underlying assets mainly consist of marketable equity securities and corporate, government, agency and local bonds traded in active markets. Honda estimates the fair value of commingled and other mutual funds based on their net asset values and Honda's ownership percentage. Fair value measurement for commingled and other mutual funds is mainly classified as Level 2.

F-37

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

Derivative instruments mainly consist of foreign exchange instruments and fair value of derivative instruments is estimated based on market observable inputs such as foreign exchange rates. Fair value measurement for derivative instruments is mainly classified as Level 2. On a gross basis, asset position is ¥1,525 million and liability position is ¥12,352 million.

The following table presents the fair value of the foreign pension plan assets by asset category as of March 31, 2010.

|                                    | Yen<br>(millions) |           |          | Total     |
|------------------------------------|-------------------|-----------|----------|-----------|
|                                    | Level 1           | Level 2   | Level 3  |           |
| Cash and cash equivalents          | ¥ 2,083           | ¥         | ¥        | ¥ 2,083   |
| Short-term investments             |                   | 15,962    |          | 15,962    |
| Equity securities                  | 161,462           | 1         | 208      | 161,671   |
| Corporate bonds                    | 6                 | 37,254    | 278      | 37,538    |
| Government, agency and local bonds | 2,651             | 35,470    | 3,966    | 42,087    |
| Pooled funds:                      |                   |           |          |           |
| Real estate funds                  |                   |           | 5,366    | 5,366     |
| Private equity funds               |                   |           | 5,228    | 5,228     |
| Commingled and other mutual funds  |                   | 104,360   | 27       | 104,387   |
| Derivative instruments             | (3)               | (31)      | (1)      | (35)      |
| Asset backed securities            |                   | 4,955     | 406      | 5,361     |
| Total                              | ¥ 166,199         | ¥ 197,971 | ¥ 15,478 | ¥ 379,648 |

\* Information about three hierarchy levels is described in note 15.

The following table presents a reconciliation during the year ended March 31, 2010 for Level 3 foreign pension plan assets.

|   | Yen (millions)    |                 |                                    |                   |                      |                                   |                        |                         | Total   |
|---|-------------------|-----------------|------------------------------------|-------------------|----------------------|-----------------------------------|------------------------|-------------------------|---------|
|   | Equity securities | Corporate bonds | Government, agency and local bonds | Real estate funds | Private equity funds | Commingled and other mutual funds | Derivative instruments | Asset backed securities |         |
| Balance at beginning of year                        | ¥ 8               | ¥ 586           | ¥ 2,979                            | ¥ 3,514           | ¥                    | ¥                                 | ¥ 1                    | ¥                       | ¥ 7,088 |
| Actual return on plan assets:                       |                   |                 |                                    |                   |                      |                                   |                        |                         |         |
| Relating to assets still held at the reporting date | 8                 | 32              | 152                                | (233)             | 233                  | 10                                |                        | 5                       | 207     |
|   | (1)               | 52              | 93                                 |                   |                      |                                   | 3                      |                         | 147     |

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Relating to assets sold during the period

|                                    |       |       |         |         |         |      |       |       |          |
|------------------------------------|-------|-------|---------|---------|---------|------|-------|-------|----------|
| Purchases, sales and settlements   | 193   | (136) | 982     | 94      | 5,114   | 14   | (5)   | 399   | 6,655    |
| Transfers in and/or out of Level 3 |       | (225) | (86)    | 1,996   |         | 2    |       |       | 1,687    |
| Foreign currency translation       |       | (31)  | (154)   | (5)     | (119)   | 1    |       | 2     | (306)    |
| Balance at end of year             | ¥ 208 | ¥ 278 | ¥ 3,966 | ¥ 5,366 | ¥ 5,228 | ¥ 27 | ¥ (1) | ¥ 406 | ¥ 15,478 |

F-38

**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

The major valuation methodologies for foreign pension plan assets are as follows:

Fair value of short-term investments is estimated based on market observable inputs. Fair value measurement for short-term investments is classified as Level 2.

Equity securities are mainly marketable securities and their fair value is estimated using quoted market prices. Fair value measurement for equity securities is mainly classified as Level 1. This class includes approximately 8% of Japanese equity securities, 48% of United States equity securities and 44% of other foreign equity securities.

Fair value measurement for corporate, government, agency and local bonds of which fair value is estimated using quoted market prices is classified as Level 1. Fair value measurement for the assets of which fair value is estimated based on market observable inputs such as market interest rates and conditions of issuances is classified as Level 2. Fair value measurement for the assets of which fair value is estimated based on unobservable inputs provided by third parties is classified as Level 3.

Real estate funds invest in real estate in the United Kingdom and the United States and their fair value is estimated based on the prices reported by the investment managers which include unobservable inputs in valuation. Fair value measurement for real estate funds is classified as Level 3. Fair value of private equity funds is estimated based on unobservable inputs such as proprietary models and uncorroborated data from the limited partnerships. Fair value measurement for private equity funds is classified as Level 3. Commingled and other mutual funds are pooled funds which have the underlying assets mainly consist of marketable equity securities and corporate, government, agency and local bonds traded in active markets. Honda estimates the fair value of commingled and other mutual funds based on their net asset values and Honda's ownership percentage. Fair value measurement for commingled and other mutual funds is mainly classified as Level 2.

Fair value of asset-backed securities is mainly estimated based on market observable inputs provided by independent vendors. Fair value measurement for asset-backed securities is mainly classified as Level 2.

*Cash flows*

*Contributions*

Honda expects to contribute ¥70,567 million to its Japanese pension plans and ¥10,977 million to its foreign pension plans in the year ending March 31, 2011.



*Estimated future benefit payment*

The following table presents estimated future gross benefit payments:

|                               |      | Yen<br>(millions) |                  |
|-------------------------------|------|-------------------|------------------|
|                               |      | Japanese<br>plans | Foreign<br>plans |
| <b>Years ending March 31:</b> |      |                   |                  |
| 2011                          |      | 40,707            | 9,450            |
| 2012                          |      | 41,449            | 9,285            |
| 2013                          |      | 41,398            | 10,243           |
| 2014                          |      | 43,114            | 11,575           |
| 2015                          |      | 43,852            | 13,207           |
| 2016                          | 2020 | 256,796           | 105,100          |

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

Certain of the Company's subsidiaries in North America provide health care and life insurance benefits to retired employees. Such benefits have no material effect on Honda's financial position and results of operations.

**(13) Supplemental Disclosures of Cash Flow Information**

|  | 2008      | Yen<br>(millions)<br>2009 | 2010      |
|--|-----------|---------------------------|-----------|
| Cash paid (provided), net during the year for: |           |                           |           |
| Interest                                       | ¥ 227,024 | ¥ 211,298                 | ¥ 154,814 |
| Income taxes                                   | 301,286   | 160,631                   | (229)     |

**(14) Accumulated Other Comprehensive Income (Loss)**

The components and related changes in accumulated other comprehensive income (loss) for each of the years in the three-year period ended March 31, 2010 are as follows:

|   | 2008        | Yen (millions)<br>2009 | 2010          |
|---|-------------|------------------------|---------------|
| Adjustments from foreign currency translation:                                  |             |                        |               |
| Balance at beginning of year  | ¥ (279,002) | ¥ (591,269)            | ¥ (1,068,585) |
| Adjustments for the year  | (312,267)   | (477,316)              | 91,097        |
| Balance at end of year  | (591,269)   | (1,068,585)            | (977,488)     |
| Net unrealized gains on marketable securities:                                  |             |                        |               |
| Balance at beginning of year  | 58,139      | 31,680                 | 6,617         |
| Reclassification adjustments for realized (gain) loss on marketable securities  | (73)        | 17,372                 | 353           |
| Increase (decrease) in net unrealized gains on marketable securities            | (26,386)    | (42,435)               | 22,754        |
| Balance at end of year  | 31,680      | 6,617                  | 29,724        |
| Net unrealized gains (losses) on derivative instruments:                        |             |                        |               |
| Balance at beginning of year  | 20          | 460                    |               |
| Reclassification adjustments for realized (gain) loss on derivative instruments | 18          | (412)                  | 194           |
| Increase (decrease) in net unrealized gains on derivative instruments           | 422         | (48)                   | (518)         |
| Balance at end of year  | 460         |                        | (324)         |

