

HONDA MOTOR CO LTD
Form 20-F
June 20, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended March 31, 2018

OR

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

For the transition period from to

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

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)

Akihisa Ito, Honda North America, Inc.,

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

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

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

Title of each class Common Stock*	Name of each exchange on which registered New York Stock Exchange
Securities registered or to be registered pursuant to Section 12(g) of the Act.	

None

(Title of class)

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

None

(Title of class)

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

Title of each class
Common Stock

Outstanding as of March 31, 2018
1,778,277,815**

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, a non-accelerated filer, or an emerging growth company. See definition of large accelerated filer, accelerated filer and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company
If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

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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 59,009,032 shares represented by American Depositary Shares.

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

Item 1. Identity of Directors, Senior Management and Advisers

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, 2018 have been derived from our consolidated financial statements that were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

You should read the IFRS 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,				
	Yen (millions, except Per Share Data)				
	2014	2015	2016	2017	2018
Consolidated Statement of Income Data:					
Sales revenue	¥ 12,506,091	¥ 13,328,099	¥ 14,601,151	¥ 13,999,200	¥ 15,361,146
Operating profit	823,864	670,603	503,376	840,711	833,558
Share of profit of investments accounted for using the equity method	130,916	96,097	126,001	164,793	247,643
Profit before income taxes	933,903	806,237	635,450	1,006,986	1,114,973
Profit for the year	665,911	561,098	406,358	679,394	1,128,639
Profit for the year attributable to owners of the parent	624,703	509,435	344,531	616,569	1,059,337
Consolidated Statement of Financial Position Data:					
Total assets	16,048,438	18,425,837	18,229,294	18,958,123	19,349,164
Financing liabilities, including current and non-current	5,846,948	6,759,839	6,526,248	6,809,118	6,799,010
Equity attributable to owners of the parent	6,335,534	7,108,627	6,761,433	7,295,296	7,933,538
Total equity	6,558,928	7,382,821	7,031,788	7,569,626	8,234,095
Common stock	86,067	86,067	86,067	86,067	86,067

Per Share Data:

Weighted average number of common shares outstanding									
Basic and diluted (thousands of shares)	1,802,294	1,802,289	1,802,285	1,802,282	1,793,088				
Earnings per share attributable to owners of the parent* ¹									
Basic and diluted	¥ 346.62	¥ 282.66	¥ 191.16	¥ 342.10	¥ 590.79				
Dividends declared during the period per common share* ²	79.00	88.00	88.00	90.00	97.00				
	(US\$ 0.77)	(US\$ 0.73)	(US\$ 0.78)	(US\$ 0.80)	(US\$ 0.91)				

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*1 Earnings per share has been calculated by dividing profit for the year attributable to owners of the parent available to common shareholders by the weighted average number of common shares outstanding during the period.

*2 A year-end dividend of ¥27 (\$0.25) per common share aggregating ¥48.0 billion (\$452 million) relating to fiscal 2018 was resolved by the Company's Board of Directors in April 2018. This dividend was paid in May 2018. U.S. dollar amounts for dividends per share are translated from yen at the year-end exchange rate of each period.

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 31, 2018, the noon buying rate was ¥108.73=\$1.00. The average exchange rate for the period shown is the average of the month-end rates during the period.

Years ended or ending March 31,	Average	Noon Buying Rate		
		Period end	High	Low
		(Yen per \$1.00)		
2014	100.46	102.98	105.25	92.96
2015	110.78	119.96	121.50	101.26
2016	120.13	112.42	125.58	111.30
2017	108.31	111.41	118.32	100.07
2018	110.70	106.20	114.25	104.83
2019 (through May 31, 2018)	109.01	108.73	111.08	105.99

Month,	High	Low
	(Yen per \$1.00)	
December 2017	113.62	111.88
January 2018	113.18	108.38
February 2018	110.40	106.10
March 2018	106.91	104.83
April 2018	109.33	105.99
May 2018	111.08	108.62

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 shares 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.

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Risks Relating to Honda's Industry

Honda may be adversely affected by market conditions

Honda conducts its operations in Japan and throughout the world, including North America, Europe and Asia. A sustained loss of consumer confidence in these markets, which may be caused by an extended economic slowdown, recession, changes in consumer preferences, rising fuel prices, financial crisis or other factors could trigger a decline in demand for motorcycles, automobiles and power products that may adversely affect Honda's results.

Prices for products may fluctuate

Prices for motorcycles, automobiles and power products in certain markets may experience sharp changes over short periods of time. This volatility may be caused by various factors, including fierce competition, short-term fluctuations in demand caused by instability in underlying economic conditions, changes in tariffs, import regulations and other taxes, shortages of certain materials and parts, a steep rise in material prices and sales incentives. There is no guarantee that such price volatility will not continue for an extended period of time 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, leading, potentially, to further increased price volatility. Price volatility in any of Honda's markets could adversely affect Honda's results.

Risks Relating to Honda's Business in General

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

Legal and Regulatory Risks

Honda is subject to various governmental regulations

Honda conducts business operations in countries worldwide. As such, changes in regulations, agreements, laws or other factors in these regions and countries could adversely affect Honda's business, financial condition, or results.

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 will continue to be of value in the future. Honda does not regard any of its business operations as

being dependent upon any single patent or related group of patents. However, an inability to protect this intellectual property generally, or the illegal infringement of some or a large group of Honda's intellectual property rights, could have an adverse effect on Honda's operations.

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Honda may be subject to legal proceedings

Honda could be subject to suits, various investigations and legal proceedings under relevant laws and regulations of various jurisdictions. A negative outcome in any such current or future legal proceedings brought against Honda could adversely affect Honda's business, financial condition or results.

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 to its customers designed to increase the opportunity for sales of its products. However, customers can also obtain financing for the lease or purchase of Honda's products through a variety of other sources that compete with our financing services, including commercial banks and finance and leasing companies. The financial services offered by Honda 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.

Honda relies on external suppliers for the provision of certain raw materials and parts

Honda purchases raw materials and parts from numerous external suppliers, and relies on certain suppliers for some of the raw materials and parts which it uses in the manufacture of its products. Honda's ability to continue to obtain these supplies in an efficient and cost-effective manner is subject to a number of factors, some of which are outside of Honda's control. These factors include the ability of its suppliers to provide a continued source of raw materials and parts and Honda's ability to compete with other users in obtaining the supplies. In particular, the loss of a key supplier could affect our production and increase our costs.

Honda relies on business alliances and joint ventures with other companies

Honda engages in business operations through alliances and joint ventures with other companies in expectation of synergy effects and increased efficiency, or in accordance with requirements from the countries in which Honda conducts its businesses. However, if disagreements occur between the parties to an alliance or joint venture, or if an alliance or joint venture is changed or cancelled, it may have an adverse effect on Honda's business, financial condition, or results.

Honda may be adversely affected by wars, terrorism, political uncertainty and labor strikes

Honda conducts business operations in countries worldwide and is exposed to risks including wars, terrorism, political uncertainty and labor strikes in those countries or neighboring regions. If such unforeseeable events occur, and operations are delayed or suspended, Honda's business, financial condition, or results could be adversely affected.

Honda may be adversely affected by natural disasters

In order to minimize the impact on its business operations when events such as large-scale natural disasters, accidents, or the outbreak of infectious diseases occur, Honda conducts a risk evaluation of these events and constructs business continuity plans (BCPs). However, if operations are delayed or suspended due to the occurrence of disasters, accidents, or the outbreak of infectious diseases that exceed assumptions, Honda's business, financial condition or results could be adversely affected.

Honda's operations rely on information systems and networks

Honda uses a range of information systems and networks relating to information services and operational support in its business activities and its products, including in areas managed by subcontractors. To protect the confidentiality of information handled by these systems and networks, Honda implements a range of security measures both in hardware and software, such as building management systems including those of subcontractors,

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information-handling procedures and training of staff. However, there is a risk of leakage of confidential information, suspension of important operations and services, improper administrative processing, destruction or alteration of important data or other adverse developments. These may be the result of external cyber-attacks, equipment malfunction, or management deficiencies and human error, as well as natural disasters, infrastructure failures, or other unforeseen events within Honda or at its subcontractors. In such cases, Honda's business activities and performance could be adversely affected in terms of damage to its brand image or social reputation, liability to customers or parties affected, and a loss of Honda's competitiveness.

Honda is subject to risks relating to its obligations to provide post-employment benefits

Honda has various pension plans and provides other post-employment benefits, in which the amount of benefits is basically determined based on the level of salary, service years, and other factors. Contributions are also regularly reviewed and adjusted as necessary to the extent permitted by laws and regulations. Defined benefit obligations and defined benefit costs are based on assumptions of many factors, including the discount rate and the rate of salary increase. Changes in assumptions could affect Honda's defined benefit costs and obligations, including Honda's cash requirements to fund such obligations in the future, which could materially affect Honda's financial condition and results.

Honda's success depends in part on the value of its brand image, which could be diminished by product defects

One of the important factors behind corporate sustainability is trust and support for the Honda brand from our customers, society and the communities in which Honda conducts business operations. In order to support this brand image, Honda endeavors to gain the trust of society in all types of corporate activities, including ensuring product quality and compliance with laws and regulations, conducting risk management, and enhancing internal controls related to corporate governance. However, if for some unforeseeable reason the Honda brand image is damaged, this could adversely impact Honda's business operations as well as our results.

Risks Relating to Honda's ADSs

A holder of ADSs will have fewer rights than a shareholder has and such holder 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 exercise votes regarding the Shares underlying the ADSs as instructed by the holders and will pay to the holders the dividends and distributions collected from the Company. However, in the capacity as an ADS holder, such holder will not be able to bring a derivative action, examine our accounting books or records or exercise appraisal rights through the depositary.

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

The Company's Articles of Incorporation, Regulations of the Board of Directors, Regulations of the Audit and Supervisory Committee and the Company Law of Japan (the "Company Law") govern corporate affairs of the Company. 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 the Company 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. An ADS holder may have more difficulty in asserting his/her rights as a shareholder than such an ADS holder would as a shareholder of a U.S. corporation. In addition, Japanese courts may not be willing to enforce liabilities against the Company in actions brought in Japan that are based upon the securities laws of the United States or any U.S. state.

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Because of daily price range limitations under Japanese stock exchange rules, a holder of ADSs may not be able to sell his/her shares of the Company's 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 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.

U.S. investors may have difficulty in serving process or enforcing a judgment against the Company, its directors or executive officers

The Company is a limited liability, joint stock corporation incorporated under the laws of Japan. Most of its directors and executive officers reside in Japan. All or substantially all of the Company's assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon the Company or these persons or to enforce against the Company or these persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Japan, in original actions or in actions for enforcement of judgment of U.S. courts, of liabilities predicated solely upon the federal securities laws of the United States.

The Company's shareholders of record on a record date may not receive the dividend they anticipate

The customary dividend payout practice and relevant regulatory regime of publicly listed companies in Japan may differ from that followed in foreign markets. The Company's dividend payout practice is no exception. While the Company may announce forecasts of year-end and quarterly dividends prior to the record date, these forecasts are not legally binding. The actual payment of year-end dividends requires a resolution of the Company's Board of Directors. If the Board of Directors adopt such a resolution, the year-end dividend payment is made to shareholders as of the applicable record date, which is currently specified as March 31 by the Company's Articles of Incorporation. However, such a resolution of the Board of Directors is usually made at a meeting of the Board of Directors held in April. The payment of quarterly dividends also requires a resolution of the Company's Board of Directors. If the board adopts such a resolution, the dividend payment is made to shareholders as of the applicable record dates, which are currently specified as June 30, September 30 and December 31 by the Articles of Incorporation. However, the board usually does not adopt a resolution with respect to a quarterly dividend until after the respective record dates.

Shareholders of record as of an applicable record date may sell shares after the record date in anticipation of receiving a certain dividend payment based on the previously announced forecasts. However, since these forecasts are not legally binding and resolutions to pay dividends are usually not adopted until after the record date, our shareholders of record on record dates for year-end and quarterly dividends may not receive the dividend they anticipate.

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,

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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 Exchange Act of 1934.

Item 4. Information on the Company

A. History and Development of the Company

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

Since its establishment, Honda has remained on the leading edge by creating new value and providing products of the highest quality at a reasonable price for worldwide customer satisfaction. Honda develops, manufactures and markets motorcycles, automobiles and power products globally.

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.

Principal Capital Investments

In the fiscal years ended March 31, 2016, 2017 and 2018, Honda's capital expenditures were ¥2,860.6 billion, ¥2,572.7 billion and ¥2,394.6 billion, respectively, on an accrual basis. Also, capital expenditures excluding those with respect to equipment on operating leases were ¥893.1 billion, ¥690.0 billion and ¥595.4 billion, respectively, on an accrual basis. For further details of Honda's capital expenditures during fiscal 2018, see Item 4.D Property, Plants and Equipment of this Annual Report.

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Honda's business segments are the Motorcycle business operations, Automobile business operations, Financial services business operations, and Power product and other businesses operations.

The following tables show the breakdown of Honda's revenue from external customers by category of business and by geographical markets based on the location of the customer for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,		
	2016	2017	2018
	Yen (billions)		
Motorcycle Business	¥ 1,805.4	¥ 1,716.1	¥ 2,038.7
Automobile Business	10,625.4	10,086.8	10,852.1
Financial Services Business	1,835.6	1,878.0	2,123.1
Power Product and Other Businesses	334.7	318.1	347.0
Total	¥ 14,601.1	¥ 13,999.2	¥ 15,361.1

	Fiscal years ended March 31,		
	2016	2017	2018
	Yen (billions)		
Japan	¥ 1,754.1	¥ 1,799.7	¥ 1,919.1
North America	8,114.1	7,618.0	8,062.2
Europe	693.5	639.2	690.8
Asia	3,124.0	3,085.6	3,771.6
Other Regions	915.2	856.4	917.2
Total	¥ 14,601.1	¥ 13,999.2	¥ 15,361.1

Motorcycle Business

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 Japanese 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 first started overseas production in Belgium in 1963.

Honda produces a wide range of motorcycles, with engine displacement ranging from the 50cc class to the 1800cc class. Honda's motorcycles use internal combustion engines developed by Honda that are air- or water-cooled, four-cycle, and are in single, two, four or six-cylinder configurations. Honda's motorcycle line consists of sports (including trial and moto-cross racing), business and commuter models. Honda also produces a range of off-road vehicles, including all-terrain vehicles (ATVs) and side-by-sides (SxS).

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The following table sets out unit sales for Honda's Motorcycle business, including motorcycles, all-terrain vehicles (ATVs) and side-by-sides (SxS) and revenue from Motorcycle business, and the breakdown by geographical markets based on the location of the customer for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,								
	2016			2017			2018		
	Honda Group Consolidated			Honda Group Consolidated			Honda Group Consolidated		
	Unit Sales*	Unit Sales*	Revenue	Unit Sales*	Unit Sales*	Revenue	Unit Sales*	Unit Sales*	Revenue
Units	Units	Yen	Units	Units	Yen	Units	Units	Yen	
(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)	
Japan	180	180	¥ 66.8	156	156	¥ 62.7	167	167	¥ 70.9
North America	308	308	186.0	294	294	168.0	313	313	190.6
Europe	204	204	125.0	217	217	118.2	234	234	141.4
Asia	15,133	8,650	1,107.6	15,937	9,513	1,088.1	17,720	11,120	1,327.7
Other Regions	1,230	1,230	319.7	1,057	1,057	278.9	1,120	1,120	307.8
Total	17,055	10,572	¥ 1,805.4	17,661	11,237	¥ 1,716.1	19,554	12,954	¥ 2,038.7
Motorcycle revenue as a percentage of total sales revenue			12%			12%			13%

* Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries.

See Item 4. D. Property, Plants and Equipment for information regarding principal manufacturing facilities.

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 Automobile business operations in 1963 with the *T360* mini truck and the *S500* small sports car models. Honda subsequently launched a series of mass-production models including the *Civic* in 1972 and 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* model) and later conducted local development and expanded production activities to include light truck models. In 1986, the Acura Brand was established and an exclusive sales network was launched in the United States.

Honda's vehicles use gasoline engines of three, four or six-cylinder configurations, diesel engines, gasoline-electric hybrid systems and gasoline-electric plug-in hybrid systems. Honda also offers other alternative fuel-powered vehicles such as ethanol, battery electric and fuel cell vehicles.

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Honda's principal automobile products include the following vehicle models: (in alphabetical order)

Passenger cars:

Accord, City, Civic, Crider, Fit/Jazz

Light trucks:

CR-V, Freed, Odyssey, Pilot, Vezel/HR-V, XR-V

Mini vehicles:

N-BOX

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 for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,								
	2016			2017			2018		
	Honda Group Consolidated			Honda Group Consolidated			Honda Group Consolidated		
	Unit Sales*	Unit Sales*	Revenue	Unit Sales*	Unit Sales*	Revenue	Unit Sales*	Unit Sales*	Revenue
Units	Units	Yen	Units	Units	Yen	Units	Units	Yen	
(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)	
Japan	668	614	¥ 1,439.9	668	603	¥ 1,453.4	696	627	¥ 1,521.8
North America	1,929	1,929	6,186.7	1,970	1,970	5,704.2	1,902	1,902	5,910.0
Europe	172	172	491.2	184	184	450.7	183	183	473.4
Asia	1,723	670	1,962.5	1,964	684	1,948.1	2,166	725	2,389.0
Other Regions	251	251	544.9	242	242	530.2	252	252	557.7
Total	4,743	3,636	¥ 10,625.4	5,028	3,683	¥ 10,086.8	5,199	3,689	¥ 10,852.1

Automobile revenue as a percentage of total sales revenue

73%

73%

71%

* Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries. Certain sales of automobiles that are financed with residual value type auto loans by our Japanese finance subsidiaries and sold through our consolidated subsidiaries are accounted for as operating leases in conformity with IFRS and are not included in

consolidated sales revenue to the external customers in our Automobile business. Accordingly, they are not included in Consolidated Unit Sales, but are included in Honda Group Unit Sales of our Automobile business. See Item 4. D. Property, Plants and Equipment for information regarding principal manufacturing facilities.

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.

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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 for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,		
	2016	2017	2018
	Yen (billions)		
Japan	¥ 162.0	¥ 210.9	¥ 248.5
North America	1,619.2	1,616.2	1,822.8
Europe	14.4	12.1	12.5
Asia	12.6	10.5	10.4
Other Regions	27.2	28.2	28.8
Total	¥ 1,835.6	¥ 1,878.0	¥ 2,123.1
Financial Services revenue as a percentage of total sales revenue	13%	13%	14%

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.

Power Product and Other Businesses

Honda's Power product business began in 1953 with the introduction of the model *H*, its first general purpose engine. Since then, Honda has manufactured a variety of power products including general purpose engines, generators, water pumps, lawn mowers, riding mowers, robotic mowers, brush cutters, tillers, snow blowers, outboard marine engines, walking assist devices and portable battery inverter power sources.

In Other businesses, Honda began deliveries of the *HondaJet* aircraft in December 2015.

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 for the fiscal years ended March 31, 2016, 2017 and 2018:

	Fiscal years ended March 31,					
	2016		2017		2018	
	Honda Group		Honda Group		Honda Group	
	Unit Sales		Unit Sales		Unit Sales	
	/		/		/	
	Consolidated		Consolidated		Consolidated	
	Unit Sales*	Revenue	Unit Sales*	Revenue	Unit Sales*	Revenue
	Units	Yen	Units	Yen	Units	Yen
	(thousands)	(billions)	(thousands)	(billions)	(thousands)	(billions)
Japan	363	¥ 85.2	301	¥ 72.6	300	¥ 77.7
North America	2,811	122.0	2,977	129.5	3,012	138.7

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Europe	1,008	62.8	1,035	58.0	1,022	63.4
Asia	1,349	41.2	1,430	38.9	1,512	44.3
Other Regions	434	23.1	378	18.9	416	22.7
Total	5,965	¥ 334.7	6,121	¥ 318.1	6,262	¥ 347.0
Power Product and Other businesses revenue as a percentage of total sales revenue		2%		2%		2%

* Honda Group Unit Sales is the total unit sales of completed power products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed power products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed power products of Honda and its consolidated

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subsidiaries. In Power product business, there is no discrepancy between Honda Group Unit Sales and Consolidated Unit Sales since no affiliate and joint venture accounted for using the equity method was involved in the sale of Honda power products.

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.

In fiscal 2018, approximately 91% of Honda's motorcycle units on a group basis were sold in Asia. Approximately 42% of Honda's automobile units (including sales under the Acura Brand) on a group basis were sold in Asia followed by 37% in North America and 13% in Japan. Approximately 48% of Honda's power products units on a group basis were sold in North America followed by 24% in Asia and 16% in Europe.

Sales and Service

In Japan, Honda produces and sells motorcycles, automobiles, and power products through its domestic sales subsidiaries and independent retail dealers. In overseas markets, Honda also provides motorcycles, automobiles, and power products through its principal foreign sales subsidiaries, which distribute Honda's products to local wholesalers and retail dealers.

In fiscal 2018, approximately 98% of Honda's overseas sales were made through its principal foreign sales subsidiaries, which distribute Honda's products to local wholesalers and retail dealers.

Honda sells spare parts and provides after-sales services through retail dealers directly or via its overseas operations, independent distributors and licensees.

Components and Parts, Raw Materials and Sources of Supply

Honda manufactures the major components and parts used in its products, including engines, frames and transmissions. Other components and parts, such as shock absorbers, electrical equipment and tires, are purchased from numerous suppliers. The principal raw materials used by Honda are steel plate, aluminum, special steels, steel tubes, paints, plastics and zinc, which are purchased from several suppliers. The most important raw material purchased is steel plate, accounting for approximately 41% of Honda's total purchases of raw materials.

No single supplier accounted for more than 5% of the Company's purchases of major components and parts and principal raw materials during the fiscal year ended March 31, 2018.

Ordinarily, 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 Japanese domestic suppliers are substantially more dependent on foreign suppliers than 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.

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Environmental and Safety Regulation

Honda is subject to various government regulations, including environmental and safety regulations for automobiles, motorcycles and power products. Such regulations relate to items such as emissions, fuel economy, recycling and safety and have had, and are expected to continue to have, material effects on Honda's business. Honda has incurred significant compliance and other costs in connection with such regulations and will incur future compliance and other costs for new and upcoming regulations. Relevant environmental and safety regulations are described below.

Outline of Environmental and Safety Regulation for Automobiles

1. Emissions

Japan

In March 2008, to strengthen the enforcement of laws, the 2009 Exhaust Emission Standards were created after the passage of long-term regulation. Long-term targets for gasoline vehicles remained unchanged except those for direct injection gasoline vehicles, which were also required to meet the particulate matter (PM) standard. New long-term emissions targets for diesel vehicles were lowered by more than 60% from the 2005 level of nitrogen oxides (NOx) and PM standards.

In 2010, the Central Environmental Council in the Ministry of Environment reviewed the current JC08 mode for emission testing and began to consider the introduction of the Worldwide harmonized Light vehicle Test Procedure (WLTP). In 2015, the Central Environmental Council in the Ministry of Environment decided to introduce WLTP. From October 2018, emission test based on WLTP will be obligatory instead of JC08 mode.

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 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 regulations in the world.

In August 2012, the CARB issued the Advanced Clean Car package of regulations, which included amendments to the California Low Emission Vehicle Program III (LEV III) and ZEV regulations. The LEV III regulation, which applies to 2015 and subsequent model years, tightened limits on emissions and evaporative emissions. The ZEV regulation was revised so that requirements could be satisfied by TZEV (formerly, Enhanced AT-PZEV) and ZEV alone for 2018 and subsequent model years. Also, for 2018 and subsequent model years, the credit value eligible for each ZEV category was decreased drastically, which consequently increases the required sales volume dramatically. The BEVx category, which includes battery electric vehicles with auxiliary power units, was also added as a ZEV category. Currently, many states have adopted California LEV III and ZEV regulations.

In March 2014, the Environmental Protection Agency (EPA) finalized Tier 3 regulation, the federal emission and fuel standards. Tier 3 requires gasoline fuels at a pump to have an average sulfur content of 10 parts-per-million, which is already implemented in Europe and Japan. It also sets exhaust and evaporative emission standards equivalent to California LEV III. In other words, it enables auto manufacturers to sell some of the same vehicles they sell in

California in states that have not adopted LEV III.

In October 2015, the CARB issued the Final Statement Of Reasons for rulemaking (FSOR), to amend the current LEV III regulation in order to align its standards further with the finalized federal Tier 3 regulation.

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Europe

In 2005, the European Union created new emission standards (the Euro 5 and Euro 6 regulations) and comprehensive requirements for gasoline vehicles and diesel vehicles. Euro 5 was implemented in September 2009. Emission limits for gasoline vehicles and diesel vehicles were further lowered compared to the Euro 4 level for hydrocarbons, NOx and PM. PM mass emission standards apply only to vehicles with direct injection engines.

Additionally, the Euro 5 regulation required limits on particle number emissions from diesel vehicles, and implemented new test measurements for PM mass emissions from gasoline vehicles with direct injection engines and diesel vehicles in and after September 2011.

The Euro 6 regulation was implemented in September 2014. Emission limits for diesel vehicles were lowered even more than the Euro 5 levels for NOx and THC plus NOx. Additionally, Euro 6 requires limits on particle numbers from gasoline vehicles with direct injection engines. The required ethanol density of test fuel was also increased, starting from September 2016.

The testing cycle to measure emissions has gradually been transitioning from New European Driving Cycle (NEDC) to World Light duty Test Cycle (WLTC) beginning from September 2017.

The European Commission implemented regulations regarding the Real Driving Emissions (RDE) using Portable Emissions Measurement System (PEMS). The monitoring phase started from April 2016 and RDE testing with emission limits started from September 2017 for NOx and PN (particulate number).

Russia

The Euro 5 regulation was implemented in January 2014.

Russia, together with Kazakhstan and Belarus, formed a Customs Union. The Euro 5 regulation was introduced from January 2015 to the Customs Union. Implementation for the Kyrgyz Republic started from February 2016 and for Armenia will start from January 2020.

China

China adopted Step 5 emission regulation for light-duty vehicles in 2017. This regulation is similar to European regulations (such as Euro 5 regulation). In addition, China has promulgated rules to implement Step 6 emission regulations in July 2020, based on Euro 6 regulation. Step 6a regulations will be implemented in July 2020 and Step 6b regulations will be implemented in July 2023.

Some regional environmental protection departments are considering introducing Step 6 regulations in advance of 2019.

In order to reduce dependence on foreign sources of crude oil and reduce air pollution, which are viewed as serious problems, the Chinese government has implemented various infrastructure projects and subsidy policies and has been preparing the relevant national standards and a certification system in order to encourage broad use of new energy vehicles such as electric vehicles, plug-in hybrid electric vehicles, and fuel-cell electric vehicles.

Other Regions

India implemented BS IV (Bharat Stage IV) regulations in April 2017 and is expected to implement BS VI regulations from April 2020, skipping the implementation of BS V regulations. The BS VI regulations feature two phases. The second phase is expected to apply from April 2023 with more stringent particle number and on-board diagnostic requirements and compliance for RDE.

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Malaysia is scheduled to implement Euro 4 regulation from April 2020 for new vehicles and October 2021 for all gasoline vehicles.

Thailand is scheduled to implement Euro 5 regulation from 2023 and Euro 6 regulation from 2029.

Several other Asian countries have adopted regulations which are similar to the European regulations (such as Euro 2 regulation and Euro 3 regulation). Some of these governments are considering the introduction of Euro 4 regulation, Euro 5 regulation and Euro 6 regulation.

Australia implemented Euro 5-equivalent regulations in November 2013. In addition, Australia plans to introduce Euro 6-equivalent regulations from January 2022.

Ukraine is scheduled to implement Euro 6 regulation from January 2020.

Turkey implemented Euro 6 regulation from January 2016.

Brazilian authorities are currently proposing new emission regulations known as PROCONVE L7 from 2022 and L8 from 2027. This regulation is a unique Brazilian regulation based on U.S. regulations. This regulation is expected to be much stricter than current regulations, but it is still under consideration by the Brazilian authorities and the implementation date is not fixed yet.

Bolivia was previously scheduled to implement Euro 4 regulation in August 2016, but this implementation has been postponed.

Peru was scheduled to implement Tier 2 regulations and Euro 4 regulation in April 2018.

Uruguay was considering the introduction of Euro 4 regulation and Tier 2 regulations in January 2018.

2. Fuel Economy / CO₂

Japan

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.

In June 2010, the Ministry of Land, Infrastructure and Transport (MLIT) and the Ministry of Economy, Trade and Industry (METI) jointly established a committee and commenced a study to formulate new fuel economy standards for passenger motor vehicles for 2020. The new standards were announced in March 2013. The next term fuel economy standards improve the 2015 standards by 19.6% and adopt the Corporate Average Fuel Economy (CAFE) calculation method.

Fuel specifications for E10 fuel, which is gasoline blended with 10% ethanol, were revised and included in the April 2012 announcement setting forth the details of safety standards under the Road Transport Vehicle Law. Ethanol blended fuel is a biomass fuel. Biomass fuel is regarded as an effective countermeasure for CO₂ reduction. CO₂ emissions after burning ethanol fuel produced with biomass resources (such as plants or wood) are not counted as CO₂ emissions under the Kyoto Protocol.

In 2015, MLIT and METI examined the new fuel economy standards for small commercial vehicles.

In autumn 2016, WLTC mode was introduced into fuel economy standards, in addition to JC08 mode.

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The United States

The Federal Motor Vehicle Information and Cost Savings Act requires automobile manufacturers to comply with the 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.

In March 2009, the National Highway Traffic Safety Administration (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. The industry-wide combined average for the 2011 model year was estimated to be 27.3 mpg.

The EPA and the NHTSA jointly finalized the U.S. federal greenhouse gas regulation from the 2012 model year in accordance with President Obama's announcement. The standard for the 2016 model year was 250 g-CO₂/mile, or a 35.5 mpg 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 March 2008, the EPA denied California's GHG regulation waiver request. On January 26, 2009, President Obama announced that he had directed the EPA to review California's waiver request. The EPA approved the waiver on July 8, 2009 because the CARB promised that a manufacturer was also deemed to comply with CARB greenhouse gas regulation if the manufacturer complied with EPA-GHG from the 2012 through 2016 model years.

On May 21, 2010, President Obama ordered the NHTSA and the EPA to extend the National Program for cars and light-duty trucks to the 2017 model year and beyond with the support of the CARB. On October 1, 2010, the NHTSA, the EPA, and the CARB gave the notice of their intent to conduct joint rulemaking to establish 2017 and later model year fuel economy and greenhouse gas standards. The NHTSA and EPA issued a regulation in August 2012 regarding greenhouse gas / CAFE regulations from the 2017 through 2025 model years. The standard for the 2025 model year is 163 g-CO₂/mile or a 54.5 mpg industry average. The CARB also issued a regulation that is nearly equivalent to the EPA's greenhouse gas regulations in August 2012. In December 2012, the CARB amended its greenhouse gas regulation so that a manufacturer is also deemed to comply with the CARB greenhouse gas regulations if it complies with EPA-GHG from the 2017 through 2025 model years.

When greenhouse gas / CAFE regulation was legislated in 2012, the EPA and the NHTSA announced that they, in coordination with the CARB, would perform a mid-term evaluation re-examining the appropriateness of limit values for 2022-2025 model years by April 2018. Accordingly, the EPA, NHTSA and CARB jointly issued a joint technical assessment report in July 2016 (a technical report, and not a decision document). CARB decided in March 2017, before the new EPA decision planned for April 2018 was announced, not to change the greenhouse gas regulations applicable for the 2022-2025 model years.

On March 2017, President Trump issued executive order "Promoting Energy Independence and Economic Growth" which includes rescinding the "Climate Action Plan" announced by President Obama. Therefore, U.S. environmental regulation may be drastically reconsidered in the future.

On April 2, 2018, the EPA announced that the GHG requirement for 2022-2025 model years needs reconsideration. Together with the NHTSA, the EPA plans to propose a new standard for GHG and CAFE during 2018.

Europe

In 2008, the European parliament adopted CO₂ regulations in response to concerns related to possible global climate changes. The adopted CO₂ regulations were published by the Official Journal in June 2009.

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Pursuant to the CO₂ regulations, the European Commission set a target of 130 grams of carbon dioxide per kilometer for new passenger cars offered for sale in the EU from 2012. In addition, the CO₂ regulations provided manufacturers with the necessary incentive to reduce the CO₂ emissions of their vehicles by imposing an excess emissions premium if their average emission levels are above the limit value curve. This premium is based on the number of grams per kilometer (g/km) that an average vehicle sold by the manufacturer exceeding the limit imposed by the curve, multiplied by the number of vehicles sold by the manufacturer.

In 2014, a new regulation was issued, requiring EU fleet-wide target of 95 g CO₂/km for 2020 based on NEDC testing procedure.

The current European type-approval procedure for fuel consumption and CO₂ emissions of cars based on NEDC has been gradually replaced with WLTP beginning from September 2017. During the transitional years, WLTP-measured CO₂ values are calculated to NEDC CO₂ values to check compliance to the NEDC based CO₂ target. A new WLTP based target for each manufacturer will be set from 2021.

On November 8, 2017, the European Commission proposed a new CO₂ standard beyond 2025. The proposed targets beyond 2025 and 2030 are negative 15% and negative 30%, respectively, compared to the 2021 average of all manufacturers EU fleet-wide target.

China

China adopted a fuel consumption regulation for passenger vehicles in 2004. Step 1 of this regulation was implemented in 2005, Step 2 of this regulation was implemented in 2008 and Step 3 of this regulation was implemented in 2012. In addition, China implemented Step 4 of this regulation in 2016.

Other Regions

India has promulgated rules to introduce fuel economy / CO₂ regulations in 2017 and 2022 in a phased manner.

Australia is considering introducing fuel economy / CO₂ regulations.

Taiwan introduced corporate average fuel consumption regulations.

Mexico is considering introducing new fuel economy / CO₂ regulations from 2018.

Brazil is considering introducing new fuel economy / CO₂ regulations from 2022.

The Province of Quebec in Canada finalized a mandate for each maker to sell a certain percentage of zero emission vehicles starting from the 2018 model year.

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

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.

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From June 1, 2008, any manufacturer or importer of chemical substances is required to submit a registration to the European Chemicals 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 registration for existing chemical substances. The list of Substances of Very High Concern (SVHC) is amended periodically to include new substances. Upon a request by a consumer, a supplier of a product containing SVHC must provide the consumer with sufficient information, including at least the name of the substance, within 45 days.

On February 18, 2011, the first set of substances which require authorization for use after specified dates were announced. Manufacturers using these substances in Europe must either be authorized for use after submitting an application or use substitute substances. Substances which require authorization will be added periodically.

Other Regions

Taiwan and Korea implemented automobile recycling laws on January 1, 2008, following the regulations established by the European Union and Japan. Turkey and Vietnam also implemented automobile recycling laws on December 12, 2010 and January 1, 2018, respectively. On June 23, 2017, China implemented automobile recycling laws partially following the regulations established by the European Union. In addition, India and Russia each have a plan to implement automobile recycling laws in the near future.

4. Safety

United Nations

From 2014, under WP29 (World Forum for Harmonization of Vehicle Regulations), the ITS / AD Informal Working Group has been discussing the issue of Intelligent Transport System and Automated Driving. The discussion of definition of each technical level (partially fully automated driving) of automated driving ended and its results were adopted at the 174th WP29.

Following a long discussion, Revision 3 of the 1958 Agreement was adopted at the 169th WP29 and the official document (UN Agreement) was published on October 2017. This Revision 3 was entered into force on September 14, 2017. The 1958 Agreement, an intergovernmental agreement of United Nations Economic Commission for Europe (UN/ECE) signed in 1958, aims at establishing a unified standard for vehicle's structure and safety and environment of device and promoting reciprocal recognition. The major changes of Revision 3 are;

Introduction of the International Whole Vehicle Type Approval (IWVTA) (The current agreement covers only components and systems),

Issuance of UN Regulation (UN R)'s certificate of former series (Acceptance is optional in each country),

Review of the majoritarian provisions (Ratio of the adoption is changed from two-thirds and more to four-fifths and more).

IWVTA is a system that develops mutual recognition of automobile certification from unit of equipment to vehicle unit. This system was introduced via Japan's proposal, and Japan has served as the chairman and led the discussion since then. This system was adopted at the 173rd WP29, as UN R No. 0. This will be entered into force on July 19,

2018.

Japan

Japan Automobile Standards Internationalization Center (JASIC), which is organized by the MLIT and Japan Automobile Manufacturers Association (JAMA), among others, has started to review a proposal for the

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unification of Safety/Environment Standards, vehicle categories and certification in order to promote further internationalization of standards and certifications. JASIC made the proposal to other contracting parties of the 58 / 98 Agreement in 2009 and reached an agreement among the contracting parties by 2017.

In March 2010, in a session of the 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.

In May 2011, the MLIT introduced a pedestrian leg protection standard, adopting, for the first time in the world, a flexible leg impactor that features an improved biomechanism. The impactor has been designed to better match with the human body structure and its characteristics.

In August 2013, the MLIT adopted UN R121, which regulates the location and identification of controls, tell-tales and indicators.

In November 2013, the MLIT adopted UN R125, which regulates front visibility of the motor vehicle driver.

In January 2015, the MLIT adopted UN R21, which regulates interior fittings.

In January 2015, the MLIT adopted UN R127, which regulates pedestrian safety performance.

In June 2015, the MLIT adopted UN R135, which regulates protection of passengers from a lateral pole crash.

In June 2015, the MLIT adopted UN R34, which regulates vehicle fire prevention.

In October 2015, the MLIT adopted UN R117, which regulates exterior noise of tires, the frictional force on wet road surfaces and rolling resistance.

In October 2016, the MLIT adopted UN R138, which regulates the reduced audibility of quiet road transport vehicles, including electric vehicles.

In February 2017, the MLIT adopted UN R139, which regulates Brake Assist Systems.

In February 2017, the MLIT adopted UN R140, which regulates Electronic Stability Control (ESC) Systems.

In February 2017, the MLIT adopted UN R141, which regulates Tyre Pressure Monitoring Systems (TPMS).

In February 2017, the MLIT adopted UN R142, which regulates Tyres installation.

To achieve the highest level of traffic safety in Japan, MLIT developed a strategy to introduce fully automated driving in the latter half of the 2020s. To develop harmonized regulations for automated driving, MLIT is joining ITS / AD Informal Working Group under WP29 of the United Nations. MLIT is co-chairman of Informal Working Group together with the United Kingdom.

MLIT is considering introducing a regulation regarding Accident Emergency Call Systems (AECS).

The United States

In June 2008, the NHTSA issued a final rule to revise some performance requirements and phase-in compliance schedules for upgraded side impact occupant protection standards. For both the moving deformable

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barrier test and the oblique side pole impact test, manufacturers have had to 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 May 2009, the NHTSA issued a final rule to upgrade the vehicle roof crush standard. The rule newly introduces the Two-sided Roof Test, which imposes strength tests for both sides of the vehicle roof and increases the maximum applied load. For vehicles with a Gross Vehicle Weight Rating (GVWR) of 2,722 kg or less, manufacturers have had to 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 by September 2016.

In January 2011, the NHTSA issued a final 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 meet with performance requirements. Manufacturers have had to comply with the new requirements for 25% of all vehicles produced by 2013, 50% by 2014 and 75% by 2015. Further, 100% had to comply (with carryover credit) by 2016, and all vehicles by 2017.

In April 2012, the NHTSA issued a proposed regulation that mandates installation of a brake-throttle override system. This rule was proposed to take proper measures against the following problem: a vehicle cannot be effectively decelerated/stopped in the event that the accelerator pedal cannot return to its stationary position even after the foot is taken off the accelerator pedal, because of the floor mat being caught in the accelerator pedal or any failure in the accelerator pedal. Manufacturers must comply with the new requirements within two years from September 1 of the date of publication of the final rule, which is still under consideration.

In December 2012, the NHTSA issued a proposed regulation that mandates installation of an Event Data Recorder (EDR) in vehicles. The purpose of this regulation is to allow for effective collision research as well as to share important data for the performance analysis of safety devices (e.g. advanced restraint devices) through the mandatory installation of EDRs. After September 2014, the NHTSA had planned to require manufacturers to install EDRs which comply with specified performance requirements, but the issue is still under discussion.

In January 2013, the NHTSA issued a proposed regulation that mandates installation of an approaching vehicle audible system. This regulation was established to reduce the number of collision accidents by enabling pedestrians and bicycle riders be aware of approaching hybrid vehicles on electric drive or electric vehicles by sound. Manufacturers were encouraged to comply with the new requirements for 30% of all vehicles produced by 2015 and 60% by 2016. Further, the target is 90% by 2017, and all vehicles by 2018.

In April, 2013, the NHTSA issued the first phase of these guidelines. The Phase 1 Guidelines cover Original Equipment (OE) in-vehicle (i.e., integrated) electronic devices that are operated by the driver through visual-manual means (i.e., the driver looks at a device, manipulates a device-related control with his or her hand, and/or watches for visual feedback from the device). The Phase 2 Guidelines will apply to portable and aftermarket devices that are operated through visual-manual means and will be based on the same general principles as the Phase 1 Guidelines.

In March 2014, the NHTSA issued a final rule for FMVSS No. 111, which requires that rear visibility technology be installed in all new vehicles weighing under 10,000 pounds. The purpose is to reduce death and injury resulting from incidents when the driver is backing up. Manufacturers had to comply with the new requirements for 10% of all vehicles produced from May 2016 to April 2017. From May 2017 to April 2018, 40% must comply and all vehicles by May 2018.

In September 2016, the NHTSA issued the Federal Automated Vehicles Policy for safety testing and deployment of automated vehicles. This policy comprises four sections: vehicle performance guidance for automated vehicles, model

state policy, current regulatory tools, and modern regulatory tools. The vehicle

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performance guidance section outlines a 15 point safety assessment for the safe design, development, testing and deployment of automated vehicles.

In December 2016, the NHTSA issued a proposal titled Driver Distraction Guidelines Phase 2 to reduce accidents due to driver distraction. This guideline addresses vehicle safety problems posed by driver distraction due to aftermarket and portable device usage.

In December 2016, the NHTSA issued a final rule to newly establish FMVSS141, a standard for minimum sound requirements for hybrid and electric vehicles. The purpose of FMVSS141 is to reduce the number of injuries that result from electric and hybrid vehicle crashes with pedestrians by providing a sound level and sound characteristics necessary for these vehicles to be detected and recognized by pedestrians. Manufacturers must comply with the new requirements for 50% of all hybrid and electric vehicles produced from September 2018, and all hybrid and electric vehicles in or after September 2019.

In January 2017, the NHTSA issued a proposed regulation to establish a new FMVSS150 (vehicle-to-vehicle (V2V) communications) standard. FMVSS150 specifies performance requirements for V2V communications capability and the mandatory equipment requirements of V2V function. FMVSS150 applies to new passenger cars, multi-purpose vehicles, trucks, and buses with a gross vehicle weight rating of 10,000 pounds (4,536 kg) or less. FMVSS150 has a provision for a scheduled phase-in.

In September 2017, the NHTSA issued a voluntary guidance A Vision for Safety to update the Federal Automated Vehicle Policy issued in 2016. Manufacturers may demonstrate how they address the safety elements contained in this guidance by publishing a Voluntary Safety Assessment for automated driving system (SAE Level 3 through 5).

In September 2017, the NHTSA issued a final rule for FMVSS No. 305, electrolyte spillage and electrical shock protection. This update adopts various electrical safety requirements found in Global Technical Regulation (GTR) No.13, Hydrogen and fuel cell vehicles and other sources.

In February 2018, the NHTSA issued a final rule for FMVSS141, a standard for minimum sound requirement for hybrid and electric vehicle. The purpose of this amendment is to clarify the details of technical requirement and reschedule phase-in schedule (1 year delay).

Europe

Legislation regarding a new system called eCall was finalized in 2017. The EU eCall for new vehicle types became effective on March 31, 2018.

In January 2016, the EU commission issued the draft regulation to significantly revise the legal framework for the EU type-approval. This draft regulation introduces a market surveillance system effective for managing the conformity of motor vehicles available on the market and adds a requirement of an expiration date for vehicle type approval. This draft is scheduled to be adopted at the end of 2018.

In August 2017, the European Commission conducted a public consultation by widely inviting opinions from the public regarding amendments to the (EC) 661/2009 General safety regulation and the (EC) 78/2009 Pedestrian safety regulation. Road traffic safety in the EU has been largely improved during the last decade, but recently the decrease in the number of road fatalities seems to have stagnated. For this reason, the European Commission is seriously considering the introduction of 19 specific vehicle safety measures. This public consultation period ended on October 22, 2017. Based on the comments from the public, the European Commission published a draft legislation in

May 2018.

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China

Vehicle safety regulations in China were drafted with reference to the UNECE standards and cover almost the same matters as the UNECE standards. However, these regulations also include unique provisions which take into account the distinctive characteristics of the Chinese market environment and the rules differ from the latest UNECE standards. Future safety regulations are described as follows:

Newly published GB standards (Chinese national standards issued by the Standardization Administration of China) in 2017 include:

- + Photometric characteristics of power-driven vehicle front fog lamps;
- + Symbols for controls, indicators and tell-tales of electric vehicles;
- + Electric vehicle charging systems;
- + New energy vehicle power battery recycling interim rule;
- + Safety specifications for power-driven vehicles operating on roads; and
- + Performance requirements and test methods of tire pressure monitoring systems for passenger cars.

Newly established GB standards (not yet published) include:

- + Amendment to prescription for installation of the external lighting and light-signaling devices for motor vehicles and their trailers;
- + Amendment to Road Vehicle-Vehicle Identification Number;
- + Amendment to Safety property requirements and test methods for automobile fuel tank;
- + Amendment to Road vehicle plate and label;
- + Amendment to Safety performance requirements and test methods of automobile wheels;
- + Amendment to Requirement of speed limitation system for motor vehicles;
- + Establishment of Requirement of Fuel Cell Stacks for Fuel Cell Electric Vehicles;
- + Establishment of Requirement of battery management system for Electric Vehicles;
- + Establishment of Requirement of Terminology of Electric Vehicles; and
- + Establishment of Requirement of EMC Standard for electric vehicle charging.

GB standards under development include:

- + Requirement of Event data recorder.

Other Regions

In the Middle East, the Gulf Cooperation Council (GCC) aims to adopt electrical safety standards for electric vehicles and their infrastructure through the Emirates Authority for Standardization and Metrology (ESMA). These standards are still under review. The Saudi Standards, Metrology and Quality Org. (SASO) issued Technical Regulations for Electric vehicles in January 2018, in relation to the ambitious Vision of the Kingdom in 2030 and National Transformation Program (NTP) 2020 initiatives announced by the Saudi government.

In U.A.E, the Emirates Authority for Standardization and Metrology issued the final draft of UAE 5019:2017 (eCall Emergency Calls Technical Requirements). After that, GSO (GCC Standardization

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Organization) issued the final draft of the eCall Emergency Calls and Connectivity Technical Requirements. This standard has been referred to in the GSO version of the United Arab Emirates standard UAE 5019:2017, which the ESMA already issued as the final draft.

In India, the government has proposed AIS-145, a new standard for additional safety features, which will become mandatory from July 2019. Specific safety features pursuant to this standard include a speed alert system, driver seat belt reminder, manual override for the central locking system, driver air bags and vehicle reverse parking alerts.

In Pakistan, the Ministry of Industries and Production and the Ministry of Finance have issued a notification regarding the revision of the Customs Act relating to the compulsory installation of immobilizers.

The Cambodian Ministry of Industry and Handicraft announced in August 2016 the adoption of the UN R 19 items concerning vehicle technical regulations notifying all local manufacturers of resuming application from January 1, 2017 of the said regulations that had been delayed due to negotiations with manufacturers who had difficulty implementing the measures. And it was decided that the application of Decree (MIH/2016 No. 150) will be postponed for three years from June 15, 2016 to June 14, 2019.

In Vietnam, on October 17, 2017, the government officially issued the Decree No.116/2017/ND-CP to establish the requirements for automobiles manufacturing, assembling, importing and automotive warranty and maintenance services. This Decree is a required condition for entering into the automobile manufacturing and importing business in Vietnam. This Decree was implemented with respect to imported vehicles on January 1, 2018.

In Cambodia, the Ministry of Industry and Handicraft (MIH) has issued a public notice to mandate 19 specific United Nations Regulations for vehicles, including, among others, environmental and safety requirements for emissions, brakes, tires and steering systems. This will be implemented from June 2019.

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 and regions such as the United States, Japan, Australia, the EU, Korea, China and Malaysia. 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.

Outline of Environmental and Safety Regulation for Motorcycles

1. Emissions

Japan

Japan started to consider introducing the Euro 5 level emission regulation.

The United States

The state of California started to consider introducing the Euro 5 level emission regulation.

Europe

Euro 5 requirements other than catalyst monitoring of OBD (Onboard Diagnostics Regulation) will apply to new type approved vehicles from January 2020 and will apply to all vehicles registered from January 2021. Catalyst monitoring will apply to new type approved vehicles from January 2023 and will apply to all vehicles registered from January 2024.

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China

China started to consider introducing the Euro 5 level emission regulation.

India

India implemented a new emission regulation called Bharat Stage IV (BS IV), which applied to new motorcycles from April 2016 and applied to all motorcycles registered from April 2017. India also published a BS VI regulation (Euro 5 level exhaust emission regulation), which will apply from 2020, except OBD stage 2. OBD stage 2 will apply from 2023.

Other Regions

Brazil started to consider introducing the Euro 5 level emission regulation.

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

2. Recycling / REACH

Europe

The same REACH compliance required for motor vehicles is required for motorcycles.

Other Regions

Vietnam implemented motorcycle recycling laws on January 1, 2018. India has announced a plan to implement motorcycle recycling laws in the near future.

3. Safety

Japan

Japan has introduced safety regulations based on UNECE regulations as described below.

Japan issued new standards for advanced brake system (ABS: Anti-lock Brake System/ CBS: Combined Brake System) which will apply to new type motorcycles from October 2018, and to all motorcycles from October 2021.

Japan adopted electric safety requirements for battery motorcycles (UNECE R136), and the requirements applied to new type motorcycles from January 2018, and will apply to all motorcycles from January 2020.

The United States

There is no new regulation information for motorcycle safety.

Europe

There is no new regulation information for motorcycle safety.

China

China introduced a requirement for an advanced braking system, which shall be installed on new vehicle models manufactured on and after July 1, 2019, and also on all motorcycles manufactured on and after July 1, 2020. Motorcycles with engine capacity of more than 150cc and not exceeding 250cc shall be equipped with ABS or CBS. Motorcycles with engine capacity of more than 250cc shall be equipped with ABS.

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India

In India, the Auto Headlight On (AHO) function, which automatically turns on the head lamps when the engine is running, shall be installed on all two-wheelers manufactured on and after April 1, 2017 and also on new vehicle models manufactured on and after April 1, 2018. All vehicles manufactured on and after April 1, 2019 shall be equipped with an advanced brake system. Two-wheeled vehicles with engine capacity of not more than 125cc, continuous rated or net power not more than 11kw and power/weight ratio not more than 0.1 kw/kg shall be equipped with ABS or CBS. All other categories of two-wheeled vehicles shall be equipped with ABS in India. Furthermore, AIS 146, 147 and 148 have been proposed and will be the standards for stand, external projection and footrest strength. These standards will become closer to those required by the European regulations.

Other Regions

The Brazil transport authority (CONTRAN) issued a standard concerning motorcycle braking based on the UNECE Brake regulation (R78.03) as well as a new regulation mandating ABS/CBS installation. The Brazilian standardization authority (INMETRO) currently mandates parts certification for tires and batteries, but added drive/driven sprocket, drive chain and muffler to the scope of application from September 24, 2017 at customs clearance. Brazilian government issued lighting regulation based on previous UNECE regulations; these regulations will be implemented from September 2018.

Many Asian countries, such as Thailand, Indonesia, Malaysia, Korea and Vietnam, are introducing various regulations, regarding lighting, braking, and horns, based on UN R (ECE) regulations.

Outline of Environmental and Safety Regulation for Power Products

1. Emissions

The United States

In November 2015, CARB presented a policy to develop a regulation to replace 25% of spark-ignition engine products circulating in the market with zero-emission products by 2030. Currently, rulemaking activities regarding research are led by CARB.

In April 2016, CARB has published an evaporative emission regulation applicable to outboard engines implementing from the 2018 model year and later.

In November 2017, CARB has published a final regulation to amend California's evaporative emission regulation for small off-road spark ignition equipment.

Canada

In October 2017, the Department of Environment published a final regulation to align the stringency of exhaust emission regulation and evaporative emission regulation with the EPA Phase 3 regulations for non-road small spark ignition engines.

China

An exhaust emission standard was introduced in China on March 1, 2011. Its requirements are based on the European exhaust emission regulations and are applicable to small spark-ignition engines for non-road mobile machinery with 19 kW or less. The Phase 2 regulation with durability requirement started from January 1, 2014. The Phase 3 regulation is under development.

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Europe

The European Committee has finalized strengthened exhaust emission regulation for non-road small spark ignition engines (commonly known as Stage 5 regulation). Its limit values of exhaust emission follow the U.S. EPA Phase 3 and the effective date is January 2018 for new certification and January 1, 2019 for engines newly placed on the market.

Japan

The Japan Land Engine Manufacturers Association (LEMA) implemented the Phase 3 voluntary exhaust emission regulation from January 1, 2014. The requirements are consistent with the U.S. EPA Phase 3 regulation.

India

The Ministry of Environment issued a revised regulation for emission/noise standards applicable to gasoline/kerosene/LPG/CNG engine generators. The exhaust emission limits are very stringent. In particular, the CO level limit is less than half the limit allowed by the U.S. EPA Phase 3. It became effective as of June 2014. The next stage of exhaust emission regulation is under development.

Australia

The Australian Federal Government has published a finalized regulation that introduces exhaust emission regulations based on the U.S. EPA standards for all power products including outboard engines. Exhaust emission regulations, which are aligned with EPA Phase 3 regulation, are to be implemented from July 2018.

2. Recycling / RoHS / WEEE / REACH

Europe

The same REACH compliance required for motor vehicles is required for power products. In June 2011, the European Union Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS) was wholly revised and most power products will be within its scope after 2019.

Other Regions

Several Asian and Eastern Europe countries have adopted regulations which are similar to the European regulations (such as RoHS and WEEE).

3. Safety

Japan

The METI amended the technical requirements of the Electrical Appliances and Materials Safety Act and added requirements regarding the retention force of receptacle outlets and the flame resistance of circuit boards. These amended and additional requirements have been implemented from July 2016.

The voluntary safety scheme for snow blowers newly included a requirement on dozers, which was implemented in April 2015.

The United States

NFPA (National Fire Protection Association) 70 (NEC (National Electrical Code) 2014) has been amended and the installation of Ground Fault Circuit Interrupter (GFCI) has become mandatory for certain generators. In 2014, an American National Standard Institute (ANSI) Standard for Snow Blowers was amended. In 2015, a new ANSI Standard for Generators was published. In 2016, an ANSI Standard for Tillers was amended.

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In November 2016, the U.S. Consumer Product Safety Commission promulgated a notice of proposed rule-making in the Federal Register, which proposes to restrict the carbon monoxide emission from portable generator rated 19kW and below. This regulation was proposed to address the carbon monoxide poisoning injuries occurring from portable generators.

Europe

The Low Voltage Directive (LVD) and the Electromagnetic Compatibility Directive (EMCD) have been amended and they became applicable from April 2016. Recreational Craft Directive (RCD) Stage 2 also became effective. The Gas Appliance Regulation has been published and accordingly, the Gas Appliance Directive expired in April 2018.

The EU Commission plans to enhance existing noise regulation applicable to equipment intended to be used outdoors. This is a comprehensive rulemaking including expansion of the scope of regulation, enhanced noise limits, change to the conformity assessment system, among other things. The commission is expected to publish proposed regulation in 2019.