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|   |                    |                      |                      |
|---|--------------------|----------------------|----------------------|
| <b>Pension and other postretirement benefits adjustment*</b>                              |                    |                      |                      |
| Balance at beginning of year  | (206,323)          | (223,069)            | (260,860)            |
| Amortization of unrealized (gain) loss on pension and other postretirement benefits       | 8,697              | 8,958                | 7,581                |
| (Increase) decrease in net unrealized losses on pension and other postretirement benefits | (25,443)           | (46,749)             | (6,795)              |
| <b>Balance at end of year</b>   | <b>(223,069)</b>   | <b>(260,860)</b>     | <b>(260,074)</b>     |
| <b>Total accumulated other comprehensive income (loss):</b>                               |                    |                      |                      |
| Balance at beginning of year  | (427,166)          | (782,198)            | (1,322,828)          |
| Adjustments for the year  | (355,032)          | (540,630)            | 114,666              |
| <b>Balance at end of year</b>   | <b>¥ (782,198)</b> | <b>¥ (1,322,828)</b> | <b>¥ (1,208,162)</b> |

F-40

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

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

|   | Before-tax<br>amount | Yen (millions)<br>Tax<br>(expense) or<br>benefit<br>(note 10) | Net-of-tax<br>amount |
|---|----------------------|---|----------------------|
| <b>2008:</b>  |                      |   |                      |
| Adjustments from foreign currency translation   | ¥ (370,075)          | ¥ 57,808  | ¥ (312,267)          |
| Unrealized gains (losses) on marketable securities:                                       |                      |   |                      |
| Unrealized holding gains (losses) arising during the year                                 | (43,138)             | 16,752  | (26,386)             |
| Reclassification adjustments for losses (gains) realized in net income                    | (122)                | 49  | (73)                 |
| Net unrealized gains (losses)   | (43,260)             | 16,801  | (26,459)             |
| Unrealized gains (losses) on derivative instruments                                       |                      |   |                      |
| Unrealized holding gains (losses) arising during the year                                 | 704                  | (282)   | 422                  |
| Reclassification adjustments for losses (gains) realized in net income                    | 30                   | (12)  | 18                   |
| Net unrealized gains (losses)   | 734                  | (294)   | 440                  |
| Pension and other postretirement benefits adjustment*                                     |                      |   |                      |
| (Increase) decrease in net unrealized losses on pension and other postretirement benefits | (45,466)             | 20,023  | (25,443)             |
| Amortization of unrealized (gain) loss on pension and other postretirement benefits       | 13,516               | (4,819)   | 8,697                |
| Net unrealized gains (losses)   | (31,950)             | 15,204  | (16,746)             |
| Other comprehensive income (loss)   | ¥ (444,551)          | ¥ 89,519  | ¥ (355,032)          |
| <b>2009:</b>  |                      |   |                      |
| Adjustments from foreign currency translation   | ¥ (491,509)          | ¥ 14,193  | ¥ (477,316)          |
| Unrealized gains (losses) on marketable securities:                                       |                      |   |                      |
| Unrealized holding gains (losses) arising during the year                                 | (70,280)             | 27,845  | (42,435)             |
| Reclassification adjustments for losses (gains) realized in net income                    | 28,311               | (10,939)  | 17,372               |
| Net unrealized gains (losses)   | (41,969)             | 16,906  | (25,063)             |
| Unrealized gains (losses) on derivative instruments                                       |                      |   |                      |
| Unrealized holding gains (losses) arising during the year                                 | (80)                 | 32  | (48)                 |
| Reclassification adjustments for losses (gains) realized in net income                    | (688)                | 276   | (412)                |
| Net unrealized gains (losses)   | (768)                | 308   | (460)                |
| Pension and other postretirement benefits adjustment*                                     |                      |   |                      |
| (Increase) decrease in net unrealized losses on pension and other postretirement benefits | (79,119)             | 32,370  | (46,749)             |
| Amortization of unrealized (gain) loss on pension and other postretirement benefits       | 14,433               | (5,475)   | 8,958                |
| Net unrealized gains (losses)   | (64,686)             | 26,895  | (37,791)             |

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|   |             |            |             |
|---|-------------|------------|-------------|
| Other comprehensive income (loss)   | ¥ (598,932) | ¥ 58,302   | ¥ (540,630) |
| <b>2010:</b>  |             |            |             |
| Adjustments from foreign currency translation   | ¥ 87,644    | ¥ 3,453    | ¥ 91,097    |
| Unrealized gains (losses) on marketable securities:                                       |             |            |             |
| Unrealized holding gains (losses) arising during the year                                 | 35,581      | (12,827)   | 22,754      |
| Reclassification adjustments for losses (gains) realized in net income                    | 588         | (235)      | 353         |
| Net unrealized gains (losses)   | 36,169      | (13,062)   | 23,107      |
| Unrealized gains (losses) on derivative instruments                                       |             |            |             |
| Unrealized holding gains (losses) arising during the year                                 | (865)       | 347        | (518)       |
| Reclassification adjustments for losses (gains) realized in net income                    | 324         | (130)      | 194         |
| Net unrealized gains (losses)   | (541)       | 217        | (324)       |
| Pension and other postretirement benefits adjustment*                                     |             |            |             |
| (Increase) decrease in net unrealized losses on pension and other postretirement benefits | 6,773       | (13,568)   | (6,795)     |
| Amortization of unrealized (gain) loss on pension and other postretirement benefits       | 12,329      | (4,748)    | 7,581       |
| Net unrealized gains (losses)   | 19,102      | (18,316)   | 786         |
| Other comprehensive income (loss)   | ¥ 142,374   | ¥ (27,708) | ¥ 114,666   |

\* The primary components of other comprehensive income (loss) for Pension and other postretirement benefits adjustment are actuarial gains or losses and prior service benefits or costs (see note 12).

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(15) Fair Value Measurements**

Honda adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements which is now codified in the FASB Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, effective April 1, 2008. This statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, and emphasizes that a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

This statement establishes a three-level hierarchy to be used when measuring fair value. The following is a description of the three hierarchy levels:

- Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date
- Level 2** Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly
- Level 3** Unobservable inputs for the assets or liabilities

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest input that is significant to the fair value measurement in its entirety.

The following table presents the assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 and 2010.

| As of March 31, 2009                             | Yen (millions) |         |          | Gross fair value | Netting adjustment | Net amount |
|--|----------------|---------|----------|------------------|--------------------|------------|
|  | Level 1        | Level 2 | Level 3  |                  |                    |            |
| Assets:  |                |         |          |                  |                    |            |
| Retained interests in securitizations            | ¥              | ¥       | ¥ 45,648 | ¥ 45,648         | ¥                  | ¥ 45,648   |
| Derivative instruments                           |                |         |          |                  |                    |            |
| Foreign exchange instruments (notes 1(q) and 16) |                | 71,735  |          | 71,735           |                    |            |
| Interest rate instruments (notes 1(q) and 16)    |                | 51,818  | 2,437    | 54,255           |                    |            |
| Total derivative instruments                     |                | 123,553 | 2,437    | 125,990          | (68,251)           | 57,739     |

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|  |                 |                    |                 |                    |                   |                   |
|--|-----------------|--------------------|-----------------|--------------------|-------------------|-------------------|
| Available-for-sale securities                    |                 |                    |                 |                    |                   |                   |
| Marketable equity securities                     | 54,807          |                    |                 | 54,807             |                   | 54,807            |
| Money market funds                               |                 | 3,913              |                 | 3,913              |                   | 3,913             |
| Auction rate securities                          |                 |                    | 9,906           | 9,906              |                   | 9,906             |
| <b>Total available-for-sale securities</b>       | <b>54,807</b>   | <b>3,913</b>       | <b>9,906</b>    | <b>68,626</b>      |                   | <b>68,626</b>     |
| <b>Total</b>                                     | <b>¥ 54,807</b> | <b>¥ 127,466</b>   | <b>¥ 57,991</b> | <b>¥ 240,264</b>   | <b>¥ (68,251)</b> | <b>¥ 172,013</b>  |
| <b>Liabilities:</b>                              |                 |                    |                 |                    |                   |                   |
| Derivative instruments                           |                 |                    |                 |                    |                   |                   |
| Foreign exchange instruments (notes 1(q) and 16) | ¥               | ¥ (25,880)         | ¥               | ¥ (25,880)         | ¥                 | ¥                 |
| Interest rate instruments (notes 1(q) and 16)    |                 | (114,406)          | (143)           | (114,549)          |                   |                   |
| <b>Total derivative instruments</b>              |                 | <b>(140,286)</b>   | <b>(143)</b>    | <b>(140,429)</b>   | <b>68,251</b>     | <b>(72,178)</b>   |
| <b>Total</b>                                     | <b>¥</b>        | <b>¥ (140,286)</b> | <b>¥ (143)</b>  | <b>¥ (140,429)</b> | <b>¥ 68,251</b>   | <b>¥ (72,178)</b> |