China

The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) has issued final regulations for spark-ignition engines which include a wide variety of requirements such as machinery safety, thermal protection, electrical safety, and others. It became effective in 2015.

Other Regions

Argentina amended the certification system for generators in 2015 and amended the procedure of submission regarding the declaration of conformity in 2017. Also in 2015, Vietnam published a compulsory certification system for engine-driven sprayers. In Mexico, a compulsory certification system for brush cutters was proposed in 2015. In Australia, the Environment Protection Authority in New South Wales state issued the final regulation Protection of the Environmental Operations (Noise Control) Regulation 2017 , amending the 2008 edition.

Preparing for the Future

Management Challenges and Preparing for the Future

The business environment surrounding Honda has come to a major turning point. Values are diversifying, the population is aging, urbanization is accelerating, climate change is worsening, and the industrial structure is changing due to the energy shift and progress in technologies such as artificial intelligence (AI) and the Internet of Things (IoT), all on a global basis.

Amid such changes in the environment, Honda formulated the 2030 Vision as a new challenge directed at the next generation that articulates the ways we can provide value unique to Honda in order to contribute to solving various social issues while continuing to achieve sustainable growth. By doing so, Honda will work on the challenges described below.

1. Product Quality

To strengthen customer trust by offering products founded in safety and achieve a new level of outstanding quality of products, Honda has created a system that continuously enhances and improves quality at every stage: design,

development, production, sales and service. Honda will work to improve product quality by implementing a shared global quality management system and by providing training and education aimed at improving the skills of employees involved in quality assurance.

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2. Research and Development

In addition to engaging in traditional Mono-zukuri (the art of making things), Honda will work on the advancement of mobility and improvement of people's daily lives for people all over the world through the integration of Mono-zukuri and Koto-zukuri (new experiences drawn from the art of making things), with a new value that works cooperatively with people. Honda views that the expansion of possibilities of new value creation accompanying the evolution of digital technologies, such as AI and big data, in recent years presents a good opportunity. As such, Honda will actively pursue open innovation through strategic collaboration mainly with outside companies and further focus on research and development in new areas.

3. Production Efficiency

Honda will strengthen its production systems at its global production bases and supply high-quality products flexibly and efficiently, with the aim of meeting the needs of its customers in each region.

In addition, Honda will work to reduce the environmental burden of its production bases while establishing production technologies to promote electric-powered motor technology globally. Honda will work at improving its global supply chain by devising more effective business continuity plans in order to respond to various risks including, but not limited to, natural disasters.

4. Sales Efficiency

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

5. Safety Technologies

With the aim of realizing a collision-free mobile society, Honda will work actively in partnership with communities to build and improve the traffic environment in three areas: Human (Safety Driving Education), Technology (Vehicle Safety Technologies) and Communication (Telecommunication Networks).

Honda will nurture instructors for safety education, provide places and opportunities to learn, and develop educational programs and equipment, while making efforts to improve safety technologies that enhance accident prediction and prevention, technologies to help reduce the risk of injuries to passengers and pedestrians from car accidents, and enhance technologies to reduce the impact on the other vehicle, as well as expanding its lineup of products incorporating such technologies.

Honda will also make efforts to improve safety by means of a system that can confirm traffic conditions in surrounding areas and traffic accident risks using wireless communication to connect with other cars and motorcycles as well as people in surrounding areas who are carrying smartphones.

6. The Environment

Through its proprietary technologies and business activities, Honda will work to deal with climate change and energy issues, efficient utilization of resources and preservation of clean air, with the aim of realizing a zero-environmental impact society.

Responses to Climate Change and Energy Issues

Honda will seek to reduce total CO₂ emissions by 50% compared to year 2000 levels by 2050. To achieve this, Honda will promote the reduction of CO₂ emitted from products mainly by expanding lineup of products with exceptional environmental performance and actively promoting the use of electric-powered motors, along with building an organizational structure for developing technologies for electric-powered motor products in line with trends in fuel economy regulations and market needs around the world.

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Honda will also strengthen its efforts in developing technologies in the area of total energy management to reduce CO₂ emissions related to mobility and people's everyday lives, advancing energy-saving technologies in the area of business activities and effectively utilizing and diversifying energy mainly through megawatt scale solar power generation, with the aim of completely eliminating energy risk from heavy dependence on fossil fuels in the future.

Efficient Utilization of Resources

Honda will conduct effective utilization of resources and proper processing and recycling through cooperation/partnership with stakeholders in response to the depletion and resulting difficulty of obtaining rare earth metals and other resources.

Preservation of Clean Air

Honda will work to reduce harmful substances of exhaust gas at the product use stage by enhancing the environment performance of products, while complying with tighter exhaust gas regulations in various countries.

Honda will also work to preserve the air quality by bringing in the state-of-the-art paint technology, which reduced harmful substances generated during the paint processes in production activities, to all automobile plants worldwide.

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.

Through these company-wide activities, Honda aims to be a company that society, which includes our shareholders, our investors and our customers, wants to exist.

C. Organizational Structure

As of March 31, 2018, the Company had 91 Japanese subsidiaries and 277 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.

Company	Country of Incorporation	Function	Percentage Ownership and Voting Interest
Honda R&D Co., Ltd.	Japan	Research & Development	100.0
Honda Finance Co., Ltd.	Japan	Finance	100.0
American Honda Motor Co., Inc.	U.S.A.	Sales	100.0
Honda Aero., Inc.	U.S.A.	Manufacturing	100.0
Honda North America, Inc.	U.S.A.	Coordination of Subsidiaries Operation	100.0

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Honda of America Mfg., Inc.	U.S.A.	Manufacturing	100.0
American Honda Finance Corporation	U.S.A.	Finance	100.0
Honda Aircraft Company, LLC	U.S.A.	Research & Development, Manufacturing and Sales	100.0

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Company	Country of Incorporation	Function	Percentage Ownership and Voting Interest
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 Bank GmbH	Germany	Finance	100.0
Honda Turkiye A.S	Turkey	Manufacturing and Sales	100.0
Honda Motor (China) Investment Co., Ltd.	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 Motorcycle & Scooter India (Private) Ltd.	India	Manufacturing and Sales	100.0
Honda Cars India Limited	India	Manufacturing and Sales	100.0
P.T. Honda Precision Parts Manufacturing	Indonesia	Manufacturing	100.0
P.T. Honda Prospect Motor	Indonesia	Manufacturing and Sales	51.0
Honda Malaysia Sdn Bhd	Malaysia	Manufacturing and Sales	51.0
Honda Taiwan Co., Ltd.	Taiwan	Sales	100.0
Asian Honda Motor Co., Ltd.	Thailand	Coordination of Subsidiaries Operation and Sales	100.0
Honda Leasing (Thailand) Co., Ltd.	Thailand	Finance	100.0
Honda Automobile (Thailand) Co., Ltd.	Thailand	Manufacturing and Sales	89.0
Thai Honda Manufacturing Co., Ltd.	Thailand	Manufacturing	83.0
A.P. Honda Co., Ltd.	Thailand	Sales	61.0
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
Banco Honda S.A.	Brazil	Finance	100.0
Honda Automoveis do Brasil Ltda.	Brazil	Manufacturing and Sales	100.0
Moto Honda da Amazonia Ltda.	Brazil	Manufacturing and Sales	100.0

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The following table sets out information, as of March 31, 2018, with respect to Honda's principal manufacturing facilities, all of which are owned by Honda:

Location	Number of Employees	Principal Products Manufactured
Sayama, Saitama, Japan	4,962	Automobiles
Naka-ku, Hamamatsu, Shizuoka, Japan	1,998	Power products and transmissions
Suzuka, Mie, Japan	5,833	Automobiles
Ozu-machi, Kikuchi-gun, Kumamoto, Japan	2,192	Motorcycles, all-terrain vehicles, power products and engines
Greensboro, North Carolina, U.S.A	1,051	Aircraft
Burlington, North Carolina, U.S.A.	99	Aircraft engines
Marysville, Ohio, U.S.A.	5,209	Automobiles
Anna, Ohio, U.S.A.	2,591	Engines
East Liberty, Ohio, U.S.A.	2,116	Automobiles
Lincoln, Alabama, U.S.A.	4,794	Automobiles and engines
Greensburg, Indiana, U.S.A.	2,481	Automobiles
Alliston, Canada	4,339	Automobiles and engines
El Salto, Mexico	2,352	Motorcycles and automobiles
Celaya, Mexico	5,112	Automobiles
Swindon, U.K.	2,827	Automobiles and engines
Gebze, Turkey	895	Motorcycles and automobiles
Guangzhou, China	788	Automobiles
Gurugram, India	2,714	Motorcycles
Greater Noida, India	2,482	Automobiles
Alwar, India	2,595	Motorcycles and automobiles
Narasapura, India	1,867	Motorcycles
Ahemdabad, India	785	Motorcycles
Karawang, Indonesia	2,675	Automobiles and engines
Melaka, Malaysia	2,718	Automobiles
Ayutthaya, Thailand	2,577	Automobiles
Prachinburi, Thailand	1,110	Automobiles
Bangkok, Thailand	3,485	Motorcycles and power products
Phuc Yen, Vietnam	4,435	Motorcycles and automobiles
Duy Tien, Vietnam	348	Motorcycles
Buenos Aires, Argentina	1,237	Motorcycles and automobiles
Sumare, Brazil	3,043	Automobiles
Manaus, Brazil	5,542	Motorcycles and power products

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 R&D facilities.

As of March 31, 2018, the Company's property, with a net book value of approximately ¥58.7 billion, was subject to specific mortgages securing indebtedness.

Capital Expenditures

Capital expenditures in the fiscal year ended March 31, 2018 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.

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Total capital expenditures for the year amounted to ¥2,233.0 billion, decreased by ¥190.6 billion from the previous year. Also, total capital expenditures, excluding equipment on operating leases, for the year amounted to ¥433.8 billion, decreased by ¥107.1 billion from the previous year. Spending by business segment is shown below.

	Fiscal years ended March 31,		
	2017	2018	Increase (Decrease)
	Yen (millions)		
Motorcycle Business	¥ 50,040	¥ 51,681	¥ 1,641
Automobile Business	480,471	370,723	(109,748)
Financial Services Business	1,883,220	1,799,493	(83,727)
Financial Services Business(Excluding Equipment on Operating Leases)	524	338	(186)
Power Product and Other Businesses	10,006	11,150	1,144
Total	¥ 2,423,737	¥ 2,233,047	¥ (190,690)
Total (Excluding Equipment on Operating Leases)	¥ 541,041	¥ 433,892	¥ (107,149)

Intangible assets are not included in the table above.

In Motorcycle business, we made capital expenditures of ¥51,681 million in the fiscal year ended March 31, 2018. 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 Automobile business, we made capital expenditures of ¥370,723 million in the fiscal year ended March 31, 2018. 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 Financial services business, capital expenditures excluding equipment on operating leases amounted to ¥338 million in the fiscal year ended March 31, 2018, while capital expenditures for equipment on operating leases were ¥1,799,155 million.

In Power product and other businesses, capital expenditures of ¥11,150 million in the fiscal year ended March 31, 2018, were deployed to upgrade, streamline, and modernize manufacturing facilities, and to improve R&D facilities.

Plans after fiscal year 2018

Our management mainly considers 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.

The estimated amounts of capital expenditures for the fiscal year ending March 31, 2019 are shown below.

	Fiscal year ending March 31, 2019 Yen (millions)
Motorcycle Business	¥ 61,700

Automobile Business	402,900
Financial Services Business	400
Power Product and Other Businesses	15,000
Total	¥ 480,000

The estimated amount of capital expenditures for Financial services business in the above table does not include equipment on operating leases.

Intangible assets are not included in the table above.

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Item 4A. Unresolved Staff Comments

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

Item 5. Operating and Financial Review and Prospects

You should read the following discussion of our critical accounting policies and our financial positions and operating results together with our consolidated financial statements included in this Annual Report.

A. Operating Results

Overview

Business Environment

Looking at the economic environment surrounding Honda, its consolidated subsidiaries and its affiliates accounted for under the equity method (hereinafter, the Honda Group) in the fiscal year ended March 31, 2018, the United States economy continued a steady recovery, mainly due to improvement in employment conditions and growing personal consumption. Europe saw a gradual economic recovery, mainly due to improvement in employment conditions and growing personal consumption. In the Asian economies, India experienced a moderate recovery focused on domestic demand and the economies of Thailand and Indonesia started to pick up, while the Chinese economy continued an upward trend. The Japanese economy saw a gradual recovery, mainly due to steady improvement in employment conditions and a gradual upturn in personal consumption, in addition to moderate growth in capital investment.

The trends, uncertainties, demands, commitments and events identified below may continue or recur, impacting the Company's future financial results.

Overview of Fiscal Year 2018 Operating Performance

Honda's consolidated sales revenue for the fiscal year ended March 31, 2018 increased from the fiscal year ended March 31, 2017, due mainly to increased sales revenue in all business operations as well as positive foreign currency translation effects. Operating profit decreased from the previous fiscal year, due mainly to increased selling, general and administrative expenses, the loss related to the settlement of multidistrict class action litigation as well as one-time gain from pension plan amendments recognized in the previous fiscal year, which was partially offset by an increase in profit attributable to increased sales revenue and model mix as well as continuing cost reduction.

Motorcycle Business

Honda's consolidated unit sales of motorcycles, all-terrain vehicles (ATVs) and side-by-sides (SxS) in fiscal year 2018 totaled 12,954 thousand units, an increase of 15.3% from the previous fiscal year, due mainly to increases primarily in India and Vietnam.

Automobile Business

Honda's consolidated unit sales of automobiles totaled 3,689 thousand units in fiscal year 2018, an increase of 0.2% from the previous fiscal year, due mainly to increases in sales units primarily in Japan and Asia mainly driven by the launch of new models, which more than offset a decline in North America.

Power Product and Other Businesses

Honda's consolidated unit sales of power products in fiscal year 2018 totaled 6,262 thousand units, an increase of 2.3% from the previous fiscal year, due to an increase in sales units primarily in Asia and Other Regions.

Table of Contents***Fiscal Year 2018 Compared with Fiscal Year 2017*****Sales Revenue**

Honda's consolidated sales revenue for the fiscal year ended March 31, 2018, increased by ¥1,361.9 billion, or 9.7%, to ¥15,361.1 billion from the fiscal year ended March 31, 2017, due mainly to increased sales revenue in all business operations as well as positive foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥963.1 billion, or 6.9%, compared to the increase as reported of ¥1,361.9 billion, which includes positive foreign currency translation effects.

Operating Costs and Expenses

Operating costs and expenses increased by ¥1,369.0 billion, or 10.4%, to ¥14,527.5 billion from the previous fiscal year. Cost of sales increased by ¥1,134.7 billion, or 10.4%, to ¥12,000.5 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased consolidated sales revenue in all business operations, one-time gain from pension plan amendments recognized in the previous fiscal year as well as negative foreign currency effects. Selling, general and administrative expenses increased by ¥173.9 billion, or 10.9%, to ¥1,775.1 billion from the previous fiscal year, due mainly to the loss related to the settlement of multidistrict class action litigation as well as one-time gain from pension plan amendments recognized in the previous fiscal year. Research and development expenses increased by ¥60.4 billion, or 8.7%, to ¥751.8 billion from the previous fiscal year, due mainly to one-time gain from pension plan amendments recognized in the previous fiscal year.

Operating Profit

Operating profit decreased by ¥7.1 billion, or 0.9%, to ¥833.5 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses, the loss related to the settlement of multidistrict class action litigation as well as one-time gain from pension plan amendments recognized in the previous fiscal year, which was partially offset by an increase in profit attributable to increased sales revenue and model mix as well as continuing cost reduction. Honda estimates that by excluding positive foreign currency effects of approximately ¥21.9 billion, operating profit would have decreased by approximately ¥29.0 billion.

With respect to the discussion above of the changes, management identified 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 transaction. With respect to foreign currency adjustments, management analyzed foreign currency adjustments primarily related to the following currencies: U.S. dollar, Japanese yen and others at the level of the Company and its material consolidated subsidiaries. The estimates excluding the foreign currency effects are not on the same base as Honda's consolidated financial statements, and do not conform to IFRS. Furthermore, Honda does not believe that these measures are substitute for the disclosure required by IFRS. However, Honda believes that such estimates excluding the foreign currency effects provide financial statements users with additional useful information for understanding Honda's results.

Profit before Income Taxes

Profit before income taxes increased by ¥107.9 billion, or 10.7%, to ¥1,114.9 billion, due mainly to increased share of profit of investments accounted for using the equity method. The main factors behind this increase, except factors relating to operating profit, are as follows:

Share of profit of investments accounted for using the equity method had a positive impact of ¥82.8 billion, due mainly to an increase in profit attributable to increased sales revenue at affiliates and joint ventures in Asia.

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Finance income and finance costs had a positive impact of ¥32.2 billion, due mainly to effect from gains or losses on derivatives. For further details, see note (22) Finance Income and Finance Costs to the accompanying consolidated financial statements.

Income Tax Expense

Income tax expense decreased by ¥341.2 billion to a credit of ¥13.6 billion from the previous fiscal year, due mainly to the impacts of the enactment of the Tax Cuts and Jobs Act in the United States. The average effective tax rate decreased 33.7 percentage points to -1.2% from the previous fiscal year. For further details, see (a) Income Tax Expense of note (23) Income Taxes to the accompanying consolidated financial statements.

Profit for the Year

Profit for the year increased by ¥449.2 billion, or 66.1%, to ¥1,128.6 billion from the previous fiscal year, due mainly to the impacts of the enactment of the Tax Cuts and Jobs Act in the United States.

Profit for the Year Attributable to Owners of the Parent

Profit for the year attributable to owners of the parent increased by ¥442.7 billion, or 71.8%, to ¥1,059.3 billion from the previous fiscal year.

Profit for the Year Attributable to Non-controlling Interests

Profit for the year attributable to non-controlling interests increased by ¥6.4 billion, or 10.3%, to ¥69.3 billion from the previous fiscal year.

Business Segments**Motorcycle Business**

Honda's consolidated unit sales of motorcycles, all-terrain vehicles (ATVs) and side-by-sides (SxS) totaled 12,954 thousand units, increased by 15.3% from the previous fiscal year, due mainly to an increase in consolidated unit sales in all regions.

Sales revenue from external customers increased by ¥322.5 billion, or 18.8%, to ¥2,038.7 billion from the previous fiscal year, due mainly to increased consolidated unit sales. The impact of price changes was immaterial on sales revenue. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥246.5 billion, or 14.4%, compared to the increase as reported of ¥322.5 billion, which includes positive foreign currency translation effects.

Operating costs and expenses increased by ¥226.2 billion, or 14.6%, to ¥1,771.6 billion from the previous fiscal year. Cost of sales increased by ¥218.1 billion, or 17.5%, to ¥1,466.8 billion, due mainly to an increase in costs attributable to increased consolidated unit sales as well as one-time gain from pension plan amendments recognized in the previous fiscal year. Selling, general and administrative expenses increased by ¥3.3 billion, or 1.6%, to ¥219.4 billion, due mainly to one-time gain from pension plan amendments recognized in the previous fiscal year. Research and development expenses increased by ¥4.7 billion, or 5.9%, to ¥85.4 billion, due mainly to one-time gain from pension plan amendments recognized in the previous fiscal year.

Operating profit increased by ¥96.2 billion, or 56.4%, to ¥267.0 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales volume and model mix, which was partially offset by one-time gain from pension plan amendments recognized in the previous fiscal year.

Japan

Total industry demand for motorcycles in Japan* was approximately 370 thousand units in fiscal year 2018, which was basically unchanged from the previous fiscal year.

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Honda's consolidated unit sales in Japan increased 7.1% from the previous fiscal year to 167 thousand units in fiscal year 2018, mainly reflecting the effect of launching new models such as the *CBR250RR* and *Rebel250*.

* Source: JAMA (Japan Automobile Manufacturers Association)

North America

Total demand for motorcycles and all-terrain vehicles (ATVs) in the United States*, the principal market within North America, decreased around 3% from the previous year to approximately 680 thousand units in calendar year 2017.

Honda's consolidated unit sales in North America increased 6.5% from the previous fiscal year to 313 thousand units in fiscal year 2018. This was mainly due to the effect of launching new models such as the *Rebel300* and *Rebel500*, primarily in the United States.

* Source: MIC (Motorcycle Industry Council)

The total includes motorcycles and ATVs, but does not include side-by-sides (SxS).

Europe

Total demand for motorcycles in Europe* decreased around 7% from the previous year to approximately 850 thousand units in calendar year 2017.

Honda's consolidated unit sales in Europe increased 7.8% from the previous fiscal year to 234 thousand units in fiscal year 2018, mostly as a result of robust sales of scooter models such as the *X-ADV* model.

* Based on Honda research. Only includes the following 10 countries: the United Kingdom, Germany, France, Italy, Spain, Switzerland, Portugal, the Netherlands, Belgium and Austria.

Asia

Total demand for motorcycles in Asia* increased around 6% from the previous year to approximately 42,300 thousand units in calendar year 2017.

Looking at market conditions by country, in calendar year 2017, demand in India increased about 8% from the previous year to approximately 19,170 thousand units. Demand in China decreased around 1% from the previous year to approximately 7,930 thousand units. Demand in Indonesia increased around 2% from the previous year to approximately 6,310 thousand units. Vietnam saw demand increase around 5% from the previous year to approximately 3,260 thousand units. Demand in Pakistan increased around 18% from the previous year to approximately 1,960 thousand units. Demand in Thailand increased around 4% from the previous year to approximately 1,810 thousand units.

Honda's consolidated unit sales in Asia increased 16.9% from the previous fiscal year to 11,120 thousand units in fiscal year 2018. This was due to brisk sales of scooter models such as the *Activa* in India and the *Vision* in Vietnam, among other factors.

Honda's consolidated unit sales do not include sales by P.T. Astra Honda Motor in Indonesia, which is accounted for using the equity method. P.T. Astra Honda Motor's unit sales for fiscal year 2018 increased around 0.4% from the previous fiscal year to approximately 4,380 thousand units due mainly to an increase in sales of the *Scoopy* model, despite decreases in sales of the *Vario* series and other models.

* Based on Honda research. Only includes the following eight countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, India, Pakistan and China.

Table of Contents**Other Regions**

Total demand for motorcycles in Brazil*, the principal market within Other Regions, decreased about 5% from the previous year to approximately 810 thousand units in calendar year 2017.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales increased 6.0% from the previous fiscal year to 1,120 thousand units in fiscal year 2018 due mainly to an increase in Argentina, despite a decrease in Brazil.

* Source: ABRACICLO (the Brazilian Association of Motorcycle, Moped, and Bicycle Manufacturers)

Automobile Business

Honda's consolidated unit sales of automobiles totaled 3,689 thousand units, increased by 0.2% from the previous fiscal year, due mainly to an increase in consolidated unit sales in Asia.

Sales revenue from external customers increased by ¥765.3 billion, or 7.6%, to ¥10,852.1 billion from the previous fiscal year, due mainly to increased consolidated unit sales as well as positive foreign currency translation effects. The impact of price changes was immaterial on sales revenue. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥495.1 billion, or 4.9%, compared to the increase as reported of ¥765.3 billion, which includes positive foreign currency translation effects. Sales revenue including intersegment sales increased by ¥788.5 billion, or 7.7%, to ¥11,045.2 billion from the previous fiscal year.

Operating costs and expenses increased by ¥915.8 billion, or 9.4%, to ¥10,671.3 billion from the previous fiscal year. Cost of sales increased by ¥703.7 billion, or 8.9%, to ¥8,651.3 billion, due mainly to an increase in costs attributable to increased consolidated unit sales, one-time gain from pension plan amendments recognized in the previous fiscal year as well as negative foreign currency effects. Selling, general and administrative expenses increased by ¥155.9 billion, or 12.7%, to ¥1,379.5 billion, due mainly to the loss related to the settlement of multidistrict class action litigation as well as one-time gain from pension plan amendments recognized in the previous fiscal year. Research and development expenses increased by ¥56.2 billion, or 9.6%, to ¥640.5 billion, due mainly to one-time gain from pension plan amendments recognized in the previous fiscal year.

Operating profit decreased by ¥127.3 billion, or 25.4%, to ¥373.8 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses, the loss related to the settlement of multidistrict class action litigation as well as one-time gain from pension plan amendments recognized in the previous fiscal year, which was partially offset by continuing cost reduction as well as an increase in profit attributable to increased sales volume and model mix.

Proportion of retail unit sales by vehicle category and principal automobile products:

	Fiscal year ended March 31,	
	2017	2018
Passenger cars:	51%	50%

Accord, City, Civic, Crider, Fit/Jazz

Light trucks: <i>CR-V, Freed, Odyssey, Pilot, Vezel/HR-V, XR-V</i>	43%	44%
Mini vehicles: <i>N-BOX</i>	6%	6%

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Although there are various factors that affect the profitability of each vehicle category, sales price is an important factor in determining profitability. In general, the weighted average sales price in the light trucks category is higher relative to the total average sales price, while the weighted average sales price in the mini vehicles category, which is unique to the Japanese market, is relatively lower, although sales price varies from model to model.

In general, the contribution margin of the light trucks category tends to be higher relative to the total weighted average contribution margin because the sales price is higher, while the contribution margin of the mini vehicles category tends to be relatively lower because the sales price is lower, although the level of contribution margin varies from model to model. For example, in Japan and the United States, which are the main sales markets for our automobiles, the contribution margin of our light trucks category was approximately 35% higher, our passenger cars category was approximately 20% lower and our mini vehicles category was approximately 55% lower than total weighted average contribution margin for the fiscal year ended March 31, 2018. It should be noted that we define contribution margin as an amount per unit of net sales minus material cost, which is thought to increase in almost direct proportion to net sales volume.

Japan

Total demand for automobiles in Japan*¹ increased around 2% from the previous fiscal year to approximately 5,190 thousand units in fiscal year 2018.

Honda's consolidated unit sales in Japan increased 4.0% from the previous fiscal year to 627 thousand units*² in fiscal year 2018. This was mainly due to the effect of a full model change of the *N-BOX* model.

Honda's unit production of automobiles in Japan increased 2.3% from the previous fiscal year to 829 thousand units in fiscal year 2018. This was mainly due to an increase in domestic sales volume, despite a decrease in export volume.

*¹ Source: JAMA (Japan Automobile Manufacturers Association), as measured by the number of regular vehicle registrations (661cc or higher) and mini vehicles (660cc or lower)

*² Certain sales of automobiles that are financed with residual value type auto loans by our Japanese finance subsidiaries and sold through our consolidated subsidiaries are accounted for as operating leases in conformity with IFRS and are not included in consolidated sales revenue to external customers in the Automobile business. Accordingly, they are not included in consolidated unit sales.

North America

Total industry demand for automobiles in the United States*, the principal market within North America, decreased around 2% from the previous year to approximately 17,230 thousand units in calendar year 2017. This result reflected decreased demand for passenger cars, which offset a continued increase for light trucks due to the introduction of new models.

Under these conditions, Honda's consolidated unit sales in North America decreased 3.5% from the previous fiscal year to 1,902 thousand units in fiscal year 2018. This decrease was mainly attributable to a decline in sales volume of passenger cars, which offset an increase for the *Pilot* model.

Honda manufactured 1,864 thousand units in fiscal year 2018, a decrease of 3.7% from the previous fiscal year. This decrease mainly reflected production adjustments following a decrease in demand for passenger cars, which offset an increase for light trucks.

* Source: Autodata

Table of Contents**Europe**

Total demand for automobiles in Europe* increased about 3% from the previous year to approximately 15,630 thousand units in calendar year 2017, mainly driven by the gradual recovery in economic conditions.

Honda's consolidated unit sales in Europe decreased 0.5% from the previous fiscal year to 183 thousand units in fiscal year 2018. This was mainly due to decreased sales of the *CR-V* model.

Unit production at Honda's U.K. plant in fiscal year 2018 increased 10.0% from the previous fiscal year to 164 thousand units, mainly due to an increase in exports of the *Civic Hatchback* model to North America.

* Source: ACEA (Association des Constructeurs Europeens d'Automobiles (the European Automobile Manufacturers Association)) New passenger car registrations cover 28 EU countries and three EFTA countries.

Asia

Total demand for automobiles in Asia increased around 7% from the previous year to approximately 7,950 thousand units*¹ in calendar year 2017. This was mainly due to increases in demand in India and Thailand. Total demand for automobiles in China increased about 3% from the previous calendar year to approximately 28,870 thousand units*².

Honda's consolidated unit sales in Asia increased 6.0% from the previous fiscal year to 725 thousand units in fiscal year 2018. This increase was mainly attributable to the effect of a full model change of the *CR-V* model in Thailand and the new *BR-V* model in Pakistan, despite a decline in sales in Indonesia.

Honda's consolidated unit sales do not include unit sales of Dongfeng Honda Automobile Co., Ltd. and GAC Honda Automobile Co., Ltd., both of which are joint ventures accounted for using the equity method in China. Unit sales in China increased 12.7% from the previous fiscal year to 1,443 thousand units in fiscal year 2018. The increase was mainly attributable to the effect of launching the new *UR-V* model and brisk sales of the *Avancier* and *Civic* models.

Honda's unit production by consolidated subsidiaries in Asia increased 6.1% from the previous fiscal year to 798 thousand units*³ in fiscal year 2018.

Meanwhile, unit production by Chinese joint ventures Dongfeng Honda Automobile Co., Ltd. and GAC Honda Automobile Co., Ltd. increased 15.2% from the previous fiscal year to 1,451 thousand units in fiscal year 2018.

*¹ The total is based on Honda research and includes the following eight countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Taiwan, India and Pakistan.

*² Source: CAAM (China Association of Automobile Manufacturers)

*³ The total includes the following nine countries: China, Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Taiwan, India and Pakistan.

Other Regions

Total industry demand for automobiles in Brazil, the principal market within Other Regions, increased around 9% from the previous year to approximately 2,170 thousand units* in calendar year 2017. The increase was supported by the recovery of business sentiment.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales increased 4.1% from the previous fiscal year to 252 thousand units in fiscal year 2018. The increase mainly reflected the effect of launching the new *WR-V* model in Brazil.

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Unit production at Honda's plant in Brazil increased 14.7% from the previous fiscal year to 138 thousand units in fiscal year 2018.

* Source: ANFAVEA (Associação Nacional dos Fabricantes de Veículos Automotores (the Brazilian Automobile Association)) The total includes passenger cars and light commercial vehicles.

Financial Services Business

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

Total amount of receivables from financial services and equipment on operating leases of finance subsidiaries on March 31, 2018, is ¥9,046.1 billion, which is basically unchanged from March 31, 2017. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, total amount of receivables from financial services and equipment on operating leases of finance subsidiaries as of March 31, 2018 would have increased by approximately ¥360.9 billion, or 4.0%, compared to the previous fiscal year.

Sales revenue from external customers increased by ¥245.1 billion, or 13.1%, to ¥2,123.1 billion from the previous fiscal year, due mainly to increased revenues on disposition of lease vehicles and operating lease revenues. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥201.7 billion, or 10.7%, compared to the increase as reported of ¥245.1 billion, which includes positive foreign currency translation effects. Sales revenue including intersegment sales increased by ¥245.9 billion, or 13.0%, to ¥2,137.2 billion from the previous fiscal year.

Operating costs and expenses increased by ¥228.3 billion, or 13.3%, to ¥1,941.1 billion from the previous fiscal year. Cost of sales increased by ¥217.6 billion, or 13.5%, to ¥1,826.3 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased revenues on disposition of lease vehicles and operating lease revenues. Selling, general and administrative expenses increased by ¥10.6 billion, or 10.3%, to ¥114.8 billion.

Operating profit increased by ¥17.6 billion, or 9.9%, to ¥196.0 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales revenue.

Power Product and Other Businesses

Honda's consolidated unit sales of power products totaled 6,262 thousand units, increased by 2.3% from the previous fiscal year, due mainly to increased consolidated unit sales in Asia and Other Regions.

Sales revenue from external customers increased by ¥28.9 billion, or 9.1%, to ¥347.0 billion from the previous fiscal year, due mainly to increased consolidated unit sales in power products as well as positive foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥19.7 billion, or 6.2%, compared to the increase as reported of ¥28.9 billion, which includes positive foreign currency translation effects. Sales revenue including intersegment sales increased by ¥21.4 billion, or 6.1%, to ¥371.1 billion from the previous fiscal year.

Operating costs and expenses increased by ¥15.1 billion, or 4.2%, to ¥374.5 billion from the previous fiscal year. Cost of sales increased by ¥11.7 billion, or 4.3%, to ¥287.2 billion, due mainly to an increase in costs

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attributable to increased consolidated unit sales in Power product business, one-time gain from pension plan amendments recognized in the previous fiscal year as well as negative foreign currency effects. Selling, general and administrative expenses increased by ¥3.9 billion, or 6.8%, to ¥61.3 billion, due mainly to one-time gain from pension plan amendments recognized in the previous fiscal year. Research and development expenses decreased by ¥0.5 billion, or 2.0%, to ¥25.9 billion from the previous fiscal year, despite one-time gain from pension plan amendments recognized in the previous fiscal year.

Operating loss was ¥3.3 billion, an improvement of ¥6.2 billion from the previous fiscal year, due mainly to a decrease in operating costs in Other businesses, which was partially offset by one-time gain from pension plan amendments recognized in the previous fiscal year. In addition, operating loss of aircraft and aircraft engines included in the Power product and other businesses segment was ¥41.8 billion, an improvement of ¥1.9 billion from the previous fiscal year.

Japan

Honda's consolidated unit sales in power product business operations in Japan decreased 0.3% from the previous fiscal year to 300 thousand units in fiscal year 2018 mainly due to a decline in sales of tillers, despite an increase in sales of OEM engines* and other factors.

* OEM (Original Equipment Manufacturer) engines: refers to engines installed on products sold under a third-party brand.

North America

Honda's consolidated unit sales in North America increased 1.2% from the previous fiscal year to 3,012 thousand units in fiscal year 2018 mainly attributable to an increase in sales of generators.

Europe

Honda's consolidated unit sales in Europe decreased 1.3% from the previous fiscal year to 1,022 thousand units in fiscal year 2018 mainly due to decreases in sales of lawnmowers and trimmers, despite an increase in sales of OEM engines and other factors.

Asia

Honda's consolidated unit sales in Asia increased 5.7% from the previous fiscal year to 1,512 thousand units in fiscal year 2018. This was mainly due to increases in sales of OEM engines and pumps.

Other Regions

Honda's consolidated unit sales in Other Regions (including South America, the Middle East, Africa, Oceania and other areas) increased 10.1% from the previous fiscal year to 416 thousand units in fiscal year 2018 mainly due to increases in sales of pumps and lawnmowers.

Geographical Information***Japan***

In Japan, sales revenue from domestic and export sales increased by ¥367.2 billion, or 8.9%, to ¥4,480.6 billion from the previous fiscal year, due mainly to increased sales revenue in all business operations. Operating profit decreased by ¥17.6 billion, or 16.9%, to ¥86.9 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses as well as one-time gain from pension plan amendments recognized in the previous fiscal year, which was partially offset by an increase in profit attributable to increased sales revenue and model mix as well as positive foreign currency effects.

Table of Contents***North America***

In North America, where the United States is the principal market, sales revenue increased by ¥486.5 billion, or 6.0%, to ¥8,584.6 billion from the previous fiscal year, due mainly to increased sales revenue in all business operations. Operating profit decreased by ¥120.2 billion, or 30.2%, to ¥278.4 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses as well as the loss related to the settlement of multidistrict class action litigation, which was partially offset by continuing cost reduction.

Europe

In Europe, sales revenue increased by ¥127.8 billion, or 16.2%, to ¥917.2 billion from the previous fiscal year, due mainly to increased sales revenue in the Automobile business and Motorcycle business. Operating profit increased by ¥3.7 billion, or 30.8%, to ¥15.8 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales revenue and model mix.

Asia

In Asia, sales revenue increased by ¥764.9 billion, or 22.1%, to ¥4,221.0 billion from the previous fiscal year, due mainly to increased sales revenue in the Automobile business and Motorcycle business. Operating profit increased by ¥71.1 billion, or 21.5%, to ¥402.6 billion from the previous fiscal year, due mainly to continuing cost reduction as well as an increase in profit attributable to increased sales revenue and model mix.

Other Regions

In Other Regions, sales revenue increased by ¥104.0 billion, or 14.2%, to ¥837.5 billion from the previous fiscal year, due mainly to increased sales revenue in the Automobile business and Motorcycle business. Operating profit increased by ¥14.8 billion, or 51.1%, to ¥43.8 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales revenue and model mix.

Fiscal Year 2017 Compared with Fiscal Year 2016**Sales Revenue**

Honda's consolidated sales revenue for the fiscal year ended March 31, 2017, decreased by ¥601.9 billion, or 4.1%, to ¥13,999.2 billion from the fiscal year ended March 31, 2016, due mainly to negative foreign currency translation effects, which was partially offset by increased consolidated unit sales in all business operations as well as an increase in sales revenue in the Financial services business. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥722.6 billion, or 4.9%, compared to the decrease as reported of ¥601.9 billion, which includes negative foreign currency translation effects.

Operating Costs and Expenses

Operating costs and expenses decreased by ¥939.2 billion, or 6.7%, to ¥13,158.4 billion from the previous fiscal year. Cost of sales decreased by ¥466.5 billion, or 4.1%, to ¥10,865.8 billion from the previous fiscal year, due mainly to the impact of pension plan amendments as well as positive foreign currency effects, which was partially offset by an increase in costs attributable to increased consolidated unit sales in all business operations. Selling, general and administrative expenses decreased by ¥507.6 billion, or 24.1%, to ¥1,601.2 billion from the previous fiscal year, due

mainly to decreased product warranty expenses as well as the impact of pension plan amendments. Research and development expenses increased by ¥34.9 billion, or 5.3%, to ¥691.4 billion from the previous fiscal year, which was partially offset by a decrease in costs attributable to the impact of pension plan amendments.

Table of Contents**Operating Profit**

Operating profit increased by ¥337.3 billion, or 67.0%, to ¥840.7 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses including product warranty expenses, continuing cost reduction, increase in profit attributable to increased sales revenue and model mix as well as the impact of pension plan amendments, which was partially offset by an increase in research and development expenses as well as negative foreign currency effects. Honda estimates that by excluding negative foreign currency effects of approximately ¥283.2 billion, operating profit would have increased by approximately ¥620.5 billion.

With respect to the discussion above of the changes, management identified 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 transaction. With respect to foreign currency adjustments, management analyzed foreign currency adjustments primarily related to the following currencies: U.S. dollar, Japanese yen and others at the level of the Company and its material consolidated subsidiaries. The estimates excluding the foreign currency effects are not on the same base as Honda's consolidated financial statements, and do not conform to IFRS. Furthermore, Honda does not believe that these measures are substitute for the disclosure required by IFRS. However, Honda believes that such estimates excluding the foreign currency effects provide financial statements users with additional useful information for understanding Honda's results.

Profit before Income Taxes

Profit before income taxes increased by ¥371.5 billion, or 58.5%, to ¥1,006.9 billion. The main factors behind this increase, except factors relating to operating profit, are as follows:

Share of profit of investments accounted for using the equity method had a positive impact of ¥38.7 billion, due mainly to an increase in profit attributable to increased sales revenue at affiliates and joint ventures in Asia.

Finance income and finance costs had a negative impact of ¥4.5 billion, due mainly to effect from gains or losses on derivatives. For further details, see note (22) Finance Income and Finance Costs to the accompanying consolidated financial statements.

Income Tax Expense

Income tax expense increased by ¥98.5 billion, or 43.0%, to ¥327.5 billion from the previous fiscal year. The average effective tax rate decreased 3.6 percentage points to 32.5% from the previous fiscal year. For further details, see (a) Income Tax Expense of note (23) Income Taxes to the accompanying consolidated financial statements.

Profit for the Year

Profit for the year increased by ¥273.0 billion, or 67.2%, to ¥679.3 billion from the previous fiscal year.

Profit for the Year Attributable to Owners of the Parent

Profit for the year attributable to owners of the parent increased by ¥272.0 billion, or 79.0%, to ¥616.5 billion from the previous fiscal year.

Profit for the Year Attributable to Non-controlling Interests

Profit for the year attributable to non-controlling interests increased by ¥0.9 billion, or 1.6%, to ¥62.8 billion from the previous fiscal year.

Table of Contents**Business Segments****Motorcycle Business**

Honda's consolidated unit sales of motorcycles and all-terrain vehicles (ATVs) totaled 11,237 thousand units, increased by 6.3% from the previous fiscal year, due mainly to an increase in consolidated unit sales in Asia, which was partially offset by a decrease in Other Regions.

Sales revenue from external customers decreased by ¥89.2 billion, or 4.9%, to ¥1,716.1 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was partially offset by an increase in consolidated unit sales. The impact of price changes was immaterial on sales revenue. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥101.5 billion, or 5.6%, compared to the decrease as reported of ¥89.2 billion, which includes negative foreign currency translation effects.

Operating costs and expenses decreased by ¥78.2 billion, or 4.8%, to ¥1,545.4 billion from the previous fiscal year. Cost of sales decreased by ¥63.8 billion, or 4.9%, to ¥1,248.6 billion, due mainly to the impact of pension plan amendments as well as positive foreign currency effects, which was partially offset by an increase in costs attributable to increased consolidated unit sales. Selling, general and administrative expenses decreased by ¥8.4 billion, or 3.7%, to ¥216.0 billion, due mainly to a decrease in costs attributable to the impact of pension plan amendments as well as positive foreign currency effects. Research and development expenses decreased by ¥5.9 billion, or 6.9%, to ¥80.6 billion, due mainly to a decrease in costs attributable to the impact of pension plan amendments.

Operating profit decreased by ¥11.0 billion, or 6.1%, to ¥170.7 billion from the previous fiscal year, due mainly to negative foreign currency effects, which was partially offset by continuing cost reduction as well as the impact of pension plan amendments.

Japan

Total industry demand for motorcycles in Japan* decreased by around 6% from the previous fiscal year to approximately 370 thousand units in fiscal year 2017.

Honda's consolidated unit sales in Japan declined 13.3% from the previous fiscal year to 156 thousand units in fiscal year 2017, mainly reflecting an overall decline in unit sales of 50cc scooter models.

* Source: JAMA (Japan Automobile Manufacturers Association)

North America

Total demand for motorcycles and all-terrain vehicles (ATVs) in the United States*, the principal market within North America, decreased around 3% from the previous year to approximately 700 thousand units in calendar year 2016.

Honda's consolidated unit sales in North America decreased 4.5% from the previous fiscal year to 294 thousand units in fiscal year 2017. This was mainly due to a decrease in sales of ATVs, which was partially offset by increased sales of side-by-side (SxS) models, centered on the *Pioneer 1000*, primarily in the United States.

* Source: MIC (Motorcycle Industry Council)

The total includes motorcycles and ATVs, but does not include side-by-side (SxS) models.

Europe

Total demand for motorcycles in Europe* increased around 12% from the previous year to approximately 910 thousand units in calendar year 2016.

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Honda's consolidated unit sales in Europe increased 6.4% from the previous fiscal year to 217 thousand units in fiscal year 2017, mostly as a result of robust sales of the *CRF1000L Africa Twin* model.

* Based on Honda research. Only includes the following 10 countries: the United Kingdom, Germany, France, Italy, Spain, Switzerland, Portugal, the Netherlands, Belgium and Austria.

Asia

Total demand for motorcycles in Asia* increased around 2% from the previous year to approximately 39,760 thousand units in calendar year 2016.

Looking at market conditions by country, in calendar year 2016, demand in India increased about 10% from the previous year to approximately 17,670 thousand units. Demand in China decreased around 13% from the previous year to approximately 8,040 thousand units. Demand in Indonesia decreased around 8% from the previous year to approximately 5,930 thousand units. Vietnam saw demand increase around 10% from the previous year to approximately 3,120 thousand units. Demand in Thailand increased around 4% from the previous year to approximately 1,740 thousand units. Demand in Pakistan increased around 9% from the previous year to approximately 1,660 thousand units.

Honda's consolidated unit sales in Asia increased 10.0% from the previous fiscal year to 9,513 thousand units in fiscal year 2017. This was due to brisk sales of scooter models such as the *Activa* in India and the *Vision* in Vietnam, among other factors.

Honda's consolidated unit sales do not include sales by P.T. Astra Honda Motor in Indonesia, which is accounted for using the equity method. P.T. Astra Honda Motor's unit sales for fiscal year 2017 decreased around 2% from the previous fiscal year to approximately 4,370 thousand units due mainly to lackluster overall market conditions, despite increases in motorcycle models such as the *CBR150R* and *CB150R* models, among others.

* Based on Honda research. Only includes the following eight countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, India, Pakistan and China.

Other Regions

Total demand for motorcycles in Brazil*, the principal market within Other Regions, declined significantly by about 28% from the previous year to approximately 850 thousand units in calendar year 2016, mainly due to a continued slump in economic conditions.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales decreased 14.1% from the previous fiscal year to 1,057 thousand units in fiscal year 2017, mainly reflecting the overall market slump in Brazil.

* Source: ABRACICLO (the Brazilian Association of Motorcycle, Moped, and Bicycle Manufacturers)

Automobile Business

Honda's consolidated unit sales of automobiles totaled 3,683 thousand units, increased by 1.3% from the previous fiscal year, due mainly to an increase in consolidated unit sales in North America and Asia.

Sales revenue from external customers decreased by ¥538.5 billion, or 5.1%, to ¥10,086.8 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was partially offset by increased consolidated unit sales. The impact of price changes was immaterial on sales revenue. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue

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for the year would have increased by approximately ¥400.7 billion, or 3.8%, compared to the decrease as reported of ¥538.5 billion, which includes negative foreign currency translation effects. Sales revenue including intersegment sales decreased by ¥511.0 billion, or 4.7%, to ¥10,256.6 billion from the previous fiscal year.

Operating costs and expenses decreased by ¥858.8 billion, or 8.1%, to ¥9,755.4 billion from the previous fiscal year. Cost of sales decreased by ¥402.9 billion, or 4.8%, to ¥7,947.6 billion, due mainly to the impact of pension plan amendments as well as positive foreign currency effects, which was partially offset by an increase in costs attributable to increased consolidated unit sales. Selling, general and administrative expenses decreased by ¥500.1 billion, or 29.0%, to ¥1,223.5 billion, due mainly to decreased product warranty expenses as well as the impact of pension plan amendments. Research and development expenses increased by ¥44.3 billion, or 8.2%, to ¥584.3 billion, which was partially offset by the impact of pension plan amendments.

Operating profit increased by ¥347.8 billion, or 226.8%, to ¥501.1 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses including product warranty expenses, continuing cost reduction, an increase in profit attributable to increased sales volume and model mix as well as the impact of pension plan amendments, which was partially offset by an increase in research and development expenses as well as negative foreign currency effects.

Proportion of retail unit sales by vehicle category and principal automobile products:

	Fiscal year ended March 31,	
	2016	2017
Passenger cars: <i>Accord, Brio, City, Civic, Fit/Jazz</i>	52%	51%
Light trucks: <i>CR-V, Odyssey, Pilot, Vezel/HR-V, XR-V</i>	41%	43%
Mini vehicles: <i>N-BOX</i>	7%	6%

Although there are various factors that affect the profitability of each vehicle category, sales price is an important factor in determining profitability. In general, the weighted average sales price in the light trucks category is higher relative to the total average sales price, while the weighted average sales price in the mini vehicles category, which is unique to the Japanese market, is relatively lower, although sales price varies from model to model.

In general, the contribution margin of the light trucks category tends to be higher relative to the total weighted average contribution margin because the sales price is higher, while the contribution margin of the mini vehicles category tends to be relatively lower because the sales price is lower, although the level of contribution margin varies from model to model. For example, in Japan and the United States, which are the main sales markets for our automobiles, the contribution margin of our light trucks category was approximately 30% higher, our passenger cars category was approximately 15% lower and our mini vehicles category was approximately 50% lower than total weighted average contribution margin for the fiscal year ended March 31, 2017. It should be noted that we define contribution margin as an amount per unit of net sales minus material cost, which is thought to increase in almost direct proportion to net sales volume.

Japan

Total demand for automobiles in Japan*¹ increased around 3% from the previous fiscal year to approximately 5,070 thousand units in fiscal year 2017.

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Honda's consolidated unit sales in Japan decreased 1.8% from the previous fiscal year to 603 thousand units² in fiscal year 2017. This was mainly due to a decline in sales of the *Step WGN*, which outweighed the effect of a full model change of the *Freed* model and other factors.

Honda's unit production of automobiles in fiscal year 2017 increased 6.5% from the previous fiscal year to 810 thousand units. This was mainly due to an increase in export volume.

*1 Source: JAMA (Japan Automobile Manufacturers Association), as measured by the number of regular vehicle registrations (661cc or higher) and mini vehicles (660cc or lower)

*2 Certain sales of automobiles that are financed with residual value type auto loans by our Japanese finance subsidiaries and sold through our consolidated subsidiaries are accounted for as operating leases in conformity with IFRS and are not included in consolidated sales revenue to external customers in the Automobile business. Accordingly, they are not included in consolidated unit sales.

North America

Total industry demand for automobiles in the United States*, the principal market within North America, was around the same level as the previous year at approximately 17,550 thousand units in calendar year 2016. This result reflected continued strong demand for light trucks, which offset a decrease for passenger cars which were fiercely competitive.

Under these conditions, Honda's consolidated unit sales in North America increased 2.1% from the previous fiscal year to 1,970 thousand units in fiscal year 2017. This increase was mainly attributable to the effect of launching the new *Civic Hatchback* model, and a full model change of the *Ridgeline* model, which offset a decline in sales volume of the *Accord* model.

Honda manufactured 1,937 thousand units in fiscal year 2017, an increase of 0.9% from the previous fiscal year. This increase mainly reflected increased production of *HR-V* model at the plant in Mexico.

* Source: Autodata

Europe

Total demand for automobiles in Europe* increased about 7% from the previous year to approximately 15,130 thousand units in calendar year 2016, mainly driven by the gradual recovery in economic conditions.

Honda's consolidated unit sales in Europe increased 7.0% from the previous fiscal year to 184 thousand units in fiscal year 2017. This was mainly due to brisk sales of the *HR-V* model.

Unit production at Honda's U.K. plant in fiscal year 2017 increased dramatically by 30.1% from the previous fiscal year to 149 thousand units, mainly due to the start of exports of the *Civic Hatchback* model to North America.

* Source: ACEA (Association des Constructeurs Europeens d Automobiles (the European Automobile Manufacturers Association)) New passenger car registrations cover 28 EU countries and three EFTA countries.

Asia

Total demand for automobiles in Asia increased around 4% from the previous year to approximately 7,390 thousand units*¹ in calendar year 2016. This was mainly due to an increase in demand in India despite a decrease in Malaysia and other places. Total demand for automobiles in China increased about 14% from the previous calendar year to approximately 28,020 thousand units*².

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Honda's consolidated unit sales in Asia outside Japan increased 2.1% from the previous fiscal year to 684 thousand units in fiscal year 2017. This increase was mainly attributable to brisk sales of the new *BR-V* model in Indonesia, and the effect of a full model change of the *Civic* model in Pakistan, despite a decline in sales in India.

Honda's consolidated unit sales do not include unit sales of Dongfeng Honda Automobile Co., Ltd. and Guangqi Honda Automobile Co., Ltd., both of which are joint ventures accounted for using the equity method in China. Unit sales in China increased 21.5% from the previous fiscal year to 1,280 thousand units in fiscal year 2017. The increase was mainly attributable to strong sales of the fully remodeled *Civic*, the effect of launching the new *Avancier* and *Gienia* models, and brisk sales of the *XR-V* and *Vezel* models.

Honda's unit production by consolidated subsidiaries in Asia increased 4.7% from the previous fiscal year to 752 thousand units*³ in fiscal year 2017.

Meanwhile, unit production by Chinese joint ventures Dongfeng Honda Automobile Co., Ltd. and Guangqi Honda Automobile Co., Ltd. increased 20.0% from the previous fiscal year to 1,259 thousand units in fiscal year 2017.

*¹ The total is based on Honda research and includes the following eight countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Taiwan, India and Pakistan.

*² Source: CAAM (China Association of Automobile Manufacturers)

*³ The total includes the following nine countries: China, Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Taiwan, India and Pakistan.

Other Regions

Total industry demand for automobiles in Brazil, the principal market within Other Regions, decreased around 20% from the previous year to approximately 1,980 thousand units* in calendar year 2016. The decrease was mainly due to continued instability in the economic environment.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales decreased 3.6% from the previous fiscal year to 242 thousand units in fiscal year 2017. The decrease mainly reflected a decrease in unit sales in Brazil.

Unit production at Honda's plant in Brazil decreased 16.5% from the previous fiscal year to 120 thousand units in fiscal year 2017.

* Source: ANFAVEA (Associação Nacional dos Fabricantes de Veículos Automotores (the Brazilian Automobile Association)). Includes passenger cars and light commercial vehicles.

Financial Services Business

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

Total amount of receivables from financial services and equipment on operating leases of finance subsidiaries on March 31, 2017 increased by ¥368.0 billion, or 4.2%, to ¥9,054.2 billion from the March 31, 2016. Honda estimates

that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, total amount of receivables from financial services and equipment on operating leases of finance subsidiaries as of March 31, 2017 would have increased by approximately ¥434.8 billion, or 5.0%, compared to the increase as reported of ¥368.0 billion, which includes negative foreign currency translation effects.

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Sales revenue from external customers increased by ¥42.4 billion, or 2.3%, to ¥1,878.0 billion from the previous fiscal year, due mainly to an increase in operating lease revenues and revenues on disposition of lease vehicles, which was partially 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, sales revenue for the year would have increased by approximately ¥210.9 billion, or 11.5%, compared to the increase as reported of ¥42.4 billion, which includes negative foreign currency translation effects. Sales revenue including intersegment sales increased by ¥41.5 billion, or 2.2%, to ¥1,891.2 billion from the previous fiscal year.

Operating costs and expenses increased by ¥62.4 billion, or 3.8%, to ¥1,712.8 billion from the previous fiscal year. Cost of sales increased by ¥61.5 billion, or 4.0%, to ¥1,608.7 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased operating lease revenues and revenues on disposition of lease vehicles. Selling, general and administrative expenses increased by ¥0.9 billion, or 0.9%, to ¥104.1 billion.

Operating profit decreased by ¥20.9 billion, or 10.5%, to ¥178.4 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses as well as negative foreign currency effects, which was partially offset by an increase in profit attributable to increased sales revenue.

Power Product and Other Businesses

Honda's consolidated unit sales of power products totaled 6,121 thousand units, increased by 2.6% from the previous fiscal year, due mainly to an increase in consolidated unit sales in North America and Asia, which was partially offset by a decrease in Japan and Other Regions.

Sales revenue from external customers decreased by ¥16.5 billion, or 5.0%, to ¥318.1 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was partially offset by increased sales revenue in Other businesses. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥9.4 billion, or 2.8%, compared to the decrease as reported of ¥16.5 billion, which includes negative foreign currency translation effects. Sales revenue including intersegment sales decreased by ¥2.5 billion, or 0.7%, to ¥349.6 billion from the previous fiscal year.

Operating costs and expenses decreased by ¥24.0 billion, or 6.3%, to ¥359.3 billion from the previous fiscal year. Cost of sales decreased by ¥20.5 billion, or 7.0%, to ¥275.4 billion, due mainly to a decrease in operating costs in Other businesses as well as the impact of pension plan amendments. Selling, general and administrative expenses totaled to ¥57.4 billion basically unchanged from the previous fiscal year. Research and development expenses decreased by ¥3.4 billion, or 11.4%, to ¥26.4 billion, due mainly to a decrease in costs attributable to the impact of pension plan amendments.

Operating loss was ¥9.6 billion, an improvement of ¥21.4 billion from the previous fiscal year, due mainly to a decrease in operating costs in Other businesses as well as the impact of pension plan amendments, which was partially offset by negative foreign currency effects. In addition, operating loss of aircraft and aircraft engines included in the Power product and other businesses segment was ¥43.8 billion, an improvement of ¥27.2 billion from the previous fiscal year.