F-42

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

| As of March 31, 2010                             | Yen (millions)  |                   |                 | Gross fair value  | Netting adjustment | Net amount        |
|--|-----------------|-------------------|-----------------|-------------------|--------------------|-------------------|
|  | Level 1         | Level 2           | Level 3         |                   |                    |                   |
| <b>Assets:</b>                                   |                 |                   |                 |                   |                    |                   |
| Retained interests in securitizations            | ¥               | ¥                 | ¥ 27,555        | ¥ 27,555          | ¥                  | ¥ 27,555          |
| <b>Derivative instruments</b>                    |                 |                   |                 |                   |                    |                   |
| Foreign exchange instruments (notes 1(q) and 16) |                 | 70,905            |                 | 70,905            |                    |                   |
| Interest rate instruments (notes 1(q) and 16)    |                 | 35,352            | 1,025           | 36,377            |                    |                   |
| Total derivative instruments                     |                 | 106,257           | 1,025           | 107,282           | (44,417)           | 62,865            |
| <b>Available-for-sale securities</b>             |                 |                   |                 |                   |                    |                   |
| Marketable equity securities                     | 94,560          |                   |                 | 94,560            |                    | 94,560            |
| Auction rate securities                          |                 |                   | 10,041          | 10,041            |                    | 10,041            |
| Total available-for-sale securities              | 94,560          |                   | 10,041          | 104,601           |                    | 104,601           |
| <b>Total</b>                                     | <b>¥ 94,560</b> | <b>¥ 106,257</b>  | <b>¥ 38,621</b> | <b>¥ 239,438</b>  | <b>¥ (44,417)</b>  | <b>¥ 195,021</b>  |
| <b>Liabilities:</b>                              |                 |                   |                 |                   |                    |                   |
| <b>Derivative instruments</b>                    |                 |                   |                 |                   |                    |                   |
| Foreign exchange instruments (notes 1(q) and 16) | ¥               | ¥ (23,432)        | ¥               | ¥ (23,432)        | ¥                  | ¥                 |
| Interest rate instruments (notes 1(q) and 16)    |                 | (61,087)          |                 | (61,087)          |                    |                   |
| Total derivative instruments                     |                 | (84,519)          |                 | (84,519)          | 44,417             | (40,102)          |
| <b>Total</b>                                     | <b>¥</b>        | <b>¥ (84,519)</b> | <b>¥</b>        | <b>¥ (84,519)</b> | <b>¥ 44,417</b>    | <b>¥ (40,102)</b> |

Derivative asset and liability positions are presented net by counterparty on the consolidated balance sheets when valid master netting agreement exists and the other conditions set out in the FASB Accounting Standards Codification (ASC) 210-20 Balance Sheet-Offsetting are met.

The following table presents a reconciliation during the year ended March 31, 2009 and 2010 for all Level 3 assets and liabilities measured at fair value on a recurring basis.

| For the year ended March 31, 2009         | Yen (millions)                        |   |                         | Total    |
|---|---------------------------------------|---|-------------------------|----------|
|   | Retained interests in securitizations | Interest rate instruments (notes 1(q) and 16) | Auction rate securities |          |
| Balance at beginning of year              | ¥ 54,636                              | ¥ 1,660                                       | ¥ 13,661                | ¥ 69,957 |
| Total realized/unrealized gains or losses |                                       |   |                         |          |
| Included in earnings                      | (5,185)                               | 1,614   |                         | (3,571)  |



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|   |          |         |         |          |
|---|----------|---------|---------|----------|
| Included in other comprehensive income (loss) |          |         | (2,259) | (2,259)  |
| Purchases, issuances, and settlements, net    | (938)    | (946)   | (1,228) | (3,112)  |
| Foreign currency translation                  | (2,865)  | (34)    | (268)   | (3,167)  |
| Balance at end of year                        | ¥ 45,648 | ¥ 2,294 | ¥ 9,906 | ¥ 57,848 |

The amounts of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date

|   |           |         |         |           |
|---|-----------|---------|---------|-----------|
| Included in earnings                          | ¥ (4,231) | ¥ 1,598 | ¥       | ¥ (2,633) |
| Included in other comprehensive income (loss) |           |         | (2,259) | (2,259)   |

F-43

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

|   | Yen (millions)                                 |   |                            |  | Total           |
|---|--|---|----------------------------|--|-----------------|
|   | Retained<br>interests<br>in<br>securitizations | Interest rate<br>instruments<br>(notes 1(q) and 16) | Auction rate<br>securities |  |                 |
| <b>For the year ended March 31, 2010</b>      |  |   |                            |  |                 |
| Balance at beginning of year                  | ¥ 45,648                                       | ¥ 2,294   | ¥ 9,906                    |  | ¥ 57,848        |
| Total realized/unrealized gains or losses     |  |   |                            |  |                 |
| Included in earnings                          | 8,990  | 1,164   |                            |  | 10,154          |
| Included in other comprehensive income (loss) |  |   | 1,746                      |  | 1,746           |
| Purchases, issuances, and settlements, net    | (25,706)                                       | (2,341)   | (1,155)                    |  | (29,202)        |
| Foreign currency translation                  | (1,377)  | (92)  | (456)                      |  | (1,925)         |
| <b>Balance at end of year</b>                 | <b>¥ 27,555</b>                                | <b>¥ 1,025</b>                                      | <b>¥ 10,041</b>            |  | <b>¥ 38,621</b> |

The amounts of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date

|   |         |       |         |         |
|---|---------|-------|---------|---------|
| Included in earnings                          | ¥ 4,834 | ¥ 625 | ¥ 1,746 | ¥ 5,459 |
| Included in other comprehensive income (loss) |         |       | 1,746   | 1,746   |

Total realized/unrealized gains or losses related to retained interests in securitizations, including those held at the reporting date, are included in net sales and other operating revenue in the consolidated statements of income.

Total realized/unrealized gains or losses related to interest rate instruments, including those held at the reporting date, are included in other income (expenses) other, net, in the consolidated statements of income.

The valuation methodologies the assets and liabilities measured at fair value on a recurring basis are as follows:

**Retained interests in securitizations**

The fair values of the retained interests in securitizations are estimated by calculating the present value of the future cash flows using a discount rate commensurate with the risks involved. In order to estimate cash flows, Honda utilizes various significant assumptions including market observable inputs such as forward interest rates, as well as internally developed inputs, such as prepayment speeds, delinquency levels and credit losses. Fair value measurement for retained interests in securitization is classified as Level 3.

**Foreign exchange and interest rate instruments (see notes 1(q) and 16)**

The fair values of foreign currency forward exchange contracts and foreign currency option contracts are estimated using market observable inputs such as spot exchange rates, discount rates and implied volatility. Fair value measurement for foreign currency forward exchange contracts and foreign currency option contracts are classified as Level 2. The fair values of currency swap agreements and interest rate swap agreements are estimated by discounting future cash flows using market observable inputs such as LIBOR rates, swap rates, and foreign exchange rates. Fair value measurement for these currency swap agreements and interest rate swap agreements are classified as Level 2.

**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

The fair values of a limited number of interest rate swap agreements related to certain off balance sheet securitizations are estimated using significant assumptions including market observable inputs, as well as internally developed prepayment assumptions as an input into the model, in order to forecast future notional amounts on these structured derivative contracts. Accordingly, fair value measurement for these derivative contracts is classified as Level 3.

The credit risk of Honda and its counterparties are considered on the valuation of foreign exchange and interest rate instruments.

**Marketable equity securities**

The fair value of marketable equity securities is estimated using quoted market prices. Fair value measurement for marketable equity securities is classified as Level 1.

**Money market funds**

The fair value of money market funds classified as short-term investments were estimated based on market observable inputs such as the average of the net asset value price. Fair value measurement for its money market funds was classified as Level 2.

**Auction rate securities**

The subsidiary's auction rate securities (ARS) holdings were AAA rated and are insured by qualified guarantee agencies, and reinsured by the Secretary of Education and United States Government, and are guaranteed about 95% by the United States Government. Since the ARS market had been illiquid as of March 31, 2009 and no readily observable prices exist, Honda measured the fair value of the ARS based on the discounted cash flows of the expected interest payments to maturity dates of the ARS and the insurance by qualified guarantee agencies, reinsurance and guarantees by the United States Government. The ARS market still had been illiquid as of March 31, 2010, and no readily observable prices exist, Honda measured the fair value of the ARS based on the discounted cash flows. In order to assess various kinds of risks, such as liquidity risk, Honda used third-party developed valuation model which obtains a wide array of market observable inputs, as well as unobservable inputs including probability of passing or failing auction at each auction. Fair value measurement for auction rate securities is classified as Level 3.