Japan

Honda's consolidated unit sales in power product business operations in Japan decreased 17.1% from the previous fiscal year to 301 thousand units in fiscal year 2017 mainly due to a decline in sales of OEM engines* and snow blowers, among other factors.

- * OEM (Original Equipment Manufacturer) engines: refers to engines installed on products sold under a third-party brand.

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North America

Honda's consolidated unit sales in North America increased 5.9% from the previous fiscal year to 2,977 thousand units in fiscal year 2017. This was mainly attributable to an increase in sales of OEM engines and generators.

Europe

Honda's consolidated unit sales in Europe increased 2.7% from the previous fiscal year to 1,035 thousand units in the fiscal year 2017. This was mostly due to increases in sales of OEM engines and cordless trimmers.

Asia

Honda's consolidated unit sales in Asia increased 6.0% from the previous fiscal year to 1,430 thousand units in fiscal year 2017. This was mainly due to an increase in sales of OEM engines, despite a decrease in sales of water pumps and other factors.

Other Regions

Honda's consolidated unit sales in Other Regions (including South America, the Middle East, Africa, Oceania and other areas) decreased 12.9% from the previous fiscal year to 378 thousand units in fiscal year 2017. This was mainly due to a decrease in sales of OEM engines.

Geographical Information

Japan

In Japan, sales revenue from domestic and export sales increased by ¥184.8 billion, or 4.7%, to ¥4,113.4 billion from the previous fiscal year, due mainly to an increase in sales revenue in the Automobile business and Financial services business. Operating profit was ¥104.5 billion, an increase of ¥203.2 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses including product warranty expenses, an increase in profit attributable to increased sales revenue and model mix as well as the impact of pension plan amendments, which was partially offset by increased research and development expenses as well as negative foreign currency effects.

North America

In North America, where the United States is the principal market, sales revenue decreased by ¥439.0 billion, or 5.1%, to ¥8,098.0 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was partially offset by an increase in sales revenue in the Automobile business and Financial services business. Operating profit increased by ¥187.8 billion, or 89.1%, to ¥398.7 billion from the previous fiscal year, due mainly to decreased selling, general and administrative expenses including product warranty expenses, continuing cost reduction as well as an increase in profit attributable to increased sales revenue and model mix, which was partially offset by negative foreign currency effects.

Europe

In Europe, sales revenue increased by ¥13.3 billion, or 1.7%, to ¥789.3 billion from the previous fiscal year, due mainly to an increase in sales revenue in the Automobile business, which was partially offset by negative foreign currency translation effects. Operating profit decreased by ¥6.6 billion, or 35.4%, to ¥12.1 billion from the previous

fiscal year, due mainly to increased expenses for incentives, which was partially offset by an increase in profit attributable to increased sales revenue.

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In Asia, sales revenue decreased by ¥79.3 billion, or 2.2%, to ¥3,456.0 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was partially offset by an increase in sales revenue in the Automobile business and Motorcycle business. Operating profit decreased by ¥4.0 billion, or 1.2%, to ¥331.4 billion from the previous fiscal year, due mainly to and negative foreign currency effects, which was partially offset by continuing cost reduction as well as decreased selling, general and administrative expenses including product warranty expenses.

Other Regions

In Other Regions, sales revenue decreased by ¥75.1 billion, or 9.3%, to ¥733.4 billion from the previous fiscal year, due mainly to a decrease in sales revenue in the Motorcycle business as well as negative foreign currency translation effects. Operating profit was ¥29.0 billion, an increase of ¥37.3 billion from the previous fiscal year, due mainly to continuing cost reduction as well as decreased selling, general and administrative expenses including product warranty expenses, which was partially offset by a decrease in profit attributable to decreased sales revenue and model mix as well as negative foreign currency effects.

Significant Factors Affecting Our Results of Operations***Loss related to airbag inflators***

Honda has been conducting market-based measures in relation to airbag inflators mainly in North America and Japan. This is related to the problem where the internal pressure of the inflators rise abnormally at the time of airbag deployment on the driver's side and passenger's side, causing damage to the container and spraying metal fragments within the cars. We are continuing to focus on the satisfaction and safety of our customers and making every effort through market-based measures to replace those airbag inflators as quickly as possible.

Provisions recorded for the above warranty programs accrued during the period for the year ended March 31, 2016 were approximately ¥436.0 billion.

Application of Critical Accounting Policies

Critical accounting policies are those which require us to apply the most difficult, subjective or complex judgments, often requiring us to make estimates about the effect of matters that are inherently uncertain and which may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period would have had a material impact on the presentation of our financial position and results of operations. Further changes in the economic environment surrounding us, effects by market conditions, effects of currency fluctuations 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 described in note (3) Significant Accounting Policies to the accompanying consolidated financial statements.

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

Product Warranty

We warrant our products for specific periods of time. We also provide specific warranty programs, including product recalls, as needed. Product warranties vary depending upon the nature of the product, the geographic location of their sales and other factors.

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We recognize costs for general warranties on products we sell and for specific warranty programs, including product recalls. We recognize general estimated warranty costs at the time products are sold to customers. We also recognize specific estimated warranty program costs when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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 that typically warrant these parts.

We believe our provision for product warranties is a critical accounting estimate because changes in the calculation can materially affect profit for the year attributable to owners of the parent, 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 the provision for those product warranties and sales revenue for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Provisions for product warranties			
Balance at beginning of year	¥ 421,523	¥ 727,441	¥ 520,130
Provision*	607,646	198,016	219,575
Charge-offs	(257,574)	(341,416)	(239,903)
Reversal	(12,907)	(54,324)	(30,022)
Exchange differences on translating foreign operations	(31,247)	(9,587)	(12,184)
Balance at end of year	¥ 727,441	¥ 520,130	¥ 457,596
Sales revenue	¥ 14,601,151	¥ 13,999,200	¥ 15,361,146

* Provisions for product warranties accrued during the period for the years ended March 31, 2016, 2017 and 2018 are ¥607.6 billion, ¥198.0 billion and ¥219.5 billion, respectively, due mainly to the future warranty costs for product recalls in the Automobile business.

Credit Losses

Our finance subsidiaries provide retail lending and leasing to customers and wholesale financing to dealers primarily to support sales of our products. Honda includes retail and finance lease receivables (consumer finance receivables) derived from those services in receivables from financial services, and operating leases are classified as equipment on operating leases. Honda also includes wholesale receivables in receivables from financial services.

Credit losses are an expected cost of extending credit. The majority of the credit risk is with consumer financing and to a lesser extent with dealer financing. Credit risk on consumer finance receivables can be affected by general economic conditions. Adverse changes such as a rise in unemployment can increase the likelihood of defaults. Declines in used vehicle prices can reduce the amount of recoveries on repossessed collateral. Exposure to credit risk on consumer finance receivables is managed by monitoring and adjusting underwriting standards, which affect the level of credit risk that is assumed, pricing contracts for expected losses, and focusing collection efforts to minimize losses.

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Our finance subsidiaries are also exposed to credit risk on equipment on operating leases. A portion of our finance subsidiaries' operating leases are expected to terminate prior to their scheduled maturities when lessees default on their contractual obligations. Losses are generally realized upon the disposition of the repossessed operating lease vehicles. The factors affecting credit risk on operating leases and management of the risk are similar to that of consumer finance receivables.

Credit risk on dealer finance receivables is affected primarily by the financial strength of the dealers within the portfolio, the value of collateral securing the financings, and economic factors that could affect the creditworthiness of dealers. Exposure to credit risk in dealer financing is managed by performing comprehensive reviews of dealers prior to establishing financing arrangements and monitoring the payment performance and creditworthiness of dealers with existing financing arrangements on an ongoing basis.

The allowance for credit losses is management's estimate of probable losses incurred on receivables from financial services. Estimated losses on past due operating lease rental payments are also recognized with an allowance for credit losses. Our finance subsidiaries evaluate these estimates, at minimum, on a quarterly basis.

Consumer finance receivables are collectively evaluated for impairment. Delinquencies and losses are monitored on an ongoing basis and this historical experience provides the primary basis for estimating the allowance. Various methodologies are utilized when estimating the allowance for credit losses including models that incorporate vintage loss and delinquency migration analysis. The models take into consideration attributes of the portfolio including loan-to-value ratios, internal and external credit scores, collateral types, and loan terms. Market and economic factors such as used vehicle prices, unemployment, and consumer debt service burdens are also incorporated into these models. Estimated losses on operating leases expected to terminate early due to lessee defaults are also determined collectively, consistent with the methodologies used for consumer finance receivables.

Dealer finance receivables are individually evaluated for impairment when specifically identified as impaired. Dealer finance receivables are considered to be impaired when it is probable that our finance subsidiaries will be unable to collect all amounts due according to the original terms of the loan. The determination of whether dealer finance receivables are impaired is based on evaluations of dealership payment history, financial condition and cash flows, and their ability to perform under the terms of the loans. Dealer finance receivables that have not been specifically identified as impaired are collectively evaluated for impairment.

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. Our finance subsidiaries regularly review the adequacy of the allowance for credit losses and impairment losses on operating leases. The estimates are based on information available at the end of each reporting period. 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 part of our allowance calculation would have on the provision and allowance for credit losses. If we had experienced a 10% increase in net charge-offs during fiscal year 2018, the provision for fiscal year 2018 and the allowance balance at the end of fiscal year 2018 would have increased by approximately ¥6.6 billion and ¥3.4 billion, respectively. Note that this sensitivity analysis may be asymmetric and is specific to the base conditions in fiscal year 2018.

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The following tables summarize our allowance for credit losses on receivables from financial services:

For the year ended March 31, 2016	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
Allowance for credit losses				
Balance at beginning of year	¥ 22,649	¥ 499	¥ 1,890	¥ 25,038
Provision	24,148	457	769	25,374
Charge-offs	(31,258)	(268)	(64)	(31,590)
Recoveries	8,839	107	98	9,044
Exchange differences on translating foreign operations	(2,078)	(33)	(190)	(2,301)
Balance at end of year	¥ 22,300	¥ 762	¥ 2,503	¥ 25,565
Ending balance of receivables from financial services	¥ 4,227,816	¥ 227,502	¥ 589,889	¥ 5,045,207
Average balance of receivables from financial services	¥ 4,564,867	¥ 244,023	¥ 573,312	¥ 5,382,202
Net charge-offs as a % of average balance of receivables from financial services	0.49%	0.07%	(0.01)%	0.42%
Allowance as a % of ending balance of receivables from financial services	0.53%	0.33%	0.42%	0.51%

For the year ended March 31, 2017	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
Allowance for credit losses				
Balance at beginning of year	¥ 22,300	¥ 762	¥ 2,503	¥ 25,565
Provision	29,870	338	(278)	29,930
Charge-offs	(33,045)	(287)	(382)	(33,714)
Recoveries	8,487	69	3	8,559
Exchange differences on translating foreign operations	1,255	(73)	(23)	1,159
Balance at end of year	¥ 28,867	¥ 809	¥ 1,823	¥ 31,499
Ending balance of receivables from financial services	¥ 4,199,715	¥ 184,339	¥ 608,549	¥ 4,992,603
Average balance of receivables from financial services	¥ 4,100,161	¥ 195,750	¥ 568,024	¥ 4,863,935
Net charge-offs as a % of average balance of receivables from financial services	0.60%	0.11%	0.07%	0.52%
Allowance as a % of ending balance of receivables from financial services	0.69%	0.44%	0.30%	0.63%

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For the year ended March 31, 2018	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
Allowance for credit losses				
Balance at beginning of year	¥ 28,867	¥ 809	¥ 1,823	¥ 31,499
Provision	36,037	214	336	36,587
Charge-offs	(39,478)	(299)	(271)	(40,048)
Recoveries	8,368	50	13	8,431
Exchange differences on translating foreign operations	(1,718)	47	5	(1,666)
Balance at end of year	¥ 32,076	¥ 821	¥ 1,906	¥ 34,803
Ending balance of receivables from financial services	¥ 4,187,420	¥ 165,156	¥ 651,141	¥ 5,003,717
Average balance of receivables from financial services	¥ 4,283,938	¥ 178,083	¥ 608,199	¥ 5,070,220
Net charge-offs as a % of average balance of receivables from financial services	0.73%	0.14%	0.04%	0.62%
Allowance as a % of ending balance of receivables from financial services	0.77%	0.50%	0.29%	0.70%

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

	Yen (millions)		
	2016	2017	2018
Provision for credit losses on past due lease payments under operating leases	¥ 2,141	¥ 2,493	¥ 3,437
Impairment losses on operating leases due to early termination	¥ 5,486	¥ 7,987	¥ 11,911

Fiscal Year 2018 Compared with Fiscal Year 2017

The provision for credit losses on receivables from financial services for the fiscal year ended March 31, 2018 increased by ¥6.6 billion, or 22.2%, from the fiscal year ended March 31, 2017. Net charge-offs of receivables from financial services for the fiscal year ended March 31, 2018 increased by ¥6.4 billion, or 25.7%, from the fiscal year ended March 31, 2017. The increase in the provision for credit losses and net charge-offs was primarily attributable to an increase in loss severities on receivables in our North American finance subsidiaries. The increase in loss severities is due in part to the increase in the volume of retail loans with longer terms which typically have higher financed amounts. Impairment losses on operating leases due to early termination for the fiscal year ended March 31, 2018 increased by ¥3.9 billion, or 49.1%, from the fiscal year ended March 31, 2017 primarily due to the growth in equipment on operating leases in our North American finance subsidiaries.

Fiscal Year 2017 Compared with Fiscal Year 2016

The provision for credit losses on receivables from financial services for the fiscal year ended March 31, 2017 increased by ¥4.5 billion, or 18.0%, from the fiscal year ended March 31, 2016. Net charge-offs of receivables from financial services for the fiscal year ended March 31, 2017 increased by ¥2.6 billion, or 11.6%, from the fiscal year ended March 31, 2016. The increase in the provision for credit losses and net charge-offs was attributable to higher default frequencies and loss severities on receivables due in part to the increase in the volume of retail loans with longer terms in our North American finance subsidiaries. Impairment losses on operating leases due to early termination for the fiscal year ended March 31, 2017 increased by ¥2.5 billion, or 45.6%, from the fiscal year ended

March 31, 2016 primarily due to the growth in equipment on operating leases in our North American finance subsidiaries.

Losses on Lease Residual Values

Our finance subsidiaries in North America determine contractual residual values of lease vehicles at lease inception based on expectations of end of term used vehicle values, taking into consideration external industry

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data and our own historical experience. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer for the contractual residual value (or if purchased prior to lease maturity, for the outstanding contractual balance) or a market based price. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values at the end of the lease term.

We assess our estimates for end of term market values of lease vehicles, at minimum, on a quarterly basis. The primary factors affecting the estimates are the percentage of leased vehicles that we expect to be returned by the lessee at the end of lease term and expected loss severities. Factors considered in this evaluation include, among other factors, economic conditions, historical trends, and market information on new and used vehicles. For operating leases, adjustments to estimated residual values are made on a straight-line basis over the remaining term of the lease and are recognized as depreciation expense. For finance leases, if there is an objective evidence that recognition of losses on lease residual values is needed, downward adjustments for declines in estimated residual values are recognized as a loss on lease residual values in the period in which the estimate changed.

We also review our equipment on operating leases for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. If impairment conditions are met, impairment losses are measured by the amount carrying values exceed their recoverable amounts.

We believe that our estimated losses on lease residual values and impairment losses are 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.

If future auction values for all Honda and Acura vehicles in our North American operating lease portfolio as of March 31, 2018 were to decrease by approximately ¥10,000 per unit from our present estimates, holding all other assumptions constant, the total impact would be an increase in depreciation expense by approximately ¥7.6 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 ¥1.3 billion, which would be recognized over the remaining lease terms. Note that this sensitivity analysis may be asymmetric and is specific to the base conditions in fiscal year 2018. Also, declines in auction values are likely to have a negative effect on return rates which could affect the sensitivities.

Post-employment Benefits

We have various pension plans covering substantially all of our employees in Japan and certain employees in foreign countries. Defined benefit obligations and defined benefit costs are based on assumptions of many factors, including the discount rate and the rate of salary increase. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds that is consistent with the currency and estimated term of the post-employment benefit obligations. The rate of salary increase reflects our actual experience as well as near-term outlook. Our assumed discount rate and rate of salary increase for Japanese plans as of March 31, 2018 were 0.7% and 1.7%, respectively. Our assumed discount rate and rate of salary increase for foreign plans as of March 31, 2018 were 2.8 - 4.2% and 2.5 - 3.0%, respectively.

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

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We believe that the assumptions currently used are appropriate. However, changes in assumptions could affect our defined benefit costs and obligations, including our cash requirements to fund such obligations in the future. Actual results may differ from our assumptions, and the difference is recognized in other comprehensive income when it is incurred and reclassified immediately to retained earnings.

For information on the effect of change in the assumed discount rate on our defined benefit obligations, see 4) Sensitivity analysis of note (18) Employee Benefits to the accompanying consolidated financial statements.

Deferred Tax Assets

We consider the probability that a portion of or all of the deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credit can be utilized against future taxable profits in the recognition of deferred tax assets. In assessing recoverability of deferred tax assets, we consider the scheduled reversal of deferred tax liabilities, projected future taxable profit and tax planning strategies.

We believe that our accounting for the deferred tax assets is a critical accounting estimate because it requires us to evaluate and assess the probability of future taxable profit and our business plan, which are inherently uncertain.

Based upon the level of historical taxable profit and projections for future taxable profit over the periods for which the deferred tax assets are deductible, we believe it is probable that we will utilize the benefits of these deferred tax assets as of March 31, 2017 and 2018. Uncertainty of estimates of future taxable profit could increase due to changes in the economic environment surrounding us, effects by market conditions, effects of currency fluctuations or other factors.

New Accounting Pronouncements Not Yet Adopted

For a description of new accounting pronouncements not yet adopted, see (e) New Accounting Standards and Interpretations Not Yet Adopted of note (2) Basis of Preparation to the accompanying consolidated financial statements.

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, Honda also funds financial programs for customers and dealers.

Honda requires working 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 working capital requirements primarily through cash generated by operations and bank loans. Honda believes that its working capital is sufficient for the Company's present requirements. The year-end balance of liabilities associated with the Company and its subsidiaries' funding for non-financial services businesses was ¥472.0 billion as of March 31, 2018. In addition, the Company's finance subsidiaries fund financial programs for

customers and dealers primarily from medium-term notes, bank loans, securitization of

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finance receivables, commercial paper and corporate bonds. The year-end balance of liabilities associated with these finance subsidiaries' funding for Financial services business was ¥6,460.5 billion as of March 31, 2018.

There are no material seasonal variations in Honda's borrowing requirements.

Cash Flows

Fiscal Year 2018 Compared with Fiscal Year 2017

Consolidated cash and cash equivalents on March 31, 2018 increased by ¥150.5 billion from March 31, 2017, to ¥2,256.4 billion. The reasons for the increases or decreases for each cash flow activity, when compared with the previous fiscal year, are as follows:

Net cash provided by operating activities amounted to ¥987.6 billion of cash inflows. Cash inflows from operating activities increased by ¥102.5 billion compared with the previous fiscal year, due mainly to an increase in cash received from customers, which was partially offset by an increase in payments for parts and raw materials.

Net cash used in investing activities amounted to ¥615.1 billion of cash outflows. Cash outflows from investing activities decreased by ¥35.5 billion compared with the previous fiscal year, due mainly to a decrease in payments for additions to property, plant and equipment.

Net cash used in financing activities amounted to ¥174.3 billion of cash inflows. Cash outflows from financing activities increased by ¥289.7 billion compared with the previous fiscal year, due mainly to a decrease in proceeds from financing liabilities and purchases of treasury stock.

Fiscal Year 2017 Compared with Fiscal Year 2016

Consolidated cash and cash equivalents on March 31, 2017 increased by ¥348.5 billion from March 31, 2016, to ¥2,105.9 billion. The reasons for the increases or decreases for each cash flow activity, when compared with the previous fiscal year, are as follows:

Net cash provided by operating activities amounted to ¥885.0 billion of cash inflows. Cash inflows from operating activities decreased by ¥505.9 billion compared with the previous fiscal year, due mainly to a decrease in cash received from customers, including negative foreign currency translation effects.

Net cash used in investing activities amounted to ¥650.6 billion of cash outflows. Cash outflows from investing activities decreased by ¥224.4 billion compared with the previous fiscal year, due mainly to a decrease in payments for additions to property, plant and equipment.

Net cash used in financing activities amounted to ¥115.4 billion of cash inflows. Cash inflows from financing activities increased by ¥210.7 billion compared with the previous fiscal year, due mainly to a decrease in repayments of financing liabilities.

Liquidity

The ¥2,256.4 billion in cash and cash equivalents as of March 31, 2018 is mainly denominated in U.S. dollars and in Japanese yen, with the remainder denominated in other currencies.

Honda's cash and cash equivalents as of March 31, 2018 corresponds to approximately 1.8 months of sales revenue, and Honda believes it has sufficient liquidity for its business operations.

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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 ¥1,098.8 billion have committed lines of credit equivalent to ¥1,047.5 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 financing liabilities as of March 31, 2018 are mainly denominated in U.S. dollars, with the remainder denominated in Japanese yen and in other currencies. For further information regarding financing liabilities, see note (15) Financing Liabilities and (25) Financial Risk Management to the accompanying consolidated financial statements.

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, 2018.

	Credit ratings for	
	Short-term unsecured debt securities	Long-term unsecured debt securities
Moody's Investors Service	P-1	A2
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 and conduct R&D activities with the goal of creating distinctive products that are internationally competitive. To attain this goal, Honda's main R&D divisions operate independently as subsidiaries, allowing engineers to pursue their tasks with significant freedom. Product-related R&D is conducted mainly by Honda R&D Co., Ltd. in Japan; Honda R&D Americas, Inc. in the United States; and Honda R&D Asia Pacific Co., Ltd. in Thailand. R&D on production technologies centers around Honda Engineering Co., Ltd. in Japan and Honda Engineering North America, Inc. in the United States. All of these entities work in close association with our other entities and businesses in their respective regions.

Total consolidated R&D expenditures incurred during the fiscal year 2016, 2017 and 2018 were ¥719.8 billion, ¥659.9 billion and ¥730.7 billion, respectively.

In addition, a portion of the R&D expenditures at the Company and its consolidated subsidiaries has been capitalized, and recorded as intangible assets. For details regarding R&D expenses recognized in the consolidated statements of

income, see note (21) Research and Development to the accompanying consolidated financial statements.

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R&D activities by segment are as follows.

Motorcycle Business

In the Motorcycle Business segment, Honda has been engaging in research and development with the policy of maximizing the organizational climate of self-challenge and maximizing value creation with products and technology.

Among major technological achievements, we announced at the TOKYO MOTOR SHOW in October 2017 the *PCX ELECTRIC*, an electric scooter, equipped with a high-output motor developed in-house and the detachable *Honda Mobile Power Pack*, and the *PCX HYBRID*, which delivers high torque from a compact system that uses a newly developed proprietary Honda hybrid system for motorcycles to assist the engine with a high-output battery and ACG starter.

Furthermore, the *Super Cub 50* and *Super Cub 110*, long-selling models that were transferred from China to the Kumamoto manufacturing plant in Japan, underwent model changes and were launched in November 2017. The exterior design has a renewed configuration connecting the leg shield to the rear fender in a smooth, curved surface. In addition, by adopting a user-friendly removable side cover on both sides of the body and including round, low-energy LED headlights with a long service life to create a compact area around the handle, the remodeled *Super Cub* expresses its identity as a new generation of *Super Cub* possessing both traditional styling and an innovative spirit.

In the large motorcycle sector, in January 2018, for the first time in 17 years, Honda announced a full model change of the *Gold Wing*, a series with a history of over 40 years. In order to return to the original charms of the motorcycle and create a fun factor and driving elation, drivers can share the ultimate thrill with a passenger through Honda's proprietary double wishbone front suspension, which provides a comfortable ride and nimble handling, its third-generation 7-speed dual clutch transmission (DCT) with drive mode, and various other advanced features.

In the field of cutting-edge technology, at the TOKYO MOTOR SHOW in October 2017, the *Honda Riding Assist-e* was announced, an experimental vehicle that applies Honda's unique balance control technology to motorcycles that was cultivated through robotics research. This technology has been developed with the aim of reducing the risk of overturning and making life with motorcycles more reassuring and more enjoyable.

R&D expenditures in this segment incurred during the fiscal year 2016, 2017 and 2018 were ¥76.7 billion, ¥74.3 billion and ¥79.4 billion, respectively.

Automobile Business

In the Automobile Business segment, Honda is engaged in research and development under the policies of aim for research laboratories that are one step ahead, change awareness and behavior in times of industry revolution and pursue value from the perspective of the customer and continue to create high quality products with high quality working methods toward realizing Honda's vision for 2030.

Among major technological achievements in the Automobile Business segment, at the North American International Auto Show in January 2018, the new model *RDX* prototype had its global debut. As a next-generation Acura model, it marks the beginning of a new era for the Acura brand. Making full use of the latest Acura designs, the *RDX* adopts a 2.0L direct injection turbocharged VTEC engine for its powertrain and a first-in-class 10-speed automatic transmission. Combining elements such as the SH-AWD automatic four-wheel drive power control system, a newly developed dedicated platform, and a lightweight body high in rigidity, the *RDX* provides powerful acceleration and linear handling.

Also, the new model *ACCORD* was launched in North America in October 2017, entering its tenth generation. With significant upgrades to design, packaging, and driving performance, it was developed with the

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objective of creating a next-generation midsize sedan that also incorporates the latest connectivity and driving safety support technologies. In addition to the two types of in-line four-cylinder turbocharged direct injection DOHC engines, the 1.5L and the 2.0L, the third-generation *SPORT HYBRID i-MMD* hybrid system is also available for the powertrain. Combining a turbocharged 2.0L direct injection engine with an originally developed 10-speed automatic transmission, this next-generation powertrain provides low operating noise and high fuel efficiency while delivering torque that surpasses that of a V-type six-cylinder 3.5L engine. This *ACCORD* was awarded the 2018 North American Car of the Year at the 2018 American International Auto Show.

In Japan, a new model of the *N-BOX* mini-vehicle was launched in September 2017. While inheriting a design with a sense of presence and large interior space, which were features that were well-received by customers in the previous model generation, it has been updated with a newly developed platform and powertrain. The new *N-BOX* is equipped with a full complement of features such as safety equipment and the newly adopted super sliding passenger seat, but is approximately 80kg lighter with low fuel consumption and excellent drivability and ride comfort. This *N-BOX* won three awards; JAHFA CAR OF THE YEAR, RJC Technology of the Year, and Small Mobility Category Prize by the Japan Car of the Year.

Regarding the development of electric vehicles, the *CLARITY PLUG-IN HYBRID* and *CLARITY ELECTRIC* were displayed for the first time in the world at the New York International Auto Show in April 2017. These are plug-in hybrid vehicles (PHEV) and electric vehicles (EV) that have a platform shared with the *CLARITY FUEL CELL*, which was announced in Japan in March 2016. These are the first vehicles in the world equipped with the three types of PHEV, EV, and fuel cell vehicle (FCV) powertrains available on the same platform, providing new value to the five-seat midsize class sedan. With this *CLARITY* series, Honda is progressing toward achieving its goal of shifting to electric vehicles, namely, to replace two-thirds of sales volume in the automobile product lineup with electric vehicles such as hybrid, FCV, and battery EV.

R&D expenditures in this segment incurred during the fiscal year 2016, 2017 and 2018 were ¥614.2 billion, ¥559.8 billion and ¥625.0 billion, respectively.

Power Product and Other Businesses

Honda has involved research and development in the Power Products Business, based on the policy of Expand the usefulness and joy towards worldwide customers, by having a full understanding of the market, looking into the future and adapting business fundamentals .