Honda does not have financial assets and financial liabilities measured at fair value on a nonrecurring basis as of and for the year ended March 31, 2009 and 2010.

Honda also adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements which is now codified in the FASB Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) effective April 1, 2009. Honda does not have significant nonfinancial assets and nonfinancial liabilities measured at fair value on a nonrecurring basis as of and for the year ended March 31, 2010.

Honda has not elected the fair value option for the fiscal year ended March 31, 2009 and 2010.

F-45

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

The estimated fair values of significant financial instruments at March 31, 2009 and 2010 are as follows (see notes 1(q) and 16):

|                                    | Yen (millions)  |                      |                 |                      |
|------------------------------------|-----------------|----------------------|-----------------|----------------------|
|                                    | 2009            |                      | 2010            |                      |
|                                    | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Finance subsidiaries-receivables * | ¥ 3,526,073     | ¥ 3,471,727          | ¥ 3,569,760     | ¥ 3,638,964          |
| Available-for-sale securities      | 68,626          | 68,626               | 104,601         | 104,601              |
| Held-to-maturity securities        | 3,234           | 3,320                | 18,766          | 18,862               |
| Debt                               | (4,616,979)     | (4,492,595)          | (4,101,675)     | (4,191,389)          |
| Derivative instruments             |                 |                      |                 |                      |
| Asset position                     | ¥ 57,739        | ¥ 57,739             | ¥ 62,865        | ¥ 62,865             |
| Liability position                 | (72,178)        | (72,178)             | (40,102)        | (40,102)             |
| Net                                | ¥ (14,439)      | ¥ (14,439)           | ¥ 22,763        | ¥ 22,763             |

\* The carrying amounts of finance subsidiaries-receivables at March 31, 2009 and 2010 in the table exclude ¥641,721 million and ¥411,228 million, respectively, of direct financing leases, net, classified as finance subsidiaries-receivables in the consolidated balance sheets. The carrying amounts of finance subsidiaries-receivables at March 31, 2009 and 2010 in the table also include ¥595,482 million and ¥519,495 million of finance receivables classified as trade receivables and other assets in the consolidated balance sheets, respectively.

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

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

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

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

*Finance subsidiaries-receivables*

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

### *Held-to-maturity securities*

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

### *Debt*

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

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(16) Risk Management Activities and Derivative Financial Instruments**

Honda uses derivative financial instruments in the normal course of business to reduce their exposure to fluctuations in foreign exchange rates and interest rates. (see notes 1(q) and 15) Currency swap agreements are used to manage currency risk exposure on foreign currency denominated debt. Foreign currency forward exchange contracts and purchased option contracts are used to hedge currency risk of 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 manage interest rate risk exposure and 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 currently does not require or place collateral for these financial instruments with any counterparties.

Contract amounts outstanding for foreign currency forward exchange contracts, foreign currency option contracts and currency swap agreements and the notional principal amounts of interest rate swap agreements at March 31, 2009 and 2010 are as follows:

Derivatives designated as hedging instruments:

|   | Yen (millions) |          |
|---|----------------|----------|
|   | 2009           | 2010     |
| Foreign currency forward exchange contracts | ¥              | ¥ 26,542 |
| Foreign exchange instruments                | ¥              | ¥ 26,542 |

Derivatives not designated as hedging instruments:

|  | Yen (millions) |      |
|--|----------------|------|
|  | 2009           | 2010 |



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|   |             |             |
|---|-------------|-------------|
| Foreign currency forward exchange contracts | ¥ 531,615   | ¥ 552,585   |
| Foreign currency option contracts           | 76,099      | 92,965      |
| Currency swap agreements                    | 667,011     | 718,964     |
| Foreign exchange instruments                | ¥ 1,274,725 | ¥ 1,364,514 |
| Interest rate swap agreements               | ¥ 4,327,124 | ¥ 3,806,091 |
| Interest rate instruments                   | ¥ 4,327,124 | ¥ 3,806,091 |

F-47

**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

*Cash flow hedge*

The Company applies hedge accounting for certain foreign currency forward exchange contracts related to forecasted foreign currency transactions between the Company and its subsidiaries. Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income (loss). The amounts are reclassified into earnings in the same period when forecasted hedged transactions affect earnings. The amounts recognized in accumulated other comprehensive income (loss) was ¥324 million loss at March 31, 2010. All amounts recorded in accumulated other comprehensive income (loss) as year-end are expected to be recognized in earnings within the next twelve months. The period that hedges the changes in cash flows related to the risk of foreign currency rate is at most around two months.

There are no derivative financial instruments where hedge accounting has been discontinued due to the forecasted transaction no longer being probable. The Company excludes financial instruments' time value component from the assessment of hedge effectiveness. There is no portion of hedging instruments that has been assessed as hedge ineffectiveness.

*Derivative financial instruments not designated as accounting hedges*

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

The estimated fair values of derivative instruments at March 31, 2009 are as follows.

*Derivatives designated as hedging instruments:*

The Company does not hold derivatives designed as hedging instruments at March 31, 2009.

*Derivatives not designated as hedging instruments:*

|                  | Yen (millions) |                        |
|------------------|----------------|------------------------|
| Gross fair value |                | Balance sheet location |

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|                              | Asset<br>derivatives | Liability<br>derivatives | Other current<br>assets | Other<br>assets | Other current<br>liabilities |
|------------------------------|----------------------|--------------------------|-------------------------|-----------------|------------------------------|
| Foreign exchange instruments | ¥ 71,735             | ¥ (25,880)               | ¥ 9,104                 | ¥ 50,254        | ¥ (13,503)                   |
| Interest rate instruments    | 54,255               | (114,549)                | (2,797)                 | 1,178           | (58,675)                     |
| Total                        | ¥ 125,990            | ¥ (140,429)              | ¥ 6,307                 | ¥ 51,432        | ¥ (72,178)                   |
| Netting adjustment           | (68,251)             | 68,251                   |                         |                 |                              |
| Net amount                   | ¥ 57,739             | ¥ (72,178)               |                         |                 |                              |

F-48

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

The estimated fair values of derivative instruments at March 31, 2010 are as follows.

Derivatives designated as hedging instruments:

|                              | Gross fair value  |                       | Yen (millions)       |              |                           |
|------------------------------|-------------------|-----------------------|----------------------|--------------|---------------------------|
|                              | Asset derivatives | Liability derivatives | Other current assets | Other assets | Other current liabilities |
| Foreign exchange instruments | ¥ 33              | ¥ (646)               | ¥ 33                 | ¥            | ¥ (646)                   |

Derivatives not designated as hedging instruments:

|                              | Gross fair value  |                       | Yen (millions)       |                 |                           |
|------------------------------|-------------------|-----------------------|----------------------|-----------------|---------------------------|
|                              | Asset derivatives | Liability derivatives | Other current assets | Other Assets    | Other current liabilities |
| Foreign exchange instruments | ¥ 70,872          | ¥ (22,786)            | ¥ 29,105             | ¥ 29,608        | ¥ (10,627)                |
| Interest rate instruments    | 36,377            | (61,087)              | 594                  | 3,525           | (28,829)                  |
| <b>Total</b>                 | <b>¥ 107,249</b>  | <b>¥ (83,873)</b>     | <b>¥ 29,699</b>      | <b>¥ 33,133</b> | <b>¥ (39,456)</b>         |
| Netting adjustment           | (44,417)          | 44,417                |                      |                 |                           |
| <b>Net amount</b>            | <b>¥ 62,832</b>   | <b>¥ (39,456)</b>     |                      |                 |                           |

Derivative asset and liability positions are presented net by counterparty on the consolidated balance sheets when valid master netting agreement exists and the other conditions set out in the FASB Accounting Standards Codification (ASC) 210-20 Balance Sheet-Offsetting are met.

The pre-tax effect of derivative instruments on the Company's results of operations for the year ended March 31, 2009 is as follows:

Derivatives designated as hedging instruments

Cash flow hedge:

|                               | Yen (millions)   |                          |              |  |                           |            |
|-------------------------------|--|--------------------------|--------------|--|---------------------------|------------|
|                               | Gain<br>(Loss)<br>recognized in other<br>comprehensive<br>income<br>(loss)<br>(effective<br>portion)<br>Amount | Gain (Loss) reclassified |              |  | Gain (Loss) recognized in |            |
|                               |  | from accumulated         |              |  | earnings (financial       |            |
|                               |  | other comprehensive      |              |  | instruments time value    |            |
|                               | income (loss) into earnings  |                          |              | component excluded from                |                           |            |
|                               | (effective portion)  |                          |              | the assessment of hedge effectiveness) |                           |            |
|                               | Location   | Amount                   | Location     | Amount                                 | Location                  | Amount     |
| Foreign exchange instruments: | Other income   |                          | Other income |  | Other income              |            |
|                               | (expenses)   | Other, net               | (expenses)   | Other, net                             | (expenses)                | Other, net |
|                               | ¥ (80)   | ¥ 688                    |              |  | ¥ (435)                   |            |

*Derivatives not designated as hedging instruments*

|                              | Yen (millions)                     |            |            |
|------------------------------|------------------------------------|------------|------------|
|                              | Gain (Loss) recognized in earnings |            |            |
|                              | Location                           | Location   | Amount     |
| Foreign exchange instruments | Other income (expenses)            | Other, net | ¥ 12,310   |
| Interest rate instruments    | Other income (expenses)            | Other, net | (33,131)   |
| Total                        |                                    |            | ¥ (20,821) |

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

The pre-tax effect of derivative instruments on the Company's results of operations for the year ended March 2010 is as follows:

**Derivatives designated as hedging instruments**

Cash flow hedge:

|                               | Yen (millions)   |   |            |   |                                       |  |
|-------------------------------|--|---|------------|---|---------------------------------------|--|
|                               | Gain<br>(Loss)<br>recognized in other<br>comprehensive<br>income<br>(loss)<br>(effective<br>portion)<br>Amount | Gain (Loss) reclassified<br>from accumulated<br>other comprehensive<br>income (loss) into earnings<br>(effective portion) |            | Gain (Loss) recognized in<br>earnings (financial<br>instruments time value<br>component excluded from<br>the assessment of hedge effectiveness) |                                       |  |
|                               |  | Location  | Amount     | Location  | Amount                                |  |
| Foreign exchange instruments: |  | Other income  |            |   |                                       |  |
|                               | ¥ (865)  | (expenses)  | Other, net | ¥ (324)   | Other income<br>(expenses) Other, net |  |
|                               |  |   |            |   | ¥ 686                                 |  |

**Derivatives not designated as hedging instruments**

|                              | Yen (millions)                     |            |                |
|------------------------------|------------------------------------|------------|----------------|
|                              | Gain (Loss) recognized in earnings |            | Amount         |
|                              | Location                           | Location   | Amount         |
| Foreign exchange instruments | Other income (expenses)            | Other, net | ¥ 39,593       |
| Interest rate instruments    | Other income (expenses)            | Other, net | (35,907)       |
| <b>Total</b>                 |                                    |            | <b>¥ 3,686</b> |

The gains and losses are included in other income (expenses) other, net on a net basis with related items, such as foreign currency translation. (see note 1(p))

**(17) Commitments and Contingent Liabilities**

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At March 31, 2010, Honda had commitments for purchases of property, plant and equipment of approximately ¥47,436 million.

Honda has entered into various guarantee and indemnification agreements. At March 31, 2009 and 2010, Honda has guaranteed ¥33,691 million and ¥31,772 million of bank loans 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 ¥33,691 million and ¥31,772 million, respectively, at March 31, 2009 and 2010. At March 31, 2010, no amount has been accrued for any estimated losses under the obligations, as it is probable that the employees will be able to make all scheduled payments.

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

F-50

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

The changes in provisions for those product warranties for each of the years in the two-year period ended March 31, 2010 are as follow:

|  | Yen<br>(millions) |           |
|--|-------------------|-----------|
|  | 2009              | 2010      |
| Balance at beginning of year   | ¥ 293,760         | ¥ 233,979 |
| Warranty claims paid during the period                               | (123,509)         | (86,886)  |
| Liabilities accrued for warranties issued during the period          | 79,576            | 79,520    |
| Changes in liabilities for pre-existing warranties during the period | 2,233             | (3,571)   |
| Foreign currency translation   | (18,081)          | 2,996     |
| Balance at end of year   | ¥ 233,979         | ¥ 226,038 |

With respect to product liability, personal injury claims or lawsuits, Honda believes that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by Honda's insurance and accrued liabilities. Punitive damages are claimed in certain of these lawsuits. Honda is also subject to potential liability under other various lawsuits and claims including 44 purported class actions in the United States. Honda recognizes an accrued liability for loss contingencies when it is probable that an obligation has been incurred and the amount of loss can be reasonably estimated. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recorded for these contingent liabilities, if necessary, by considering the nature of lawsuits and claims, the progress of the case and the opinions of legal counsel. After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the ultimate outcome of such lawsuits and pending claims including 44 purported class actions in the United States should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position, results of operations or cash flows.

**(18) Leases**

Honda is the lessee under several operating leases, primarily for office and other facilities, and certain office equipment.

Future minimum lease payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year at March 31, 2010 are as follows:

| Years ending March 31 | Yen<br>(millions) |
|-----------------------|-------------------|
| 2011                  | ¥ 22,556          |
| 2012                  | 16,169            |



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|                              |           |
|------------------------------|-----------|
| 2013                         | 12,723    |
| 2014                         | 9,382     |
| 2015                         | 7,980     |
| After five years             | 48,217    |
| Total minimum lease payments | ¥ 117,027 |

Rental expenses under operating leases for each of the years in the three-year period ended March 31, 2010 were ¥49,442 million, ¥47,921 million and ¥42,435 million, respectively.

F-51

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(19) Allowances for Trade Receivable and Finance Subsidiaries-receivables**

The allowances for trade receivable and finance subsidiaries-receivables for the years ended March 31, 2008, 2009 and 2010 are set forth in the following table:

|   | Balance<br>at<br>beginning<br>of period | Additions<br>Charged to<br>costs and<br>expenses | Yen (millions)<br>Deductions<br>Bad debts<br>written<br>off | Foreign<br>currency<br>translation | Balance at<br>end of<br>period |
|---|---|--|---|------------------------------------|--------------------------------|
| <b>March 31, 2008:</b>                        |   |  |   |                                    |                                |
| Trade accounts and notes receivable           |   |  |   |                                    |                                |
| Allowance for doubtful accounts               | ¥ 8,199                                 | ¥ 2,879  | ¥ 2,785   | ¥ (112)                            | ¥ 8,181                        |
| Finance subsidiaries-receivables              |   |  |   |                                    |                                |
| Allowance for credit losses                   | ¥ 33,512                                | ¥ 46,121   | ¥ 41,177  | ¥ (5,102)                          | ¥ 33,354                       |
| Allowance for losses on lease residual values | 33,928                                  | 11,890   | 17,410  | (3,521)                            | 24,887                         |
|   | ¥ 67,440                                | ¥ 58,011   | ¥ 58,587  | ¥ (8,623)                          | ¥ 58,241                       |
| <b>March 31, 2009:</b>                        |   |  |   |                                    |                                |
| Trade accounts and notes receivable           |   |  |   |                                    |                                |
| Allowance for doubtful accounts               | ¥ 8,181                                 | ¥ 3,700  | ¥ 2,625   | ¥ (1,801)                          | ¥ 7,455                        |
| Finance subsidiaries-receivables              |   |  |   |                                    |                                |
| Allowance for credit losses                   | ¥ 33,354                                | ¥ 53,981   | ¥ 49,609  | ¥ (2,109)                          | ¥ 35,617                       |
| Allowance for losses on lease residual values | 24,887                                  | 23,035   | 26,390  | (1,139)                            | 20,393                         |
|   | ¥ 58,241                                | ¥ 77,016   | ¥ 75,999  | ¥ (3,248)                          | ¥ 56,010                       |
| <b>March 31, 2010:</b>                        |   |  |   |                                    |                                |
| Trade accounts and notes receivable           |   |  |   |                                    |                                |
| Allowance for doubtful accounts               | ¥ 7,455                                 | ¥ 4,039  | ¥ 3,268   | ¥ 329                              | ¥ 8,555                        |
| Finance subsidiaries-receivables              |   |  |   |                                    |                                |
| Allowance for credit losses                   | ¥ 35,617                                | ¥ 32,913   | ¥ 32,053  | ¥ (1,550)                          | ¥ 34,927                       |
| Allowance for losses on lease residual values | 20,393                                  | 7,149  | 18,716  | 427                                | 9,253                          |
|   | ¥ 56,010                                | ¥ 40,062   | ¥ 50,769  | ¥ (1,123)                          | ¥ 44,180                       |

**(20) Segment Information**

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

F-52

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

Principal products and services, and functions of each segment are as follows:

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

**Segment Information**

As of and for the year ended March 31, 2008

|  | Yen (millions)         |                        |                                   |   |                  |                      |              |
|--|------------------------|------------------------|-----------------------------------|---|------------------|----------------------|--------------|
|  | Motorcycle<br>Business | Automobile<br>Business | Financial<br>Services<br>Business | Power<br>Product and<br>Other<br>Businesses | Segment<br>Total | Reconciling<br>Items | Consolidated |
| Net sales and other operating revenue: |                        |                        |                                   |   |                  |                      |              |
| External customers                     | ¥ 1,558,696            | ¥ 9,489,391            | ¥ 533,553                         | ¥ 421,194                                   | ¥ 12,002,834     | ¥                    | ¥ 12,002,834 |
| Intersegment                           |                        |                        | 15,499                            | 21,571                                      | 37,070           | (37,070)             |              |
| Total                                  | ¥ 1,558,696            | ¥ 9,489,391            | ¥ 549,052                         | ¥ 442,765                                   | ¥ 12,039,904     | ¥ (37,070)           | ¥ 12,002,834 |
| Cost of sales, SG&A and R&D expenses   | 1,407,409              | 8,827,726              | 431,254                           | 420,406                                     | 11,086,795       | (37,070)             | 11,049,725   |

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|  |   |           |   |           |   |           |   |         |   |            |   |           |         |            |
|--|---|-----------|---|-----------|---|-----------|---|---------|---|------------|---|-----------|---------|------------|
| Segment income   | ¥ | 151,287   | ¥ | 661,665   | ¥ | 117,798   | ¥ | 22,359  | ¥ | 953,109    | ¥ | 953,109   |         |            |
| Equity in income of affiliates   | ¥ | 28,035    | ¥ | 89,521    | ¥ |           | ¥ | 1,386   | ¥ | 118,942    | ¥ | ¥         | 118,942 |            |
| Assets   | ¥ | 1,240,527 | ¥ | 5,591,311 | ¥ | 5,907,839 | ¥ | 330,604 | ¥ | 13,070,281 | ¥ | (454,738) | ¥       | 12,615,543 |
| Investments in affiliates  | ¥ | 118,219   | ¥ | 411,001   | ¥ |           | ¥ | 16,976  | ¥ | 546,196    | ¥ |           | ¥       | 546,196    |
| Depreciation and amortization  | ¥ | 48,000    | ¥ | 356,003   | ¥ | 101,987   | ¥ | 12,435  | ¥ | 518,425    | ¥ |           | ¥       | 518,425    |
| Capital expenditures   | ¥ | 86,687    | ¥ | 544,922   | ¥ | 839,888   | ¥ | 21,794  | ¥ | 1,493,291  | ¥ |           | ¥       | 1,493,291  |
| Impairment loss on long-lived assets and goodwill                                  | ¥ |           | ¥ |           | ¥ | 5,850     | ¥ |         | ¥ | 5,850      | ¥ |           | ¥       | 5,850      |
| Provision for credit and lease residual losses on finance subsidiaries-receivables | ¥ |           | ¥ |           | ¥ | 58,011    | ¥ |         | ¥ | 58,011     | ¥ |           | ¥       | 58,011     |

F-53

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****As of and for the year ended March 31, 2009**

|  | Yen (millions)         |                        |                                   |   |                  |                      |              |
|--|------------------------|------------------------|-----------------------------------|---|------------------|----------------------|--------------|
|  | Motorcycle<br>Business | Automobile<br>Business | Financial<br>Services<br>Business | Power<br>Product and<br>Other<br>Businesses | Segment<br>Total | Reconciling<br>Items | Consolidated |
| Net sales and other operating revenue:   |                        |                        |                                   |   |                  |                      |              |
| External customers   | ¥ 1,411,511            | ¥ 7,674,404            | ¥ 582,261                         | ¥ 343,065                                   | ¥ 10,011,241     | ¥                    | ¥ 10,011,241 |
| Intersegment   |                        |                        | 14,264                            | 25,840                                      | 40,104           | (40,104)             |              |
| Total  | ¥ 1,411,511            | ¥ 7,674,404            | ¥ 596,525                         | ¥ 368,905                                   | ¥ 10,051,345     | ¥ (40,104)           | ¥ 10,011,241 |
| Cost of sales, SG&A and R&D expenses   | 1,311,598              | 7,649,861              | 515,854                           | 384,389                                     | 9,861,702        | (40,104)             | 9,821,598    |
| Segment income (loss)  | ¥ 99,913               | ¥ 24,543               | ¥ 80,671                          | ¥ (15,484)                                  | ¥ 189,643        | ¥                    | ¥ 189,643    |
| Equity in income of affiliates   | ¥ 26,105               | ¥ 71,709               | ¥                                 | ¥ 1,220                                     | ¥ 99,034         | ¥                    | ¥ 99,034     |
| Assets   | ¥ 1,047,112            | ¥ 5,219,408            | ¥ 5,735,716                       | ¥ 275,607                                   | ¥ 12,277,843     | ¥ (458,926)          | ¥ 11,818,917 |
| Investments in affiliates  | ¥ 107,431              | ¥ 379,068              | ¥                                 | ¥ 16,247                                    | ¥ 502,746        | ¥                    | ¥ 502,746    |
| Depreciation and amortization  | ¥ 51,200               | ¥ 373,295              | ¥ 199,324                         | ¥ 13,825                                    | ¥ 637,644        | ¥                    | ¥ 637,644    |
| Capital expenditures   | ¥ 90,401               | ¥ 523,593              | ¥ 671,127                         | ¥ 16,920                                    | ¥ 1,302,041      | ¥                    | ¥ 1,302,041  |
| Impairment loss on long-lived assets and goodwill                                  | ¥ 413                  | ¥ 18,874               | ¥ 18,528                          | ¥ 2,310                                     | ¥ 40,125         | ¥                    | ¥ 40,125     |
| Provision for credit and lease residual losses on finance subsidiaries-receivables | ¥                      | ¥                      | ¥ 77,016                          | ¥   | ¥ 77,016         | ¥                    | ¥ 77,016     |

**As of and for the year ended March 31, 2010**

|  | Yen (millions)         |                        |                                   |   |                  |                      |              |
|--|------------------------|------------------------|-----------------------------------|---|------------------|----------------------|--------------|
|  | Motorcycle<br>Business | Automobile<br>Business | Financial<br>Services<br>Business | Power<br>Product and<br>Other<br>Businesses | Segment<br>Total | Reconciling<br>Items | Consolidated |
| Net sales and other operating revenue: |                        |                        |                                   |   |                  |                      |              |
| External customers                     | ¥ 1,140,292            | ¥ 6,554,848            | ¥ 606,352                         | ¥ 277,682                                   | ¥ 8,579,174      | ¥                    | ¥ 8,579,174  |
| Intersegment                           |                        |                        | 12,459                            | 26,936                                      | 39,395           | (39,395)             |              |
| Total                                  | ¥ 1,140,292            | ¥ 6,554,848            | ¥ 618,811                         | ¥ 304,618                                   | ¥ 8,618,569      | ¥ (39,395)           | ¥ 8,579,174  |
| Cost of sales, SG&A and R&D expenses   | 1,081,455              | 6,428,090              | 423,910                           | 321,339                                     | 8,254,794        | (39,395)             | 8,215,399    |
| Segment income (loss)                  | ¥ 58,837               | ¥ 126,758              | ¥ 194,901                         | ¥ (16,721)                                  | ¥ 363,775        | ¥                    | ¥ 363,775    |
| Equity in income of affiliates         | ¥ 23,131               | ¥ 69,082               | ¥                                 | ¥ 1,069                                     | ¥ 93,282         | ¥                    | ¥ 93,282     |
| Assets                                 | ¥ 1,025,665            | ¥ 5,044,247            | ¥ 5,541,788                       | ¥ 281,966                                   | ¥ 11,893,666     | ¥ (264,551)          | ¥ 11,629,115 |

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|  |   |         |   |         |   |         |   |        |   |         |   |  |   |         |
|--|---|---------|---|---------|---|---------|---|--------|---|---------|---|--|---|---------|
| Investments in affiliates  | ¥ | 103,032 | ¥ | 334,875 | ¥ |         | ¥ | 16,821 | ¥ | 454,728 | ¥ |  | ¥ | 454,728 |
| Depreciation and amortization  | ¥ | 48,683  | ¥ | 337,787 | ¥ | 230,453 | ¥ | 12,751 | ¥ | 629,674 | ¥ |  | ¥ | 629,674 |
| Capital expenditures   | ¥ | 38,332  | ¥ | 284,586 | ¥ | 546,342 | ¥ | 23,748 | ¥ | 893,008 | ¥ |  | ¥ | 893,008 |
| Impairment loss on long-lived assets and goodwill                                  | ¥ |         | ¥ | 548     | ¥ | 3,312   | ¥ |        | ¥ | 3,860   | ¥ |  | ¥ | 3,860   |
| Provision for credit and lease residual losses on finance subsidiaries-receivables | ¥ |         | ¥ |         | ¥ | 40,062  | ¥ |        | ¥ | 40,062  | ¥ |  | ¥ | 40,062  |