Among major technological achievements, the electric robot lawn mower *Miimo HRM520*, a self-propelled lawn mower that automatically cuts grass and has been popular since its launch in Europe 2012, was launched in Japan and the United States in June 2017. The *Miimo HRM520* system, comprised of the three components of the main unit, charging station, and area wires to designate its operational area, automatically cuts grass within its operational area. In addition, it automates lawn mowing by detecting its charge level and returning to the charging station when necessary, thereby automatically recharging itself. By setting the day, time and area of choice, customers can automatically mow the lawn according to various needs. In addition, as the *Miimo HRM520* clips the growing grass tips daily and drops shavings back to the roots, it eliminates the work that goes into grass collection and disposal and greatly reduces the labor of lawn mowing, while at the same time the cut grass is used as fertilizer to maintain the greenness of the lawn. It is quiet, environmentally-friendly, highly efficient and durable.

Also, in September 2017, the *LiB-AID E500*, a handy type storage battery, was launched at Honda Cars across Japan. Utilizing Honda's proprietary sine wave inverter technologies, this handy type storage battery can supply high-quality power with a maximum power output of 500W (VA). The device can be recharged from household outlets or car

accessory sockets and is replete with a reusable lithium-ion battery, making it ideal for use as a portable power source for a variety of indoor and outdoor activities.

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In Other Businesses such as aircraft engines, Honda seeks to establish a sustainable business structure and make a name for itself in the industry. Under this policy, Honda promoted the establishment of the production and services structures of the *HF120* jet engine, as well as cost reductions.

In aircraft business, Honda has created new value with uniquely developed leading-edge technology. We are building an operating base in order to grow our aircraft business from a long-term perspective. By adopting wave resistance reducing Over-The-Wing Engine Mount technology, natural laminar flow wings, integrally molded carbon composite fuselage, and advanced avionics, etc., *HondaJet*'s performance and product strength have come to overwhelm its competitors, and in the calendar year 2017, it became the world's number one ranked aircraft in the small jet category for the number of aircraft supplied. Furthermore, in January 2018, *HondaJet* dealers started operations in China, and in February 2018, we received sixteen orders from a French air taxi service provider, demonstrating the high regard among customers for this product. With regard to production, we have been able to improve production efficiency and achieve a stable production of four aircraft per month.

R&D expenditures in this segment incurred during the fiscal year 2016, 2017 and 2018 were ¥28.8 billion, ¥25.6 billion and ¥26.2 billion, respectively.

Patents and Licenses

As of March 31, 2018, Honda owned more than 21,300 patents in Japan and more than 27,200 patents abroad. Honda also had applications pending for more than 6,300 patents in Japan and for more than 14,200 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

Loan commitments

Honda maintains unused balances on committed lines to dealers based on loan commitment contracts. The undiscounted maximum amount of this potential obligation as of March 31, 2018 was ¥112.7 billion. Although committed lines have been extended, they will not necessarily be withdrawn, as certain contracts contain terms and conditions of withdrawal that require screening of the obligor's credit standing.

Guarantee of employee loans

As of March 31, 2018, we guaranteed ¥13.8 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 potential obligation to make future payments in the event of defaults is ¥13.8 billion. As of March 31, 2018, no amount has been accrued for any estimated losses under the obligations, as it was probable that the employees would be able to make all scheduled payments.

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The following table shows our contractual obligations as of March 31, 2018:

Contractual Obligations

	Total	Within 1 year	Yen (millions)		Thereafter
			Payments due by period		
			1-3 years	3-5 years	
Financing liabilities	¥ 7,098,833	¥ 3,030,934	¥ 2,544,730	¥ 1,239,710	¥ 283,459
Other financial liabilities	186,083	83,619	57,260	17,649	27,555
Future minimum lease payments under non-cancelable operating leases	75,487	17,126	22,835	12,742	22,784
Purchase and other commitments*1	71,188	47,356	21,974	1,242	616
Contributions to defined benefit pension plans*2	47,807	47,807			
Total	¥ 7,479,398	¥ 3,226,842	¥ 2,646,799	¥ 1,271,343	¥ 334,414

*1 Honda had commitments for purchases of property, plant and equipment as of March 31, 2018.

*2 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.

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, and other major currencies, as well as other factors detailed from time to time.

Table of Contents***Item 6. Directors, Senior Management and Employees******A. Directors and Senior Management***

Effective on June 15, 2017, Honda adopted a company with an audit and supervisory committee corporate governance system (the Audit and Supervisory Committee system) under Japan's Company Law (in which this system was newly established by its amendments effected as of May 1, 2015) upon approval on the amendments to the Articles of Incorporation relating thereto at its Ordinary General Meeting of Shareholders held on June 15, 2017. As a result of adopting the Audit and Supervisory Committee system, Honda no longer has a Board of Corporate Auditors.

For Japanese companies which employ the Audit and Supervisory Committee system, including Honda, Japan's Company Law requires that such companies have a board of directors, which shall consist of directors who are audit and supervisory committee members and directors who are not such members, and, within the board of directors, an audit and supervisory committee, which shall consist of three or more directors. Honda's Articles of Incorporation provide for the Board of Directors of not more than 20 Directors of whom no more than seven Directors shall be Audit and Supervisory Committee Members. Directors who are not audit and supervisory committee members and directors who are such members are separately elected by resolutions of the general meetings of shareholders. The normal term of office of a director who is an audit and supervisory committee member is two years and that of a director who is not such member is one year. Directors may serve any number of consecutive terms.

Honda's 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 Directors who are not Audit and Supervisory Committee 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, 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 audit and supervisory committee has the following responsibilities: (i) auditing the performance of duties by directors and preparing audit reports, (ii) determining proposals concerning the appointment and dismissal of the company's accounting audit firm and the refusal of reappointment of the company's accounting audit firm to be submitted to general meetings of shareholders, (iii) deciding opinions on election, dismissal or resignation of directors who are not audit and supervisory committee members, in which case the audit and supervisory committee may express its opinion at the general meeting of shareholders, and (iv) deciding opinions on compensation of directors who are not audit and supervisory committee members, in which case the audit and supervisory committee may express its opinion at the general meeting of shareholders. Not less than half of the members of the audit and supervisory committee must be outside directors. Each of the outside directors is required to meet all of the following independence requirements: the relevant person must be (1) a person who is not an executive director, executive officer, manager or any other employee of the company or any of its subsidiaries and has not been in such position for ten years prior to the assumption of office; (2) if the relevant person assumed an office of a non-executive director, accounting councilor or corporate auditor of the company or any of its subsidiaries during the ten years mentioned in (1) above, a person who had not been an executive director, executive officer, manager or any other employee of the company or any of its subsidiaries for further ten years prior to the assumption of such office; (3) a person who is not a director, corporate auditor, executive officer, manager or any other employee of the parent company or who is not a natural person controlling the company; (4) a person who is not an executive director, executive officer, manager or any other employee of a company which is controlled by the parent company or by the natural person controlling the company; and (5) a person who is not a spouse or one of a certain kinds of relatives of (a) a director, executive officer, manager or any other important employee of the company or (b) the natural person

controlling the company. With respect to audit reports prepared by the audit and supervisory committee, each member of the committee may note his or her opinion in the audit report if his

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or her opinion is different from the opinion expressed in the audit report. In addition, the Company is required to appoint independent certified public accountants as accounting auditors. 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 member of the audit and supervisory committee (or, if such member is not specified, any member of the committee) and the specified director in charge.

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The following table provides the names of all the members of the Board of Directors (including the Audit and Supervisory Committee Members). Also the names of the operating officers (who are not concurrently the members of the Board of Directors) of the Company and the current positions held by such persons are provided below.

Name (Date of birth) Representative Directors	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Takahiro Hachigo (May 19, 1959)	<p>Joined Honda Motor Co., Ltd. in April 1982</p> <p>General Manager of Automobile Purchasing Division II for Purchasing Operations, appointed in April 2008</p> <p>Operating Officer of the Company, appointed in June 2008</p> <p>General Manager of Purchasing Division II for Purchasing Operations, appointed in April 2010</p> <p>General Manager of Suzuka Factory for Production Operations, appointed in April 2011</p> <p>Vice President and Director of Honda Motor Europe, Ltd., appointed in April 2012</p> <p>Managing Officer of Honda R&D Co., Ltd., appointed in September 2012</p> <p>President and Director of Honda R&D Europe (U.K.) Ltd., appointed in September 2012</p> <p>Representative of Development, Purchasing and Production (China), appointed in April 2013</p> <p>Vice President of Honda Motor (China) Investment Co., Ltd., appointed in April 2013</p> <p>Vice President of Honda Motor Technology (China) Co., Ltd., appointed in November 2013</p> <p>Managing Officer of the Company, appointed in April 2014</p> <p>Senior Managing Officer of the Company, appointed in April 2015</p> <p>President, Chief Executive Officer and Representative Director of the Company,</p>	*3	37,200

appointed in June 2015

Chief Executive Officer of the Company,
appointed in April 2017 (presently held)

President and Representative Director of the Company,
appointed in June 2017 (presently held)

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Name (Date of birth) Seiji Kuraishi	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
(July 10, 1958)	<p>Joined Honda Motor Co., Ltd. in April 1982</p> <p>Vice President of Honda Motor (China) Investment Co., Ltd., appointed in April 2007</p> <p>Operating Officer of the Company, appointed in June 2007</p> <p>President of Dongfeng Honda Automobile Co., Ltd., appointed in January 2008</p> <p>Chief Officer for Regional Operations (China), appointed in April 2010</p> <p>President of Honda Motor (China) Investment Co., Ltd., appointed in April 2010</p> <p>Director of the Company, appointed in June 2010</p> <p>Operating Officer and Director of the Company, appointed in April 2011</p> <p>Operating Officer of the Company (retired from the position as Director), appointed in June 2011</p> <p>President of Honda Motor Technology (China) Co., Ltd., appointed in November 2013</p> <p>Managing Officer of the Company, appointed in April 2014</p> <p>Senior Managing Officer of the Company, appointed in April 2016</p> <p>Executive Vice President, Executive Officer and Representative Director of the Company,</p>	*3	37,200

appointed in June 2016

Risk Management Officer,

appointed in June 2016 (presently held)

Corporate Brand Officer,

appointed in June 2016 (presently held)

Chief Operating Officer of the Company,

appointed in April 2017 (presently held)

In Charge of Strategy, Business Operations and
Regional Operations,

appointed in April 2017 (presently held)

Executive Vice President and Representative Director
of the Company,

appointed in June 2017 (presently held)

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Name (Date of birth) Senior Managing Directors	Current Positions and Biographies with Registrant	Number of Term Shares Owned
Yoshiyuki Matsumoto (January 14, 1958)	<p>Joined Honda Motor Co., Ltd. in April 1981</p> <p>Responsible for Automobile Products for Automobile Operations, appointed in April 2006</p> <p>Operating Officer of the Company, appointed in June 2006</p> <p>General Manager of Suzuka Factory for Production Operations, appointed in April 2009</p> <p>Executive in Charge of Business Unit No. 3 for Automobile Operations, appointed in April 2011</p> <p>Managing Officer of the Company, appointed in April 2012</p> <p>Representative of Development, Purchasing and Production (Asia & Oceania), appointed in April 2013</p> <p>Executive Vice President of Asian Honda Motor Co., Ltd., appointed in April 2013</p> <p>President and Chief Executive Officer of Honda Motor India Private Ltd., appointed in April 2013</p> <p>Senior Managing Officer of the Company, appointed in April 2015</p> <p>Chief Officer for Automobile Operations, appointed in April 2015</p> <p>Executive in Charge of Quality Innovation for Automobile Operations, appointed in April 2015</p> <p>Senior Managing Officer and Director of the Company, appointed in June 2015</p> <p>President, Chief Executive Officer and Representative Director of Honda R&D Co., Ltd., appointed in April 2016</p> <p>Supervising Director of F1 Project, appointed in April 2016</p>	*3 40,200

In Charge of Research & Development
(Research & Development, Intellectual Property and Standardization),
appointed in April 2017 (presently held)

Senior Managing Director of the Company,
appointed in June 2017 (presently held)

President and Representative Director of Honda R&D Co., Ltd.,
appointed in April 2018 (presently held)

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Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Toshiaki Mikoshiba (November 15, 1957)	Joined Honda Motor Co., Ltd. in April 1980	*3	36,000
	Responsible for East Europe, the Middle & Near East and Africa for Regional Operations (Europe, the Middle & Near East and Africa),		
	appointed in April 2008		
	Executive Vice President and Director of Honda Motor Europe Ltd.,		
	appointed in April 2008		
	Operating Officer of the Company,		
	appointed in June 2008		
	Responsible for Russia and CIS for Regional Operations (Europe, the Middle & Near East and Africa),		
	appointed in June 2009		
	President and Director of Honda Motor RUS LLC,		
	appointed in August 2009		
	President of Guangqi Honda Automobile Co., Ltd.,		
	appointed in April 2011		
	Managing Officer of the Company,		
	appointed in April 2014		
	Chief Officer for Regional Operations (Europe Region),		
	appointed in April 2014		
	President and Director of Honda Motor Europe Ltd.,		
	appointed in April 2014		
	Senior Managing Officer of the Company,		
	appointed in April 2015		
	Chief Officer for Regional Operations (North America),		
	appointed in April 2016 (presently held)		
	President and Director of Honda North America, Inc.,		
	appointed in April 2016 (presently held)		
	President and Director of American Honda Motor Co., Inc.,		
	appointed in April 2016 (presently held)		
	Chief Executive Officer of American Honda Motor Co., Inc.,		
	appointed in April 2016 (presently held)		
	In Charge of Sales and Marketing,		
	appointed in April 2017 (presently held)		

Senior Managing Director of the Company,
appointed in June 2017 (presently held)

Chief Executive Officer of Honda North America, Inc.,
appointed in April 2018 (presently held)

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Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Yoshi Yamane (September 28, 1958)	<p>Joined Honda Engineering Co., Ltd. in October 1985</p> <p>Large Project Leader of Corporate Project, Automobile Production Planning Office for Production Operations, appointed in April 2008</p> <p>Operating Officer of the Company, appointed in June 2008</p> <p>Responsible for Production for Production Operations, appointed in June 2008</p> <p>Responsible for Production for Regional Operations (China), appointed in April 2009</p> <p>Vice President of Honda Motor (China) Investment Co., Ltd., appointed in September 2010</p> <p>General Manager of Suzuka Factory for Production Operations, appointed in April 2012</p> <p>Representative of Automobile Development, Purchasing and Production (Japan), appointed in April 2013</p> <p>General Manager of Suzuka Factory of Automobile Production for Automobile Operations, appointed in April 2013</p> <p>Managing Officer of the Company, appointed in April 2014</p> <p>Head of Automobile Production for Regional Operations (Japan), appointed in April 2014</p> <p>Head of Production Supervisory Unit of Automobile Production for Regional Operations (Japan), appointed in April 2014</p> <p>Senior Managing Officer of the Company, appointed in April 2015</p>	*3	36,000

Chief Production Officer,
appointed in April 2015

Representative of Automobile Development,
Purchasing and Production for Automobile Operations,
appointed in April 2015

Head of Production for Automobile Operations,
appointed in April 2015

Representative of Automobile Development,
Purchasing and Production (Europe Region),
appointed in April 2015

Senior Managing Officer and Director of the Company,
appointed in June 2015

Chief Officer for Production Operations,
appointed in April 2016 (presently held)

In Charge of Production
(Production, Purchasing, Quality, Parts and Service)
appointed in April 2017 (presently held)

Senior Managing Director of the Company,
appointed in June 2017 (presently held)

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Name (Date of birth) Directors	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Hideko Kunii (December 13, 1947)	<p>Associate Director of Ricoh Co., Ltd., appointed in April 2009</p> <p>Chairperson of Ricoh IT Solutions Co., Ltd., appointed in July 2009</p> <p>Outside Director of Innovation Network Corporation of Japan, appointed in July 2009 (presently held)</p> <p>Member of Gender Equality Bureau Cabinet Office, appointed in August 2009</p> <p>Professor, Graduate School of Engineering Management, Shibaura Institute of Technology, appointed in April 2012</p> <p>Retired from Chairperson of Ricoh IT Solutions Co., Ltd. in March 2013</p> <p>Retired from Associate Director of Ricoh Co., Ltd. in March 2013</p> <p>Deputy President, Shibaura Institute of Technology, appointed in April 2013</p> <p>General Manager of Gender Equality Promotion Office, Shibaura Institute of Technology, appointed in October 2013</p> <p>Director of the Company, appointed in June 2014 (presently held)</p> <p>Outside Director of Tokyo Electric Power Company, Incorporated (currently, Tokyo Electric Power Company Holdings, Inc.), appointed in June 2014 (presently held)</p> <p>Outside Director of Mitsubishi Chemical Holdings Corporation, appointed in June 2015 (presently held)</p> <p>End of tenure as Professor, Graduate School of Engineering Management, Shibaura Institute of Technology in March 2018</p> <p>End of tenure as Deputy President, Shibaura Institute of Technology in March 2018</p> <p>End of tenure as General Manager of Gender Equality Promotion Office, Shibaura Institute of Technology in March 2018</p>	*3	1,600

Visiting Professor, Graduate School of Engineering
Management,
Shibaura Institute of Technology,

appointed in April 2018 (presently held)

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Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Motoki Ozaki (June 6, 1949)	<p>Chairman of the Board of Kao Corporation, appointed in June 2012</p> <p>President and Representative Director of The Kao Foundation for Arts and Sciences, appointed in June 2012 (presently held)</p> <p>President of Kigyo Mecenat Kyogikai, Association for Corporate Support of the Arts, appointed in March 2014 (presently held)</p> <p>Retired from Chairman of the Board of Kao Corporation in March 2014</p> <p>President of New National Theatre Foundation, appointed in June 2014 (presently held)</p> <p>Outside Director of Nomura Securities Co., Ltd., appointed in June 2015 (presently held)</p> <p>Director of the Company, appointed in June 2016 (presently held)</p>	*3	700

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Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Takanobu Ito (August 29, 1953)	Joined Honda Motor Co., Ltd. in April 1978	*3	43,700
	Executive Vice President of Honda R&D Americas, Inc., appointed in April 1998		
	Director of the Company, appointed in June 2000		
	Senior Managing Director of Honda R&D Co., Ltd., appointed in June 2001		
	Managing Director of the Company, appointed in June 2003		
	Responsible for Motor Sports, appointed in June 2003		
	President and Representative Director of Honda R&D Co., Ltd., appointed in June 2003		
	General Supervisor, Motor Sports, appointed in April 2004		
	General Manager of Suzuka Factory for Production Operations, appointed in April 2005		
	Managing Officer of the Company, appointed in June 2005		
	Chief Officer for Automobile Operations, appointed in April 2007		
	Senior Managing Director of the Company, appointed in June 2007		
	President and Representative Director of Honda R&D Co., Ltd., appointed in April 2009		
	President and Representative Director of the Company, appointed in June 2009		
	President, Chief Executive Officer and Representative Director of the Company, appointed in April 2011		
	Chief Officer for Automobile Operations, appointed in April 2011		
	Director and Advisor of the Company, appointed in June 2015 (presently held)		

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Name (Date of birth) Directors (Audit and Supervisory Committee Members)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Masahiro Yoshida (March 5, 1957)	<p>Joined Honda Motor Co., Ltd. in April 1979</p> <p>Responsible for Human Resources and Associate Relations and General Manager of Human Resources Division for Business Support Operations, appointed in April 2007</p> <p>Operating Officer of the Company, appointed in June 2007</p> <p>General Manager of Hamamatsu Factory for Production Operations, appointed in April 2008</p> <p>Chief Officer for Business Support Operations, appointed in April 2010</p> <p>Director of the Company, appointed in June 2010</p> <p>Operating Officer and Director of the Company, appointed in April 2011</p> <p>Compliance Officer, appointed in April 2012</p> <p>Managing Officer and Director of the Company, appointed in April 2013</p> <p>Corporate Auditor of the Company (full-time), appointed in June 2016</p> <p>Director (Audit and Supervisory Committee Member) of the Company (full-time),</p>	*4	38,700

appointed in June 2017 (presently held)

Masafumi Suzuki

Joined Honda Motor Co., Ltd. in April 1987

*4

44,420

(April 23, 1964)

General Manager of Regional Operation Planning Office for Regional Operations (Europe, the Middle & Near East and Africa),

appointed in April 2010

General Manager of Regional Operation Planning Office for Regional Operations (Europe, CIS, the Middle & Near East and Africa),

appointed in April 2012

General Manager of Accounting Division for Business Management Operations,

appointed in April 2013

Director (Audit and Supervisory Committee Member)

of the Company (full-time),

appointed in June 2017 (presently held)

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Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Toshiaki Hiwatari (August 4, 1945)	Prosecutor General, appointed in July 2008 Retired from office in June 2010 Registered with the Daiichi Tokyo Bar Association in September 2010 Advisor Attorney to TMI Associates, appointed in September 2010 (presently held) Corporate Auditor of the Company, appointed in June 2012 Outside Auditor of TOYO KANETSU K.K. appointed in June 2012 Outside Director of Nomura Securities Co., Ltd., appointed in October 2012 (presently held) Outside Director (Audit & Supervisory Committee member) of TOYO KANETSU K.K., appointed in June 2015 (presently held) Company Auditor (Outside) of THE KAGOSHIMA BANK, LTD. appointed in October 2016 (presently held) Director (Audit and Supervisory Committee Member) of the Company, appointed in June 2017 (presently held)	*4	2,300
Hideo Takaura (June 19, 1949)	Registered as Japanese CPA in May 1977 Chief Executive Officer of PricewaterhouseCoopers Aarata (currently, PricewaterhouseCoopers Aarata LLC), appointed in September 2006 Representative Partner of PricewaterhouseCoopers Aarata, appointed in May 2009	*4	1,100

Retired from PricewaterhouseCoopers Aarata in June 2009

Outside Auditor of Innovation Network Corporation of Japan,
appointed in July 2009 (presently held)

Corporate Auditor of the Company,
appointed in June 2015

Director (Audit and Supervisory Committee Member)
of the Company,
appointed in June 2017 (presently held)

Outside Director of Tokyo Electric Power Company Holdings,
Inc.,
appointed in June 2017 (presently held)

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Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Mayumi Tamura (May 22, 1960)	Executive Officer, SVP and Chief Financial Officer of The Seiyu, Ltd. (currently, Seiyu GK), appointed in June 2007 Executive Officer, SVP and Chief Financial Officer of Wal-Mart Japan Holdings GK (currently, Wal-Mart Japan Holdings KK), appointed in May 2010 End of tenure as Executive Officer, SVP and Chief Financial Officer of Seiyu GK in July 2013 End of tenure as Executive Officer, SVP and Chief Financial Officer of Wal-Mart Japan Holdings GK in July 2013 Retired from Seiyu GK in January 2014 Retired from Wal-Mart Japan Holdings GK in January 2014 Corporate Auditor of the Company, appointed in June 2015 Director (Audit and Supervisory Committee Member) of the Company, appointed in June 2017 (presently held) Outside Director of Hitachi High-Technologies Corporation, appointed in June 2017 (presently held)	*4	1,100

- *1 The Company transitioned to being a company with an audit and supervisory committee after obtaining approval for requisite amendments to the Articles of Incorporation at its ordinary general meeting of shareholders held on June 15, 2017.
- *2 Directors (including Audit and Supervisory Committee Members) Ms. Hideko Kunii, Mr. Motoki Ozaki, Mr. Toshiaki Hiwatari, Mr. Hideo Takaura and Ms. Mayumi Tamura are Outside Directors.
- *3 The term of office of a Director who is not a member of the Audit and Supervisory Committee is until at the close of the ordinary general meeting of shareholders of the fiscal year ending March 31, 2019 after his/her election to office at the close of the ordinary general meeting of shareholders on June 14, 2018.
- *4 The term of office of a Director who is a member of the Audit and Supervisory Committee is until at the close of the ordinary general meeting of shareholders of the fiscal year ending March 31, 2019 after his/her election to office at the close of the ordinary general meeting of shareholders on June 15, 2017.
- *5 The Company has introduced an operating officer system to strengthen operations in regions and local workplaces, and implement quick and appropriate decisions. Executive Officers, Senior Managing Officers, Managing Officers and Operating Officers under the operating officer system are not statutory positions under the 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 under the operating officer system, as voluntarily disclosed in Japan, are as follows:

Managing Officers

Takashi Sekiguchi	Chief Officer for Automobile Operations
Soichiro Takizawa	President and Director of Honda of America Mfg., Inc.
Michimasa Fujino	President and Director of Honda Aircraft Company, LLC

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Shinji Aoyama	Vice Chief Officer for Regional Operations (North America) Senior Executive Vice President, Chief Operating Officer and Director of Honda North America, Inc. Senior Executive Vice President, Chief Operating Officer and Director of American Honda Motor Co., Inc.
Noriya Kaihara	Chief Officer for Purchasing Operations
Toshihiro Mibe	Senior Managing Officer and Director of Honda R&D Co., Ltd.
Operating Officers	
Naoto Matsui	Chief Officer for IT Operations
Mitsugu Matsukawa	Executive Vice President and Director of Honda of America Mfg., Inc.
Tetsuo Suzuki	Representative of Motorcycle DEB for Motorcycle Operations
Issao Mizoguchi	Chief Officer for Regional Operations (Latin America) President and Director of Honda South America Ltda. President and Director of Honda Automoveis do Brazil Ltda. President and Director of Moto Honda da Amazonia Ltda.
Yusuke Hori	Chief Officer for Customer First Operations
Tomomi Kosaka	Vice President of Fuel Cell System Manufacturing LLC
Noriaki Abe	Chief Officer for Motorcycle Operations
Toshiyuki Shimabara	Executive Vice President and Director of Honda of America Mfg., Inc.
Yasuhide Mizuno	Chief Officer for Regional Operations (China) President of Honda Motor (China) Investment Co., Ltd. President of Honda Motor Technology (China) Co., Ltd.
Kazuhiro Odaka	Chief Officer for Human Resources and Corporate Governance Operations Compliance Officer
Masayuki Igarashi	Chief Officer for Regional Operations (Asia & Oceania) President and Director of Asian Honda Motor Co., Ltd.
Hiroyuki Kachi	Vice Chief Officer for Production Operations Executive in Charge of Corporate Project
Soichi Yamamoto	President and Representative Director of Honda Engineering Co., Ltd. General Manager of Saitama Factory, Production Operations
Katsushi Inoue	Chief Officer for Regional Operations (Europe Region) President and Director of Honda Motor Europe Ltd.
Kimiyoshi Teratani	Chief Officer for Regional Operations (Japan)

Asako Suzuki	Vice Chief Officer for Regional Operations (Japan) General Manager of Product Planning and Brand Division, Regional Operations (Japan)
Katsuhisa Okuda	Chief Officer for Power Product Operations
Katsuhide Moriyama	Chief Officer for Brand and Communication Operations
Keiji Ohtsu	Chief Quality Officer

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

None of Honda's members of the board of directors is party to a service contract with Honda or any of its subsidiaries that provides for benefits upon termination of employment.

B. Compensation

On June 15, 2017, Honda established an Audit and Supervisory Committee, a body within its Board of Directors. Prior to this date, Honda had a Board of Corporate Auditors, a legally separate and independent body from the Board of Directors. See Item 16G. Corporate Governance.

The Company's remuneration structure for the officers shall be designed with the aim of motivating them to contribute not only to short-term, but also to mid- to long-term business results, to enable the sustainable enhancement of the corporate value, and shall consist of a fixed monthly remuneration paid as compensation for the performance of their duties, an executive bonus linked to the business results for the relevant business year, and a stock-based remuneration linked to mid- to long-term business results.

Monthly remuneration shall be paid in an amount that is suitable for attracting diverse and exceptional human resources, while taking into consideration the payment standards of other companies etc.

Executive bonuses shall be determined by a resolution of the Board of Directors taking into consideration the business results of each business year, dividends to shareholders, the standards of bonuses of employees and other matters.

Stock-based remuneration shall be paid in the Company's stock and money and linked to business results in the mid- to long-term based on the standards and procedures approved by the Board of Directors, so that the stock-based remuneration functions as a sound incentive aimed at sustainable growth.

Remuneration of the executive directors and the operating officers shall consist of monthly remuneration paid based on the remuneration standards approved by the Board of Directors as well as executive bonuses and stock-based remuneration.

Remuneration paid to the outside directors and other non-executive directors (excluding Audit and Supervisory Committee members) shall consist only of monthly remuneration based on remuneration standards approved by the Board of Directors.