F-54

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

## Explanatory notes:

1. Segment income (loss) is measured in a consistent manner with consolidated operating income, which is income before income taxes and equity in income of affiliates before other income (expenses). Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable.
2. Assets of each segment are defined as total assets, including derivative financial instruments, investments in affiliates, and deferred tax assets. Segment assets are based on those directly associated with each segment and those not directly associated with specific segments are allocated based on the most reasonable measures applicable except for the corporate assets described below.
3. Intersegment sales and revenues are generally made at values that approximate arm's-length prices.
4. Unallocated corporate assets, included in reconciling items, amounted to ¥385,442 million as of March 31, 2008, ¥257,291 million as of March 31, 2009, and ¥338,135 million as of March 31, 2010, which consist primarily of cash and cash equivalents and marketable securities held by the Company. Reconciling items also include elimination of intersegment transactions.
5. Depreciation and amortization of the Financial Services Business include ¥ 101,032 million for the year ended March 31, 2008, ¥ 195,776 million for the year ended March 31, 2009 and ¥227,931 million for the year ended March 31, 2010 related to depreciation of property on operating leases.
6. Capital expenditures of the Financial Services Business includes ¥ 839,261 million for the year ended March 31, 2008, ¥668,128 million for the year ended March 31, 2009 and ¥544,027 million for the year ended March 31, 2010 related to purchases of operating lease assets.

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

|   | Yen (millions)      |                     |                    |
|---|---------------------|---------------------|--------------------|
|   | 2008                | 2009                | 2010               |
| Motorcycles and relevant parts                                      | ¥ 1,418,028         | ¥ 1,323,259         | ¥ 1,079,165        |
| All-terrain vehicles (ATVs), personal watercraft and relevant parts | 140,668             | 88,252              | 61,127             |
| Automobiles and relevant parts                                      | 9,489,391           | 7,674,404           | 6,554,848          |
| Financial, insurance services                                       | 533,553             | 582,261             | 606,352            |
| Power products and relevant parts                                   | 288,243             | 224,648             | 188,014            |
| Others  | 132,951             | 118,417             | 89,668             |
| <b>Total</b>  | <b>¥ 12,002,834</b> | <b>¥ 10,011,241</b> | <b>¥ 8,579,174</b> |

**Geographical Information**

As of and for the year ended March 31, 2008



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|                             | Yen (millions) |               |                  |              |
|-----------------------------|----------------|---------------|------------------|--------------|
|                             | Japan          | United States | Others Countries | Total        |
| Sales to external customers | ¥ 2,053,401    | ¥ 5,313,858   | ¥ 4,635,575      | ¥ 12,002,834 |
| Long-lived assets           | ¥ 1,084,163    | ¥ 1,479,137   | ¥ 669,546        | ¥ 3,232,846  |

As of and for the year ended March 31, 2009

|                             | Yen (millions) |               |                  |              |
|-----------------------------|----------------|---------------|------------------|--------------|
|                             | Japan          | United States | Others Countries | Total        |
| Sales to external customers | ¥ 1,871,962    | ¥ 3,990,729   | ¥ 4,148,550      | ¥ 10,011,241 |
| Long-lived assets           | ¥ 1,140,316    | ¥ 1,835,163   | ¥ 566,445        | ¥ 3,541,924  |

F-55

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

As of and for the year ended March 31, 2010

|                             | Yen (millions) |               |                  | Total       |
|-----------------------------|----------------|---------------|------------------|-------------|
|                             | Japan          | United States | Others Countries |             |
| Sales to external customers | ¥ 1,864,513    | ¥ 3,294,758   | ¥ 3,419,903      | ¥ 8,579,174 |
| Long-lived assets           | ¥ 1,113,386    | ¥ 1,767,879   | ¥ 603,881        | ¥ 3,485,146 |

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

**Supplemental Geographical Information**

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

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

|               | Yen (millions) |             |             |
|---------------|----------------|-------------|-------------|
|               | 2008           | 2009        | 2010        |
| North America | ¥ 6,068,425    | ¥ 4,514,190 | ¥ 3,736,447 |
| Europe        | 1,519,434      | 1,186,012   | 764,785     |
| Asia          | 1,577,266      | 1,595,472   | 1,543,397   |
| Other regions | 1,251,932      | 1,269,026   | 957,227     |

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               |

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Other Regions

Brazil, Australia

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

As of and for the year ended March 31, 2008

|   | Yen (millions) |                  |             |             |                  | Total        | Reconciling<br>Items | Consolidated |
|---|----------------|------------------|-------------|-------------|------------------|--------------|----------------------|--------------|
|   | Japan          | North<br>America | Europe      | Asia        | Other<br>Regions |              |                      |              |
| Net sales and other operating<br>revenue: |                |                  |             |             |                  |              |                      |              |
| External customers                        | ¥ 2,053,401    | ¥ 6,091,512      | ¥ 1,502,240 | ¥ 1,307,117 | ¥ 1,048,564      | ¥ 12,002,834 | ¥                    | ¥ 12,002,834 |
| Transfers between geographic areas        | 2,835,639      | 173,751          | 91,983      | 331,173     | 44,253           | 3,476,799    | (3,476,799)          |              |
| Total                                     | ¥ 4,889,040    | ¥ 6,265,263      | ¥ 1,594,223 | ¥ 1,638,290 | ¥ 1,092,817      | ¥ 15,479,633 | ¥ (3,476,799)        | ¥ 12,002,834 |
| Cost of sales, SG&A and R&D<br>expenses   | 4,696,482      | 5,832,635        | 1,542,676   | 1,507,566   | 976,335          | 14,555,694   | (3,505,969)          | 11,049,725   |
| Operating income                          | ¥ 192,558      | ¥ 432,628        | ¥ 51,547    | ¥ 130,724   | ¥ 116,482        | ¥ 923,939    | ¥ 29,170             | ¥ 953,109    |
| Assets                                    | ¥ 3,127,143    | ¥ 6,863,970      | ¥ 948,544   | ¥ 1,080,439 | ¥ 574,890        | ¥ 12,594,986 | ¥ 20,557             | ¥ 12,615,543 |
| Long-lived assets                         | ¥ 1,084,163    | ¥ 1,589,356      | ¥ 171,030   | ¥ 260,141   | ¥ 128,156        | ¥ 3,232,846  | ¥                    | ¥ 3,232,846  |

F-56

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****As of and for the year ended March 31, 2009**

|  | Yen (millions) |                  |             |             |                  |              | Reconciling<br>Items | Consolidated |
|--|----------------|------------------|-------------|-------------|------------------|--------------|----------------------|--------------|
|  | Japan          | North<br>America | Europe      | Asia        | Other<br>Regions | Total        |                      |              |
| Net sales and other operating revenue: |                |                  |             |             |                  |              |                      |              |
| External customers                     | ¥ 1,871,962    | ¥ 4,534,684      | ¥ 1,191,540 | ¥ 1,335,091 | ¥ 1,077,964      | ¥ 10,011,241 | ¥                    | ¥ 10,011,241 |
| Transfers between geographic areas     | 2,290,625      | 244,440          | 87,362      | 273,140     | 66,256           | 2,961,823    | (2,961,823)          |              |
| Total                                  | ¥ 4,162,587    | ¥ 4,779,124      | ¥ 1,278,902 | ¥ 1,608,231 | ¥ 1,144,220      | ¥ 12,973,064 | ¥ (2,961,823)        | ¥ 10,011,241 |
| Cost of sales, SG&A and R&D expenses   | 4,324,203      | 4,699,422        | 1,268,701   | 1,504,628   | 1,009,158        | 12,806,112   | (2,984,514)          | 9,821,598    |
| Operating income (loss)                | ¥ (161,616)    | ¥ 79,702         | ¥ 10,201    | ¥ 103,603   | ¥ 135,062        | ¥ 166,952    | ¥ 22,691             | ¥ 189,643    |
| Assets                                 | ¥ 3,078,478    | ¥ 6,547,880      | ¥ 766,594   | ¥ 1,016,059 | ¥ 450,081        | ¥ 11,859,092 | ¥ (40,175)           | ¥ 11,818,917 |
| Long-lived assets                      | ¥ 1,140,316    | ¥ 1,918,579      | ¥ 110,543   | ¥ 253,113   | ¥ 119,373        | ¥ 3,541,924  | ¥                    | ¥ 3,541,924  |