Remuneration of the directors who are members of the Audit and Supervisory Committee shall consist only of monthly remuneration determined by discussion among directors who are members of the Audit and Supervisory Committee.

In order to advance the Company's sustainable growth and enhance its corporate value over the mid- to long-term by sharing common interests with the shareholders through having a shareholding in the Company, even directors and operating officers who are not eligible for stock-based remuneration shall acquire the Company's stock by contributing a certain portion of their fixed remuneration to the Officers Shareholding Association.

Directors and operating officers shall continuously hold throughout their term of office and for one year after their retirement any stock of the Company acquired as stock-based remuneration or acquired through the Officers Shareholding Association.

If the Board of Directors seeks to determine or change the remuneration structure or the remuneration standards for the officers, it shall discuss the matter after hearing the opinions formed in advance by the Audit and Supervisory Committee.

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The total amount of fixed monthly remuneration paid to the Company's Directors and Corporate Auditors during the fiscal year ended March 31, 2018 was ¥764 million. This amount includes fixed monthly remuneration paid to five Directors and one Corporate Auditor who retired during the fiscal year. The amount of fixed monthly remuneration paid to the Directors and Corporate Auditors includes amount of fixed monthly remuneration paid to those Directors and Corporate Auditors who were also Directors or Corporate Auditors of subsidiaries of the Company.

The total amount of bonuses for the Company's Directors accrued for the fiscal year ended March 31, 2018 was ¥230 million.

The amounts of fixed monthly remuneration paid and bonuses accrued during the year ended March 31, 2018 are as follows:

	Remuneration		Bonus		Total Yen (millions)
	Number of persons	Yen (millions)	Number of persons	Yen (millions)	
Directors excluding Audit and Supervisory Committee Members and outside Directors	12	¥ 551	7	¥ 230	¥ 782
Outside Directors excluding Audit and Supervisory Committee Members	2	29			29
Audit and Supervisory Committee Members excluding outside Directors	2	101			101
Outside Audit and Supervisory Committee Members	3	35			35
Corporate Auditors excluding outside Corporate Auditors	2	33			33
Outside Corporate Auditors	3	11			11
Total	24	¥ 764	7	¥ 230	¥ 995

The amount of fixed monthly remuneration paid to Takahiro Hachigo during the fiscal year ended March 31, 2018 was ¥102 million. The amount of bonus for Takahiro Hachigo accrued for the fiscal year ended March 31, 2018 was ¥53 million.

The amount of fixed monthly remuneration paid to Toshiaki Mikoshiba during the fiscal year ended March 31, 2018 was ¥81 million. The amount of bonus for Toshiaki Mikoshiba accrued for the fiscal year ended March 31, 2018 was ¥28 million.

The Board Incentive Plan

The Company resolved to introduce a new stock compensation scheme (the Scheme) for Directors and Operating Officers who conduct business execution and who are residents of Japan (collectively, Directors Etc.) at its Board of Directors meeting on May 15, 2018 and the 94th Ordinary General Meeting of Shareholders on June 14, 2018 (the approval at such Meeting of Shareholders, the Shareholder Approval). The Scheme is a stock compensation scheme that uses a BIP (Board Incentive Plan) trust (a BIP Trust), which is similar to performance share and restricted stock compensation plans used in the United States. Under the Scheme, Directors Etc. will be awarded and receive the Company shares and money in accordance with their positions and the degree of growth in management indicators of

the Company, such as financial results and corporate value. The Scheme was introduced for the purpose of further motivating Directors Etc. to pursue sustained improvement of corporate value of the Company in the medium to long term as well as common interests with shareholders.

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The basic structure of the Scheme and the payment methods thereunder are in principle as set forth below:

The Company will entrust money within the scope prescribed in the Shareholder Approval and create a BIP Trust, beneficiaries of which are Directors Etc. who satisfy beneficiary requirements.

The BIP Trust will be an individually-operated specified trust of money other than cash trust (third party beneficiary trust). In accordance with the instructions of the trust administrator, a third party certified public accountant who has no interests in the Company, the BIP Trust will acquire the Company's shares of common stock from the stock market using the source of the fund. The number of shares to be acquired shall be within the scope prescribed in the Shareholder Approval.

The trust agreement creating the BIP Trust will be entered into effect and the Scheme will become effective on August 20, 2018. During the term of the BIP Trust, which is scheduled to be from August 20, 2018 to August 31, 2021, the Company shall grant Directors Etc. base points determined by their positions, taking into consideration factors including work responsibilities and duties.

The trustees of the BIP Trust are currently planned to be Mitsubishi UFJ Trust and Banking Corporation and The Master Trust Bank of Japan, Ltd. We plan to set approximately ¥2,410 million as the amount of the trust money, which will include remunerations and expenses relating to maintenance of the trust. Currently, up to 1,310,000 shares of the Company's common stock are planned to be bought from the market for the purpose of this BIP Trust from August 22, 2018 to August 31, 2018. The Company is the holder of a vested right and the residual assets the Company can receive during the liquidation of the BIP Trust will be limited to the amount of reserve fund for maintenance of the trust. The voting rights of the shares of common stock held by the BIP Trust will not be exercised.

C. Board Practices

See Item 6.A Directors and Senior Management for information concerning the Company's Directors (including Audit and Supervisory Committee Members) required by this item.

D. Employees

The following tables list the number of Honda full-time employees as of March 31, 2016, 2017 and 2018.

As of March 31, 2016

	Motorcycle	Automobile	Financial Services	Power Product and
Total	Business	Business	Business	Other Businesses
208,399	44,384	152,311	2,209	9,495

As of March 31, 2016, Honda had 208,399 full-time employees, including 143,424 local nationals employed in its overseas operations.

As of March 31, 2017

	Motorcycle	Automobile	Financial Services	Power Product and
Total	Business	Business	Business	Other Businesses
211,915	43,869	156,093	2,276	9,677

As of March 31, 2017, Honda had 211,915 full-time employees, including 147,219 local nationals employed in its overseas operations.

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As of March 31, 2018

Total	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses
215,638	44,289	159,328	2,370	9,651

As of March 31, 2018, Honda had 215,638 full-time employees, including 150,883 local nationals employed in its overseas operations.

Most of the Company's regular employees in Japan, except management personnel, are required by the terms of the Company's collective bargaining agreement with its labor union to become members of the Federation of All Honda Workers' Union (AHWU), which is affiliated with the Japan Council of the International Metalworkers' Federation. Approximately 85% of the employees of the Company and its Japanese subsidiaries were members of AHWU as of March 31, 2018.

In Japan, basic wages are negotiated annually and the average increases in wages of the Company's employees in the fiscal year ended March 31, 2016, 2017 and 2018 were 2.3%, 2.4% and 2.5%, 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 Japanese 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 Directors (including Audit and Supervisory Committee Members) as a group as of June 14, 2018 is as follows.

Title of Class	Amount Owned	% of Class
Common Stock	346,820 shares	0.020%

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, 2018, the Association owned 5,889,061 shares of the Company's common stock.

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

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As of March 31, 2018, 1,811,428,430 shares of Honda's Common Stock were issued and 1,778,277,815 shares were outstanding.

The following table shows the shareholders of record that owned 5% or more of the issued shares of Honda's Common Stock as of March 31, 2018:

Name	Shares owned (thousands)	Ownership (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	136,021	7.65
The Master Trust Bank of Japan, Ltd. (Trust Account)	105,712	5.94

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According to a statement on Schedule 13G (Amendment No. 14) filed by Mitsubishi UFJ Financial Group, Inc. with the SEC on February 14, 2018, Mitsubishi UFJ Financial Group, Inc. directly and indirectly held, as of December 31, 2017, 118,152,820 shares, or 6.6% of the then issued shares, of Honda's Common Stock. According to a statement on Schedule 13G (Amendment No. 3) filed by BlackRock, Inc. with the SEC on January 30, 2018, BlackRock, Inc. directly and indirectly held, as of December 31, 2017, 111,334,900 shares, or 6.1% of the then issued shares, of Honda's Common Stock. According to a statement on Schedule 13G (Amendment No. 1) filed by Sumitomo Mitsui Trust Holdings, Inc. with the SEC on February 8, 2018, Sumitomo Mitsui Trust Holdings, Inc. directly and indirectly held, as of December 31, 2017, 96,163,400 shares, or 5.4% 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.

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, 2018 were 1,811,428,430 shares of Common Stock, of which 59,009,032 shares represented by ADSs and 294,466,672 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 255 at March 31, 2018.

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, 2018, Honda had sales of ¥864.1 billion and purchases of ¥1,551.5 billion with affiliates and joint ventures accounted for using the equity method. As of March 31, 2018, Honda had receivables of ¥263.9 billion from affiliates and joint ventures, and had payables of ¥181.3 billion to affiliates and joint ventures.

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 Item 4 Information on the Company Marketing and Distribution Overseas Sales .

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7. Legal Proceedings

Various legal proceedings are pending against us. We believe that such proceedings constitute ordinary routine litigation incidental to our business.

Honda is subject to potential liability under various lawsuits and claims. Honda recognizes a provision for loss contingencies when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recognized 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.

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 provision. Punitive damages are claimed in certain of these lawsuits.

After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the ultimate outcome of such lawsuits and pending claims should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position or results of operations.

Class actions related to airbag inflators

Honda has been conducting market-based measures in relation to airbag inflators. Honda recognizes a provision for specific warranty costs when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. There is a possibility that Honda will need to recognize additional provisions when new evidence related to the product recalls arise, however, it is not possible for Honda to reasonably estimate the amount and timing of potential future losses as of the date of this report.

In the United States and Canada, various class action lawsuits and civil lawsuits related to the above mentioned market-based measures have been filed against Honda. The plaintiffs have claimed for properly functioning airbag inflators, compensation of economic losses including incurred costs and the decline in the value of vehicles, as well as punitive damages. Most of the class action lawsuits in the United States were transferred to the United States District Court for the Southern District of Florida and consolidated into a multidistrict class action litigation.

For the year ended March 31, 2018, Honda has reached a settlement with the plaintiffs of the multidistrict class action litigation in the United States. This settlement is subject to final court approval. Honda recognized the settlement of ¥53,739 million as selling, general and administrative expense, which includes funds contributed to enhance airbag inflator recall activities.

For the class action lawsuits and civil lawsuits other than the above, Honda did not recognize a provision for loss contingencies because the conditions for a provision have not been met as of the date of this report. Therefore, it is not possible for Honda to reasonably estimate the amount and timing of potential future losses as of the date of this report because there are some uncertainties, such as the period when these lawsuits will be concluded.

8. Profit Redistribution Policy

The Company strives to carry out its operations worldwide from a global perspective and to increase its corporate value. With respect to the redistribution of profits to its shareholders, which we consider to be one of

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the most important management issues, the Company's basic policy is to determine such distributions after taking into account, among others, its retained earnings for future growth and consolidated earnings performance based on a long-term perspective. With respect to dividends, the present goal is to realize a return ratio (i.e. the ratio of the total of the dividend payment to consolidated profit for the year attributable to owners of the parent) of approximately 30%.

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.

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 and implementing a flexible capital strategy.

Retained earnings will be allocated toward financing R&D activities that are essential for the future growth of the Company as well as for capital expenditures and investment programs that will expand its operations for the purpose of improving business results and maintaining the Company's sound financial condition.

The Company determined total dividends for the year ended March 31, 2018 were ¥100 per share, an increase of ¥8 from the annual dividends paid for the year ended March 31, 2017. Quarterly dividends per share for the year ended March 31, 2018 were as follows: the first quarter ¥24, the second quarter ¥24, the third quarter ¥25, the fourth quarter ¥27 per share.

Details of Distribution of Surplus (Record dates of the fiscal year ended March 31, 2018)

	Resolution of the Board of Directors August 1, 2017	Resolution of the Board of Directors November 1, 2017	Resolution of the Board of Directors February 2, 2018	Resolution of the Board of Directors April 27, 2018
Dividend per Share of Common Stock (yen)	24.00	24.00	25.00	27.00
Total Amount of Dividends (millions of yen)	43,254	43,254	44,456	48,013

B. Significant Changes

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

Item 9. The Offer and Listing*A. Offer and Listing Details*

Honda's shares have traded on the Tokyo Stock Exchange (TSE) since its shares were first listed on the TSE in 1957.

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.

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

Fiscal year	Yen per share of Common Stock on the TSE		U.S. dollars per American Depositary Share on the NYSE	
	High	Low	High	Low
2014	¥4,405	¥ 3,350	\$ 42.96	\$ 34.24
2015	4,170	3,239	36.02	28.61
2016	4,499	2,726	36.44	24.56
2017				
1st quarter	¥3,200	¥ 2,459	\$ 28.74	\$ 24.52
2nd quarter	3,224	2,417	31.18	24.03
3rd quarter	3,579	2,694	30.66	27.51
4th quarter	3,675	3,292	32.17	29.42
2018				
1st quarter	¥3,383	¥ 3,045	\$ 30.21	\$ 27.07
2nd quarter	3,379	3,000	30.04	27.05
3rd quarter	3,936	3,327	34.45	29.56
4th quarter	4,151	3,427	37.29	32.86
CY 2017				
December	¥3,936	¥ 3,705	\$ 34.45	\$ 33.04
CY 2018				
January	¥4,151	¥ 3,817	\$ 36.52	\$ 34.09
February	4,030	3,653	37.29	33.85
March	3,861	3,427	36.01	32.86
April	3,836	3,581	35.44	33.78
May	3,802	3,405	34.05	31.37

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A, Offer and Listing Details .

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

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Item 10. Additional Information

A. Share Capital

Not applicable.

B. 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 (the "Company Law") 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 1,811,428,430 shares were issued.

The current central clearing system for shares of Japanese listed companies was established in 2009 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"). The shares of all Japanese companies listed on any Japanese financial instruments exchange, including Honda's shares, are subject to the system. Under the Book-Entry Law, all shares are dematerialized and all share certificates for such shares are 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 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.

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.

A registered shareholder is generally entitled to exercise its rights as a shareholder, such as voting rights and to receive dividends (if any). 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 (a) 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 (b) exercise the 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.

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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, aircraft 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, stationery, 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 communication and information provision, industrial planning and design, comprehensive security business and labor dispatch services.

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

Electricity generation and supply and sale of electricity.

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

Provisions Regarding Directors

There is no provision in Honda's Articles of Incorporation as to a Director's power to vote on a proposal, arrangement or contract in which the Director is materially interested, but the Company Law and Honda's regulations of the Board of Directors provide that such Director is required to refrain from voting on such matters at the Board of Director's meetings.

The Company Law provides that compensation for directors is determined at a general meeting of shareholders of a company, provided that, in the case of a company which adopts a company with an audit and supervisory committee corporate governance system (the Audit and Supervisory Committee system) including Honda, compensation for directors who are Audit and Supervisory Committee members and that for directors who are not such members are separately determined. Within the upper limit approved by the shareholders' meeting, the board of directors will determine the amount of compensation for each director and may leave such decision to the president's discretion by its resolution, provided, however, that unless individual amount of compensation for each of directors who are Audit and Supervisory Committee members has been determined in the articles of incorporation or by a general meeting of shareholders, such amount shall be determined by discussion among such directors who are Audit and Supervisory Committee members.

The Company Law provides that a significant loan from a third party to a company should be approved by the board of directors.

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There is no mandatory retirement age for directors under the Company Law or Honda's Articles of Incorporation.

The Company Law provides that any articles of incorporation of a company having no restriction on a transfer of its shares, including Honda, may not provide any requirement concerning the number of shares one individual must hold in order to qualify him or her as a director.

Dividends

Under its Articles of Incorporation, Honda's financial accounts will be closed on March 31 of each year. The record dates for dividends are 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

Honda may at any time split its shares into a 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

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Honda without approval of shareholders to increase the number of its authorized shares to such number as it determines, provided such number is equal to or less than the then-current number multiplied by the ratio of 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 effective 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.

Consolidation of Shares

Honda may at any time consolidate its 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. If the consolidation of shares effected by Honda produces any fractional shares, any dissenting shareholder of such fractional shares may request that Honda purchase all of such fractional shares by such holder, at a fair price.

Under the Book-Entry Law, Honda must give notice to JASDEC regarding a consolidation of shares at least two weeks prior to the relevant effective date. On the effective date of the consolidation of shares, the numbers 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 a unit share system called *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 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 meeting of shareholders. 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 voting unit are transferable. Under the rules of the Japanese financial instruments exchanges, however, shares constituting less than one voting 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

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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.

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

In addition to the rights 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 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. The record date for an Ordinary General Meeting of Shareholders is March 31 of each year.

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 General Meeting of Shareholders by a majority of the shares having voting rights represented at the meeting. The Company Law and Honda's Articles of

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Incorporation require a quorum for the election of Directors 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, and the Company Law requires that directors who are not Audit and Supervisory Committee members and directors who are such members shall be separately elected by a general meeting of shareholders. Honda's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder whose voting rights are in turn not less 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.

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 General Meeting of Shareholders by at least 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 are 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 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

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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.

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.

Holdings of Shares by Foreign Investors

There are no limitations on the rights of non-residents or foreign shareholders to hold or exercise voting rights on Honda's shares imposed by the laws of Japan or Honda's Articles of Incorporation or other constituent documents.

Shareholders' Register Manager

Sumitomo Mitsui Trust Bank, Limited is the Shareholders' Register Manager for the shares. Sumitomo Mitsui Trust Bank's office is located at 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-8233, Japan. Sumitomo Mitsui Trust Bank 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 dates for Honda's dividends are 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.

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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 second business day prior to a record date (or if the record date is not a business day, the third business day prior thereto).

Acquisition by Honda of Shares

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

- (i) a resolution at a General Meeting of Shareholders, which may be effective for one year at the most from the date thereof;

- (ii) a resolution of the Board of Directors if the acquisition is in accordance with its Articles of Incorporation; or

- (iii) a resolution of the Board of Directors if the acquisition is to purchase its shares from a subsidiary.

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

Upon due authorization, Honda may acquire its own shares:

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

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

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

In the event Honda is to acquire its own shares from a specific person other than its subsidiary at a price which is higher than the higher of (x) the final market price on the market trading such shares as of the date immediately preceding the date of the required resolution or (y) 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, upon convening a General Meeting of Shareholders, Honda may deem that the information required to be described or indicated in the reference documents for the General Meeting of Shareholders, business reports, financial statements and consolidated financial statements shall have been provided to the shareholders when such information is disclosed, pursuant to laws or regulations, through a method that uses the Internet. Further, pursuant to its Articles of Incorporation, Honda's public notices to shareholders shall be given in Japanese by way of electronic public notice; provided, however, that if any public notice is unable to be given by electronic method due to any accident or for any other unavoidable reason, such public notice shall be given by publication in the Nihon Keizai Shimbun, a Japanese newspaper of general circulation.

Table of Contents**Report of Substantial Shareholdings**

The Financial Instruments and Exchange Law of Japan and regulations under such law require any person other than the relevant corporation 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. As of April 1, 2014, any person who filed a report on or after that date to reflect a change in holding of 5% or less of the total issued shares is not required to file any further report for a change of 1% or more in shareholding (unless the holding exceeds 5%) or any change in material matters previously reported. Copies of any report must also be furnished 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.

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 of Japan which materially affect our ability to import or export capital for our use or our ability to pay dividends or other payments to non-resident 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.

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

In the absence of any applicable tax 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 (a) 20.42% for dividends to be paid on or before December 31, 2037, and (b) 20% for dividends to be paid thereafter. 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 20.42% or 20% withholding tax rate is reduced to (i) 15.315% for dividends to be paid on or before December 31, 2037, and (ii) 15% for dividends to be paid thereafter, except for dividends paid to any individual shareholder who holds 3% 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% or 10% for portfolio investors (15% under the income tax treaties with, among others, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore, and Spain, and 10% under the income tax treaties with, among others, Australia, France, the Netherlands, Portugal, Sweden, Switzerland, the United Kingdom, and the United States).

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%. Under Japanese tax law, the maximum rate applicable under the tax treaties, conventions or agreements shall be applicable except when such maximum rate is more than the Japanese statutory rate.

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

United States Taxes

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

This section is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the U.S.-Japan Tax Treaty (the 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 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 Treaty, is not ineligible for benefits under the Treaty with respect to income and gain from the shares or ADSs.

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

If a partnership holds the shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the shares or ADSs should consult its tax advisor with regard to the U.S. federal income tax treatment of an investment in the shares or ADSs.

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) to a U.S. holder 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 that constitute qualified dividend income will be taxable to such U.S. holder at the preferential rates applicable to long-term capital gains 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 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 Depository, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The amount of the dividend distribution that a U.S. holder must include in its income will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date of the dividend distribution, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the U.S. holder includes the dividend payment in income to the date it converts the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the U.S. for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of U.S. holder's basis in the shares or ADSs and thereafter as capital gain. However, Honda does not expect to calculate earnings and profits in accordance with U.S. federal income tax principles. Accordingly, a U.S. holder should expect to generally treat distributions that Honda makes as dividends.

Subject to certain limitations, the Japanese tax withheld in accordance with the Treaty and paid over to Japan will be creditable or deductible 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 preferential tax rates. To the extent a refund of the tax withheld is available to a U.S. holder under Japanese law or under the 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.

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Dividends will generally be income from sources outside the United States and will generally be passive income for purposes of computing the foreign tax credit allowable to such 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

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

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

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

any gain it realizes on the sale or other disposition of its shares or 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.

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

If a U.S. holder owns shares or ADSs in a PFIC that are treated as marketable stock, such U.S. 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 amounts.

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, unless a U.S. holder has made a mark-to-market election with respect to its shares or ADSs or the U.S. holder has otherwise made a purging election with respect to its shares or ADSs.

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 U.S. holder if Honda is a PFIC (or is treated as a PFIC with respect to such U.S. holder) in either the taxable year of the distribution or the preceding taxable year. Dividends that a U.S. holder receives that do not constitute qualified dividend income are not eligible for taxation at the preferential rates 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, subject to certain applicable exceptions set forth in Internal Revenue Service regulations. Each U.S. holder should consult its own tax advisors regarding the PFIC rules and potential filing and other requirements.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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 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 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.

Table of Contents*I. Subsidiary Information*

Not applicable.

Item 11. Quantitative and Qualitative Disclosure about Market Risk

The information required under this Item 11 is set forth in (b) Market Risk of note (25) Financial Risk Management to the accompanying consolidated financial statements.

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***3. Fees and charges**

JPMorgan Chase Bank, N.A., as ADR depository, 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 depository 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.

The charges of the ADR depository payable by investors are as follows:

Category (as defined by SEC)	Depository 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: Share distributions, stock split, rights, merger	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered

Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the deposited securities

(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)

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Category (as defined by SEC)	Depository Actions	Associated Fee
(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 depository receipts	USD 2.50 per ADS certificate
(f) General depository services, particularly those charged on an annual basis	Not applicable	

Category	Depository Actions	Associated Fee
(g) Expenses of the depository	Expenses incurred on behalf of holders in connection with Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment	Expenses payable at the sole discretion of the depository by billing holders or by deducting charges from one or more dividends or other cash distributions

The depository or its custodian's compliance with applicable law, rule or regulation

Stock transfer or other taxes and other governmental charges

Cable, telex, facsimile transmission/delivery

Expenses of the depository 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 the depository or its agents

4. Direct / Indirect Payment Disclosure

Honda does not receive any reimbursement from the depositary bank. JPMorgan Chase Bank, N.A. 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 depositary service administration, including but not limited to, dividend disbursement and proxy process. From April 1, 2017 to March 31, 2018, the Depositary waived \$163,829.67 in expenses related to the Ordinary General Meeting of Shareholders.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

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Item 15. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and participation of our management, including our Chief Executive Officer and Chief 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, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer 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 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 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, 2018 based on the criteria established in *Internal Control-Integrated Framework (2013)* 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, 2018.

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

Changes in Internal Control over Financial Reporting

No significant changes were made in our internal control over financial reporting for the fiscal year ended March 31, 2018 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 Audit and Supervisory Committee has determined that Mr. Masafumi Suzuki and Mr. Hideo Takaura are each qualified as an audit committee financial expert as defined by the rules of the SEC. Additionally, Mr. Suzuki and Mr. Takaura each meet the independence requirements applicable under Section 303A.06 of the New York Stock

Exchange Listed Company Manual.

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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

KPMG AZSA LLC has served as Honda's independent registered public accounting firm for each of the fiscal years in the three-year period ended March 31, 2018, for which audited financial statements appear in this Annual Report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by KPMG AZSA LLC and the various member firms of KPMG International to Honda in fiscal year 2017 and 2018:

	Yen (millions)	
	2017	2018
Audit Fees	¥ 4,583	¥ 4,512
Audit-Related Fees	120	123
All Other Fees	8	8
Total	¥ 4,711	¥ 4,643

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.

All Other Fees mainly includes fees for services rendered with respect to advisory services.

Pre-approval policies and procedures of the Audit and Supervisory Committee

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

While, as a general rule, specific pre-approval must be obtained for these services to be provided, the Audit and Supervisory Committee has adopted pre-approval policies and procedures which list particular audit and non-audit services that may be provided without specific pre-approval. The Audit and Supervisory Committee 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 the principal accountant and its affiliates which are not specifically set forth in this list must be specifically pre-approved by the Audit and Supervisory Committee.

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.

Table of Contents**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

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 fiscal year ended March 31, 2018. There were no purchases of Honda's shares by its affiliated purchasers during that fiscal year.

Period	(a) Total Number of Shares Purchased*1	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Yen Amount of Shares that May Yet Be Purchased Under the Plans or Programs*2
April 1 to April 30, 2017	238	¥ 3,193		
May 1 to May 31, 2017	380	¥ 3,132		
June 1 to June 30, 2017	446	¥ 3,105		
July 1 to July 31, 2017	210	¥ 3,090		
August 1 to August 31, 2017	56	¥ 3,039		
September 1 to September 30, 2017	102	¥ 3,055		
October 1 to October 31, 2017	299	¥ 3,404		
November 1 to November 30, 2017	22,275,273	¥ 3,619	22,275,000	¥ 9,376,876,400
December 1 to December 31, 2017	1,725,272	¥ 3,739	1,725,000	¥ 2,926,327,100
January 1 to January 31, 2018	180	¥ 3,992		
February 1 to February 28, 2018	158	¥ 3,760		
March 1 to March 31, 2018	166	¥ 3,800		
Total	24,002,780	¥ 3,411	24,000,000	

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

*2 During the year ended March 31, 2018, the following share repurchase program was in effect:

Share repurchase was resolved at the meeting of the Board of Directors pursuant to the articles of incorporation Date of announcement: November 1, 2017

Maximum number of shares authorized to be repurchased: 24,000,000

Maximum yen amount authorized to be used for repurchase: ¥90,000,000,000

Repurchased period: from November 2, 2017 to January 31, 2018

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

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Table of Contents***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.

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**

Effective on June 15, 2017, Honda adopted a company with an audit and supervisory committee corporate governance system (the "Audit and Supervisory Committee system") under Japan's Company Law (to which amendments on this system were effected as of May 1, 2015) upon approval on the amendments to the Articles of Incorporation relating thereto at its Ordinary General Meeting of Shareholders held on June 15, 2017.

For Japanese companies which employ the Audit and Supervisory Committee system, including Honda, Japan's Company Law requires that such companies have a board of directors, which shall consist of directors who are audit and supervisory committee members and directors who are not such members, and an audit and supervisory committee, which shall consist of three or more directors, a majority of which shall be outside directors as defined below. Honda's Articles of Incorporation provides for its Board of Directors consisting of no more than 20 members of whom no more than seven Directors shall be Audit and Supervisory Committee Members. Honda currently has nine Directors who are not Audit and Supervisory Committee Members and five Directors who are Audit and Supervisory Committee Members. Within those Directors, two out of nine Directors who are not Audit and Supervisory Committee Members and three out of five Directors who are Audit and Supervisory Committee Members are Outside Directors. Under Japan's Company Law, directors who are not audit and supervisory committee members and directors who are

such members shall be separately elected by shareholders at a general meeting of shareholders. In addition, Japan's Company Law provides that dismissal of any of directors who are audit and supervisory committee members shall be approved by a special resolution of a general meeting of shareholders. Under the Articles of Incorporation of Honda, the quorum for a

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**Corporate Governance Practices Followed by
NYSE-listed U.S. Companies**

**Corporate Governance Practices Followed by
Honda**

special resolution is one-third of the total number of voting rights, and the approval of not less than two-thirds of the voting rights held by the shareholders present at the meeting is required for adopting a special resolution.