**As of and for the year ended March 31, 2010**

|  | Yen (millions) |                  |            |             |                  |              | Reconciling<br>Items | Consolidated |
|--|----------------|------------------|------------|-------------|------------------|--------------|----------------------|--------------|
|  | Japan          | North<br>America | Europe     | Asia        | Other<br>Regions | Total        |                      |              |
| Net sales and other operating revenue: |                |                  |            |             |                  |              |                      |              |
| External customers                     | ¥ 1,864,513    | ¥ 3,752,417      | ¥ 769,857  | ¥ 1,320,047 | ¥ 872,340        | ¥ 8,579,174  | ¥                    | ¥ 8,579,174  |
| Transfers between geographic areas     | 1,441,264      | 155,799          | 55,615     | 198,533     | 24,151           | 1,875,362    | (1,875,362)          |              |
| Total                                  | ¥ 3,305,777    | ¥ 3,908,216      | ¥ 825,472  | ¥ 1,518,580 | ¥ 896,491        | ¥ 10,454,536 | ¥ (1,875,362)        | ¥ 8,579,174  |
| Cost of sales, SG&A and R&D expenses   | 3,334,912      | 3,671,837        | 836,344    | 1,405,574   | 850,683          | 10,099,350   | (1,883,951)          | 8,215,399    |
| Operating income (loss)                | ¥ (29,135)     | ¥ 236,379        | ¥ (10,872) | ¥ 113,006   | ¥ 45,808         | ¥ 355,186    | ¥ 8,589              | ¥ 363,775    |
| Assets                                 | ¥ 2,947,764    | ¥ 6,319,896      | ¥ 591,423  | ¥ 1,050,727 | ¥ 619,345        | ¥ 11,529,155 | ¥ 99,960             | ¥ 11,629,115 |
| Long-lived assets                      | ¥ 1,113,386    | ¥ 1,861,596      | ¥ 107,262  | ¥ 240,704   | ¥ 162,198        | ¥ 3,485,146  | ¥                    | ¥ 3,485,146  |

## Explanatory notes:

## 1. Major countries or regions in each geographic area:

North America  
Europe

United States, Canada, Mexico  
United Kingdom, Germany, France, Italy, Belgium

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Asia  
Other Regions

Thailand, Indonesia, China, India  
Brazil, Australia

2. Operating income (loss) of each geographical region is measured in a consistent manner with consolidated operating income, which is income before income taxes and equity in income of affiliates before other income (expenses).
3. Assets of each geographical region are defined as total assets, including derivative financial instruments, investments in affiliates, and deferred tax assets.
4. Sales and revenues between geographic areas are generally made at values that approximate arm's-length prices.
5. Unallocated corporate assets, included in reconciling items, amounted to ¥385,442 million as of March 31, 2008, ¥257,291 million as of March 31, 2009, and ¥338,135 million as of March 31, 2010, 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.

F-57

**Table of Contents**

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

**Notes to Consolidated Financial Statements (Continued)**

**(21) Subsequent Events**

The Board of Directors, at its meeting held on May 14, 2010, resolved that the Company will purchase its own shares pursuant to Article 156 of the Company Law, which applies pursuant to Article 165, Paragraph 3, of that law. The main purpose for the acquisition are enhancing its capital efficiency and enabling greater flexibility in its capital policies.

(1) Type of shares and maximum number of shares to be acquired:  
Shares of Common Stock 3,500 thousand shares

(2) Maximum amount of acquisition:  
¥10,000 million

(3) Period of acquisition:  
Starting on May 19, 2010 and ending on June 4, 2010

(4) Method of acquisition:  
Purchase on the Tokyo Stock Exchange

Total number and amount of shares the Company acquired during the period were 3,500 thousand shares and ¥9,807 million.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(22) Selected Quarterly Financial Data (Unaudited) \*1**

Quarterly financial data for the years ended March 31, 2008, 2009 and 2010 are set forth in the following table:

|                              | Yen (millions)                              |                            |  | Yen  |
|------------------------------|---|----------------------------|--|--|
|                              | Net sales and other<br>operating<br>revenue | Operating<br>Income (loss) | Net income (loss)<br>attributable to<br>Honda Motor Co., Ltd.<br>(note 1(c)) | Basic net income (loss)<br>attributable to<br>Honda Motor Co., Ltd.<br>per common share<br>(note 1(c)) |
| Year ended March 31, 2008:   |   |                            |  |  |
| First quarter                | ¥ 2,931,123                                 | ¥ 221,684                  | ¥ 166,117  | ¥ 91.38  |
| Second quarter               | 2,971,346                                   | 286,338                    | 208,483  | 114.94   |
| Third quarter                | 3,044,814                                   | 276,243                    | 200,009  | 110.25   |
| Fourth quarter               | 3,055,551                                   | 168,844                    | 25,430   | 14.01  |
|                              | ¥ 12,002,834                                | ¥ 953,109                  | ¥ 600,039  | ¥ 330.54   |
| Year ended March 31, 2009:   |   |                            |  |  |
| First quarter <sup>*2</sup>  | ¥ 2,867,221                                 | ¥ 210,476                  | ¥ 173,397  | ¥ 95.56  |
| Second quarter               | 2,826,865                                   | 148,851                    | 123,316  | 67.96  |
| Third quarter                | 2,533,257                                   | 102,452                    | 20,242   | 11.16  |
| Fourth quarter <sup>*2</sup> | 1,783,898                                   | (272,136)                  | (179,950)  | (99.17)  |
|                              | ¥ 10,011,241                                | ¥ 189,643                  | ¥ 137,005  | ¥ 75.50  |
| Year ended March 31, 2010:   |   |                            |  |  |
| First quarter                | ¥ 2,002,212                                 | ¥ 25,164                   | ¥ 7,560  | ¥ 4.17   |
| Second quarter               | 2,056,655                                   | 65,543                     | 54,037   | 29.78  |
| Third quarter                | 2,240,740                                   | 176,971                    | 134,627  | 74.19  |
| Fourth quarter               | 2,279,567                                   | 96,097                     | 72,176   | 39.78  |
|                              | ¥ 8,579,174                                 | ¥ 363,775                  | ¥ 268,400  | ¥ 147.91   |

\*1 All quarterly financial data is unaudited and also has not been reviewed by the independent registered public accounting firm.

\*2 During the fiscal year ended March 31, 2009, a subsidiary of the Company changed its fiscal year-end from December 31 to March 31. As a result, the Company eliminated the previously existing three month difference between the reporting periods of the Company and the subsidiary in the consolidated financial statements. The elimination of the lag period represents a change in accounting principle and has been reported by retrospective application. The Company recorded the effect of the retrospective adjustment in the consolidated statement

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of income for the fiscal three months ended March 31, 2009. The Company has eliminated it and adjusted the consolidated statement of income for the fiscal three months ended March 31, 2009.

F-59



Table of Contents

**Signatures**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for the filing of Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

HONDA GIKEN KOGYO

KABUSHIKI KAISHA

(HONDA MOTOR CO., LTD.)

By:                   /s/ Takanobu Ito  
  **Takanobu Ito**

**President and Representative Director**

Date: June 24, 2010  
Tokyo, Japan

**Table of Contents**

**INDEX OF EXHIBITS**

|         |  |
|---------|--|
| 1.1     | Articles of Incorporation of the registrant (English translation)  |
| 1.2     | Share Handling Regulations of the registrant (English translation)   |
| 1.3     | Regulations of Board of Directors of the registrant (English translation)  |
| 1.4     | Regulations of the Board of Corporate Auditors of the registrant (English translation)   |
| 2.1     | Specimen common stock certificates of the registrant (English translation) (1)   |
| 2.2     | Deposit Agreement dated as of December 19, 1962, as amended and restated as of October 1, 1982 (including changes from Amendment to Deposit Agreement dated as of April 1, 1989) among the registrant, Morgan Guaranty Trust Company of New York (now JP Morgan Chase Bank), as Depositary, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (2) |
| 2.3     | Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (2)   |
| 2.4     | Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (3)   |
| 2.5     | Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006, among the parties referred to in Exhibit 2.2 above (4)  |
| 2.6     | Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)  |
| 8.1     | List of Significant Subsidiaries (See Organizational Structure in Item 4.C of this Form 20-F)  |
| 11.1    | Code of Ethics (6)   |
| 12.1    | Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a)   |
| 12.2    | Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a)   |
| 13.1    | Certification of the chief executive officer required by 18 U.S.C. Section 1350  |
| 13.2    | Certification of the chief financial officer required by 18 U.S.C. Section 1350  |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

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

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