Outside director is defined as a director who meets all of the following independence requirements: the relevant person must be (1) a person who is not an executive director, executive officer, manager or any other employee of the company or any of its subsidiaries and has not been in such position for ten years prior to the assumption of office; (2) if the relevant person assumed an office of a non-executive director, accounting councilor or corporate auditor of the company or any of its subsidiaries during the ten years mentioned in (1) above, a person who had not been an executive director, executive officer, manager or any other employee of the company or any of its subsidiaries for further ten years prior to the assumption of such office; (3) a person who is not a director, corporate auditor, executive officer, manager or any other employee of the parent company or who is not a natural person controlling the company; (4) a person who is not an executive director, executive officer, manager or any other employee of a company which is controlled by the parent company or by the natural person controlling the company; and (5) a person who is not a spouse or one of a certain kinds of relatives of (a) a director, executive officer, manager or any other important employee of the company or (b) the natural person controlling the company.

In addition, the listing rules of the Tokyo Stock Exchange, which Honda is subject to (but reference to corporate auditor below is not applicable to Honda), require listed companies to have at least one independent director or corporate auditor, and to make efforts to have at least one independent director. Requirements for an independent director/corporate auditor are more stringent than those for outside directors or outside corporate auditors. Unlike an outside director/corporate auditor, an independent director/corporate auditor may not be (a) a person who

is, or has been until recently, a major business
counterparty or an executive director, executive officer,
manager or employee of the major business
counterparties, (b) a person who is, or has been until
recently, a professional advisor receiving significant

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**Corporate Governance Practices Followed by
NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have an audit committee composed entirely of independent directors meeting the independence requirements under Section 303A.02 of the NYSE Listed Company Manual, and the audit committee must have at least three members.

**Corporate Governance Practices Followed by
Honda**

remuneration from the company, (c) a person who has been until recently a director, executive officer, corporate auditor, manager or employee of the parent company or an executive director, executive officer, manager or employee of the parent company's subsidiaries, or (d) a relative of persons mentioned in (a), (b) and (c) or a relative of certain scope of persons such as directors of the parent company or any of its subsidiaries. Currently Honda has five Outside Directors all of whom are also independent Directors.

On June 15, 2017, pursuant to a resolution of the Ordinary General Meeting of Shareholders, Honda established an Audit and Supervisory Committee, a body within its Board of Directors. Prior to this date, Honda had a Board of Corporate Auditors, a legally separate and independent body from the Board of Directors, and had relied on an exemption available to foreign private issuers with Board of Corporate Auditors meeting certain criteria established under their home country law with respect to the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees. Following the establishment of the Audit and Supervisory Committee and the termination of the Board of Corporate Auditors, Honda is required to satisfy the requirements set forth Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees. However, as a foreign private issuer, Honda is not subject to the independence requirements applicable to U.S. issuers pursuant to Section 303A.02 of the NYSE Listed Company manual. Additionally, as a foreign private issuer, Honda is not subject to the requirement under the Section 303A .07 of the NYSE Listed Company manual that the audit committee be made up of at least three members.

Under Japan's Company Law, the audit and supervisory committee has the following responsibilities: (i) auditing the performance of duties by directors and preparing audit reports, (ii) determining a proposal concerning the appointment and dismissal of the company's accounting audit firm and the refusal of reappointment of the company's accounting audit firm to be submitted to general meetings of shareholders, (iii) deciding opinions on election, dismissal or

resignation of directors who are not audit and
supervisory committee members, in which case

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**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. Compensation committee members must satisfy the additional independence requirements under Section 303A.02(a)(ii) of the NYSE Listed Company Manual. A compensation committee must also have

**Corporate Governance Practices Followed by
Honda**

the audit and supervisory committee may express its opinion at the general meeting of shareholders, and (iv) deciding opinions on compensation of directors who are not audit and supervisory committee members, in which case the audit and supervisory committee may express its opinion at the general meeting of shareholders. Under Japan's Company Law, each director who is an audit and supervisory committee member has a two-year term. In contrast, the term of each director who is not such member is one year.

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

A proposal by Honda's Board of Directors to elect a Director who is an Audit and Supervisory Committee Member must be approved by the Audit and Supervisory Committee. In addition, the Audit and Supervisory Committee is empowered to request that Honda's Directors submit a proposal to a general meeting of shareholders for election of a Director who is an Audit and Supervisory Committee Member.

The Directors who are Audit and Supervisory Committee Members have the right to state their opinion concerning the proposed election, dismissal or resignation of a Director who is an Audit and Supervisory Committee Member at the general meeting of shareholders. In addition, the Audit and Supervisory Committee has the right to state its opinion through an Audit and Supervisory Committee Member selected by the Committee concerning the proposed election, dismissal or resignation of a Director who is not an Audit and Supervisory Committee Member at the general meeting of shareholders.

The maximum total amount of compensation for Honda's Directors is proposed to and voted on by the general meeting of shareholders, provided that the maximum total amount for Honda's Directors who are Audit and Supervisory Committee Members and that for Honda's Directors who are not such members shall

authority to retain or obtain the advice of compensation and other advisers, subject to prescribed independence criteria that the committee must consider prior to engaging any such adviser.

be separately proposed and voted.

Unless individual amount of compensation for each of Honda's Directors who is an Audit and Supervisory Committee Member has been determined in the Articles of Incorporation or by a General Meeting of Shareholders, such amount shall be determined by

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**Corporate Governance Practices Followed by
NYSE-listed U.S. Companies**

**Corporate Governance Practices Followed by
Honda**

discussion among the Directors who are Audit and Supervisory Committee Members within the maximum total amount approved at the General Meeting of Shareholders. In addition, unless individual amount of compensation for each of Honda's Directors who is not Audit and Supervisory Committee Member has been determined in the Articles of Incorporation or by a General Meeting of Shareholders, such amount shall be determined in accordance with the compensation standards approved by the Board of Directors or a resolution of the Board of Directors within the maximum total amount approved at a General Meeting of Shareholders.

The Directors who are Audit and Supervisory Committee Members have the right to state their opinion concerning compensation for Directors who are Audit and Supervisory Committee Members at the General Meeting of Shareholders. The Audit and Supervisory Committee has the right to state its opinion through an Audit and Supervisory Committee Member selected by the Committee concerning compensation for Directors who are not Audit and Supervisory Committee Members.

Currently, Honda has not adopted a stock option compensation plan. If Honda were to adopt such a plan, Honda would be required to obtain shareholder approval with respect to compensation for the Directors in the form of stock options, but the detailed conditions of the stock options may be determined by the Board of Directors unless they are issued with specifically favorable conditions or price for the Directors concerning the issuance and exercise of the stock options.

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

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

See Consolidated Financial Statements attached hereto.

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Item 19. Exhibits

- 1.1 Articles of Incorporation of the registrant (English translation)
 - 1.2 Share Handling Regulations of the registrant (English translation)
 - 1.3 Regulations of the Board of Directors of the registrant (English translation)
 - 1.4 Regulations of the Audit and Supervisory Committee 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 JPMorgan Chase Bank, N.A.), as Depositary, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (2)
 - 2.3 Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (2)
 - 2.4 Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (3)
 - 2.5 Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006, among the parties referred to in Exhibit 2.2 above (4)
 - 2.6 Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)
 - 8.1 List of Significant Subsidiaries (See Organizational Structure in Item 4.C of this Form 20-F)
 - 11.1 Code of Ethics (6)
 - 12.1 Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a)
 - 12.2 Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a)
 - 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
 - 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350
-
- (1) Incorporated by reference to the registrant's Annual Report on Form 20-F filed on September 27, 2001. (P)
 - (2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995. (P)
 - (3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001. (P)
 - (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.

(P) Paper exhibits

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HONDA MOTOR CO., LTD.
(Honda Giken Kogyo Kabushiki Kaisha)
(A Japanese Company)
AND SUBSIDIARIES
Consolidated Financial Statements
and
Reports of Independent Registered
Public Accounting Firm
March 31, 2018

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Index to Consolidated Financial Statements

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Financial statements of affiliates and joint ventures are omitted because such affiliates and joint ventures are not individually significant.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Honda Motor Co., Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Honda Motor Co., Ltd. and subsidiaries (the Company) as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 20, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG AZSA LLC

We have served as the Company's auditor since 1962.

Tokyo, Japan

June 20, 2018

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Honda Motor Co., Ltd.:

Opinion on Internal Control Over Financial Reporting

We have audited Honda Motor Co., Ltd. and subsidiaries (the Company) internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* 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) (PCAOB), the consolidated statements of financial position of the Company as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated June 20, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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 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 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.

/s/ KPMG AZSA LLC

Tokyo, Japan

June 20, 2018

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Financial Position****March 31, 2017 and 2018**

		Yen (millions)	
	Note	2017	2018
Assets			
Current assets:			
Cash and cash equivalents	5	¥ 2,105,976	¥ 2,256,488
Trade receivables	6	764,026	800,463
Receivables from financial services	7	1,878,938	1,840,699
Other financial assets	8	149,427	213,177
Inventories	9	1,364,130	1,523,455
Other current assets		292,970	291,006
Total current assets		6,555,467	6,925,288
Non-current assets:			
Investments accounted for using the equity method	10	597,262	679,517
Receivables from financial services	7	3,070,615	3,117,364
Other financial assets	8	364,612	436,555
Equipment on operating leases	11	4,104,663	4,088,133
Property, plant and equipment	12	3,200,378	3,062,433
Intangible assets	13	778,192	741,514
Deferred tax assets	23	121,509	129,338
Other non-current assets		165,425	169,022
Total non-current assets		12,402,656	12,423,876
Total assets		¥ 18,958,123	¥ 19,349,164
Liabilities and Equity			
Current liabilities:			
Trade payables	14	¥ 1,183,344	¥ 1,224,627
Financing liabilities	15	2,786,928	2,917,261
Accrued expenses		417,736	404,719
Other financial liabilities	16	119,784	115,405
Income taxes payable		45,507	53,595
Provisions	17	348,095	305,994
Other current liabilities		527,448	602,498
Total current liabilities		5,428,842	5,624,099
Non-current liabilities:			

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Financing liabilities	15	4,022,190	3,881,749
Other financial liabilities	16	47,241	60,005
Retirement benefit liabilities	18	494,131	404,401
Provisions	17	248,935	220,625
Deferred tax liabilities	23	900,450	629,722
Other non-current liabilities		246,708	294,468
Total non-current liabilities		5,959,655	5,490,970
Total liabilities		11,388,497	11,115,069
Equity:			
Common stock		86,067	86,067
Capital surplus		171,118	171,118
Treasury stock		(26,189)	(113,271)
Retained earnings		6,712,894	7,611,332
Other components of equity		351,406	178,292
Equity attributable to owners of the parent		7,295,296	7,933,538
Non-controlling interests		274,330	300,557
Total equity	19	7,569,626	8,234,095
Total liabilities and equity		¥ 18,958,123	¥ 19,349,164

See accompanying notes to consolidated financial statements.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Income****Years ended March 31, 2016, 2017 and 2018**

		Yen (millions)		
	Note	2016	2017	2018
Sales revenue	20	¥ 14,601,151	¥ 13,999,200	¥ 15,361,146
Operating costs and expenses:				
Cost of sales		(11,332,399)	(10,865,848)	(12,000,581)
Selling, general and administrative		(2,108,874)	(1,601,212)	(1,775,151)
Research and development	21	(656,502)	(691,429)	(751,856)
Total operating costs and expenses		(14,097,775)	(13,158,489)	(14,527,588)
Operating profit		503,376	840,711	833,558
Share of profit of investments accounted for using the equity method	10	126,001	164,793	247,643
Finance income and finance costs:				
Interest income	22	28,468	32,389	41,191
Interest expense	22	(18,146)	(12,471)	(12,970)
Other, net	22	(4,249)	(18,436)	5,551
Total finance income and finance costs		6,073	1,482	33,772
Profit before income taxes		635,450	1,006,986	1,114,973
Income tax expense	23	(229,092)	(327,592)	13,666
Profit for the year		¥ 406,358	¥ 679,394	¥ 1,128,639
Profit for the year attributable to:				
Owners of the parent		344,531	616,569	1,059,337
Non-controlling interests		61,827	62,825	69,302
		2016	2017	2018
Earnings per share attributable to owners of the parent				
Basic and diluted	24	¥ 191.16	¥ 342.10	¥ 590.79

See accompanying notes to consolidated financial statements.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****Years ended March 31, 2016, 2017 and 2018**

	Note	Yen (millions)		
		2016	2017	2018
Profit for the year		¥ 406,358	¥ 679,394	¥ 1,128,639
Other comprehensive income, net of tax:				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit plans		(70,709)	58,154	13,344
Net changes in revaluation of financial assets measured at fair value through other comprehensive income		(15,797)	22,707	19,288
Share of other comprehensive income of investments accounted for using the equity method	10	(1,274)	3,262	1,688
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		(430,152)	8,064	(204,184)
Share of other comprehensive income of investments accounted for using the equity method	10	(36,591)	(22,644)	10,620
Total other comprehensive income, net of tax	19	(554,523)	69,543	(159,244)
Comprehensive income for the year		¥ (148,165)	¥ 748,937	¥ 969,395
Comprehensive income for the year attributable to:				
Owners of the parent		(188,580)	696,079	899,545
Non-controlling interests		40,415	52,858	69,850

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, 2016, 2017 and 2018**

	Note	Yen (millions)					Total	Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity			
Balance as of April 1, 2015		¥ 86,067	¥ 171,118	¥ (26,165)	¥ 6,083,573	¥ 794,034	¥ 7,108,627	¥ 274,194	¥ 7,382,821
Comprehensive income for the year									
Profit for the year					344,531		344,531	61,827	406,358
Other comprehensive income, net of tax	19					(533,111)	(533,111)	(21,412)	(554,523)
Total comprehensive income for the year					344,531	(533,111)	(188,580)	40,415	(148,165)
Reclassification to retained earnings	19				(75,192)	75,192			
Transactions with owners and other									
Dividends paid	19				(158,601)		(158,601)	(40,525)	(199,126)
Purchases of treasury stock				(14)			(14)		(14)
Disposal of treasury stock				1			1		1
Equity transactions and others								(3,729)	(3,729)
Total transactions with owners				(13)	(158,601)		(158,614)	(44,254)	(202,868)

and other

Balance as of March 31, 2016		¥ 86,067	¥ 171,118	¥ (26,178)	¥ 6,194,311	¥ 336,115	¥ 6,761,433	¥ 270,355	¥ 7,031,788
Comprehensive income for the year									
Profit for the year					616,569		616,569	62,825	679,394
Other comprehensive income, net of tax	19					79,510	79,510	(9,967)	69,543
Total comprehensive income for the year					616,569	79,510	696,079	52,858	748,937
Reclassification to retained earnings	19				64,219	(64,219)			
Transactions with owners and other									
Dividends paid	19				(162,205)		(162,205)	(47,716)	(209,921)
Purchases of treasury stock					(12)		(12)		(12)
Disposal of treasury stock					1		1		1
Equity transactions and others								(1,167)	(1,167)
Total transactions with owners and other					(11)	(162,205)	(162,216)	(48,883)	(211,099)
Balance as of March 31, 2017		¥ 86,067	¥ 171,118	¥ (26,189)	¥ 6,712,894	¥ 351,406	¥ 7,295,296	¥ 274,330	¥ 7,569,626
Comprehensive income for the year									
Profit for the year					1,059,337		1,059,337	69,302	1,128,639
Other comprehensive income, net of tax	19					(159,792)	(159,792)	548	(159,244)

Total comprehensive income for the year			1,059,337	(159,792)	899,545	69,850	969,395		
Reclassification to retained earnings	19		13,322	(13,322)					
Transactions with owners and other									
Dividends paid	19		(174,221)		(174,221)	(43,623)	(217,844)		
Purchases of treasury stock			(87,083)		(87,083)		(87,083)		
Disposal of treasury stock			1		1		1		
Equity transactions and others									
Total transactions with owners and other			(87,082)	(174,221)	(261,303)	(43,623)	(304,926)		
Balance as of March 31, 2018		¥ 86,067	¥ 171,118	¥ (113,271)	¥ 7,611,332	¥ 178,292	¥ 7,933,538	¥ 300,557	¥ 8,234,095

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, 2016, 2017 and 2018**

	Note	2016	Yen (millions) 2017	2018
Cash flows from operating activities:				
Profit before income taxes		¥ 635,450	¥ 1,006,986	¥ 1,114,973
Depreciation, amortization and impairment losses excluding equipment on operating leases		660,714	674,329	713,093
Share of profit of investments accounted for using the equity method		(126,001)	(164,793)	(247,643)
Finance income and finance costs, net		(982)	(55,911)	13,218
Interest income and interest costs from financial services, net		(151,374)	(119,953)	(127,529)
Changes in assets and liabilities				
Trade receivables		(88,173)	49,217	(41,778)
Inventories		66,405	(72,144)	(202,916)
Trade payables		105,189	12,999	69,429
Accrued expenses		32,151	50,339	(2,700)
Provisions and retirement benefit liabilities		329,391	(252,837)	(28,945)
Receivables from financial services		354,353	40,525	(174,438)
Equipment on operating leases		(558,826)	(435,503)	(158,337)
Other assets and liabilities		20,765	71,940	11,602
Other, net		4,851	998	9,314
Dividends received		105,477	121,770	161,106
Interest received		233,873	220,947	245,095
Interest paid		(92,355)	(99,607)	(115,317)
Income taxes paid, net of refund		(139,913)	(164,229)	(250,556)
Net cash provided by operating activities		1,390,995	885,073	987,671
Cash flows from investing activities:				
Payments for additions to property, plant and equipment		(635,176)	(494,132)	(415,563)
Payments for additions to and internally developed intangible assets		(236,783)	(143,320)	(156,927)
Proceeds from sales of property, plant and equipment and intangible assets		25,617	18,710	15,042
Payments for acquisitions of subsidiaries, net of cash and cash equivalents acquired			(2,835)	
Payments for acquisitions of investments accounted for using the equity method		(3,238)	(547)	(2,450)
Proceeds from sales of investments accounted for using the equity method		3,237	16,208	
Payments for acquisitions of other financial assets		(173,761)	(222,464)	(280,236)

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Proceeds from sales and redemptions of other financial assets	145,414	177,762	224,302
Other, net	(387)		719
Net cash used in investing activities	(875,077)	(650,618)	(615,113)
Cash flows from financing activities:			
Proceeds from short-term financing liabilities	8,302,231	8,207,530	8,106,505
Repayments of short-term financing liabilities	(8,708,320)	(8,129,295)	(8,004,620)
Proceeds from long-term financing liabilities	1,826,991	1,902,448	1,689,596
Repayments of long-term financing liabilities	(1,267,290)	(1,622,603)	(1,609,554)
Dividends paid to owners of the parent	(158,601)	(162,205)	(174,221)
Dividends paid to non-controlling interests	(40,331)	(35,059)	(48,332)
Purchases and sales of treasury stock, net	(13)	(11)	(87,082)
Other, net	(49,966)	(45,382)	(46,626)
Net cash provided by (used in) financing activities	(95,299)	115,423	(174,334)
Effect of exchange rate changes on cash and cash equivalents	(134,893)	(1,358)	(47,712)
Net change in cash and cash equivalents	285,726	348,520	150,512
Cash and cash equivalents at beginning of year	1,471,730	1,757,456	2,105,976
Cash and cash equivalents at end of year	5	¥ 1,757,456	¥ 2,105,976
			¥ 2,256,488

See accompanying notes to consolidated financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Reporting Entity

Honda Motor Co., Ltd. (the Company) is a public company domiciled in Japan. The Company and its subsidiaries (collectively Honda) develop, manufacture and distribute motorcycles, automobiles, power products and others throughout the world, and also provide financial services to customers and dealers for the sale of those products. Principal manufacturing facilities are located in Japan, the United States of America, Canada, Mexico, the United Kingdom, Turkey, Italy, France, China, India, Indonesia, Malaysia, Thailand, Vietnam, Argentina and Brazil.

(2) Basis of Preparation

(a) Compliance with International Financial Reporting Standards

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The term IFRS also includes International Accounting Standards (IASs) and the related interpretations of the interpretations committees (SIC and IFRIC).

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities separately stated in note 3.

(c) Functional Currency and Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. All financial information presented in Japanese yen has been rounded to the nearest million Japanese yen, except when otherwise indicated.

(d) Early Adoption of New Accounting Standards and Interpretations

Honda has early adopted IFRS 9 Financial Instruments (issued in November 2009, amended in October 2010 and November 2013).

(e) New Accounting Standards and Interpretations Not Yet Adopted

Major new or amended standards and interpretations that have been issued as of the date of approval of the consolidated financial statements but are not effective and have not yet been adopted by Honda as of March 31, 2018 are as follows:

IASB issued the final version of IFRS 9 Financial Instruments in July 2014. IFRS 9 (issued in 2014) includes amended guidance on the classification and measurement (including impairment) of financial assets. The guidance on impairment replaces the incurred loss model under IAS 39 with the expected credit loss (ECL) model.

IFRS 9 (issued in 2014) is effective for annual periods beginning on or after January 1, 2018. Accordingly, Honda will apply this standard initially on April 1, 2018. This standard will generally be applied retrospectively to each prior reporting period presented with an exemption allowing comparative information for prior periods not to be restated with respect to classification and measurement (including impairment) changes. Honda plans to apply this exemption.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Under IFRS 9 (issued in 2014), lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. Lifetime ECL represents ECL that results from all possible default events over the expected life of a financial asset and 12-month ECL represents ECL that results from default events that are possible within 12 months after the reporting date. ECL is the probability-weighted estimate of credit losses. Credit losses are the present value of the difference between the contractual cash flows and the cash flows that the entity expects to receive.

When determining whether the credit risk has increased significantly, Honda will assess financial assets either individually based primarily on delinquencies or collectively for groups of financial assets with shared risk characteristics such as the period of initial recognition, collateral type, original term and credit score considering changes in expected default rates and other factors.

The net impact of adopting IFRS 9 (issued in 2014) on the opening balance of retained earnings as of April 1, 2018 is expected to be immaterial.

IASB issued IFRS 15 Revenue from Contracts with Customers in May 2014. IFRS 15 replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Accordingly, Honda will apply this standard initially on April 1, 2018. This standard may be applied retrospectively to each prior reporting period presented (retrospective approach) or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application (modified retrospective approach). Honda plans to apply the modified retrospective approach.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. Under IFRS 15, Honda assesses at contract inception the goods or services promised in a contract with a customer and identifies such promised goods or services as performance obligations. When a performance obligation is satisfied, Honda recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. When determining the transaction price, Honda also considers the effects of variable consideration.

Honda has identified certain effects of the new standard that could change the timing of revenue recognition. Specifically, Honda's contracts with customers may include promises to transfer goods or services without charges such as free inspection. Such promised goods or services may be considered performance obligations and related sales revenue may be deferred under IFRS 15 if deemed material, while such sales revenue is recognized at contract inception under the current accounting policy. Furthermore, dealer incentives are considered variable consideration when determining the transaction price and revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved, which may result in higher deductions from sales revenue recognized when products are sold to dealers.

The net impact of adopting IFRS 15 on the opening balance of retained earnings as of April 1, 2018 is expected to be a reduction of approximately ¥46 billion.

IASB issued IFRS 16 Leases in January 2016. IFRS 16 replaces existing lease guidance including IAS 17 Leases , IFRIC 4 Determining whether an Arrangement contains a Lease , SIC-15 Operating Leases Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease .

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this standard. Honda plans to apply this standard initially on April 1, 2019.

IFRS 16 changes the definition of a lease and provides a single on-balance lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Honda will recognize new assets and liabilities for operating leases with some exceptions. In addition, expenses related to leases will now change from straight-line operating lease expenses to depreciation charge for right-of-use assets and interest expense on lease liabilities. Lessor accounting remains similar to the current standard. Honda will continue to assess the overall impact of the adoption of IFRS 16 on the Company's consolidated financial statements.

As a lessee, this standard can be applied retrospectively to each prior reporting period presented (retrospective approach) or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application (modified retrospective approach). Honda has not yet determined its transition approach.

(f) Use of Estimates and Judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amount of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about judgments that have been made in the process of applying accounting policies and that have significant effects on the amounts reported in the consolidated financial statements is as follows:

Scope of subsidiaries, affiliates and joint ventures (notes 3(a) and 3(b))

Recognition of intangible assets arising from development (note 3(h))

Accounting for contracts including lease (note 3(i))

Information about accounting estimates and assumptions that have significant effects on the amounts reported in the consolidated financial statements is as follows:

Valuation of financial assets measured at amortized cost (notes 6, 7 and 8)

Fair value of financial instruments (note 26)

Net realizable value of inventories (note 9)

Recoverable amount of non-financial assets (notes 11, 12 and 13)

Measurement of provisions (note 17)

Measurement of net defined benefit liabilities (assets) (note 18)

Recoverability of deferred tax assets (note 23)

Likelihood and magnitude of outflows of resources embodying economic benefits required to settle contingent liabilities (note 28)

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(3) Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries which are directly or indirectly controlled by the Company, and those structured entities which are controlled by Honda. All significant intercompany balances and transactions have been eliminated in consolidation.

Honda controls an entity when Honda is exposed or has rights to variable returns from involvement with the entity, and has the ability to affect those returns by using its power, which is the current ability to direct the relevant activities, over the entity. To determine whether or not Honda controls an entity, status of voting rights or similar rights, contractual agreements and other specific factors are taken into consideration.

Structured entities are entities designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Honda consolidates structured entities over which it has control, by comprehensively determining whether its control over the entity exists based on any contractual arrangements with such entity as well as the percentage of its voting or similar rights in the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when the control is obtained until the date when the control is lost. The financial statements of subsidiaries have been adjusted in order to ensure consistency with the accounting policies adopted by the Company as necessary.

Changes in the Company's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. When control over a subsidiary is lost, the investment retained after the loss of control is remeasured at fair value as of the date of the loss of control, and any gain or loss on such remeasurement and disposal of the interest sold is recognized in profit or loss.

(b) Investments in Affiliates and Joint Ventures (Investments Accounted for Using the Equity Method)

Affiliates are entities over which Honda has a significant influence over the decisions on financial and operating policies, but does not have control or joint control.

Joint ventures are joint arrangements whereby the parties including Honda that have joint control have rights to the net assets of the arrangement. Joint arrangements are arrangements of which two or more parties have joint control, and joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in affiliates and joint ventures are accounted for using the equity method from the date when the investees are determined to be affiliates or joint ventures until the date when they ceased to be classified as affiliates or joint ventures. Under the equity method, the investment is initially recognized at cost, and the carrying amount is subsequently increased or decreased, to recognize Honda's share of profit or loss and other comprehensive income of the affiliate or the joint venture after the date of initial recognition. The financial statements of affiliates and joint

ventures have been adjusted in order to ensure consistency with the accounting policies adopted by the Company in applying the equity method, as necessary.

The use of the equity method is discontinued from the date when the investees are determined to be no longer affiliates or joint ventures. Unless the investee becomes a subsidiary, the investment retained after cessation of the equity method is remeasured at fair value, and any gain or loss on such remeasurement and disposal of the investment is recognized in profit or loss.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(c) Foreign Currency Translations

1) Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies at the exchange rates prevailing when such transactions occur. All foreign currency receivables and payables are translated into the respective functional currencies at the applicable exchange rates at the end of the reporting period. Gains or losses on exchange differences arising on settlement of foreign currency receivables and payables or on their translations at the end of the reporting date are recognized in profit or loss and they are included in finance income and finance costs-other, net in the consolidated statements of income.

2) Foreign operations

All assets and liabilities of foreign subsidiaries, affiliates and joint ventures (collectively *foreign operations*), which use a functional currency other than Japanese yen, are translated into Japanese yen at the exchange rates at the end of the reporting period. All revenues and expenses of foreign operations are translated into Japanese yen at the average exchange rate for the period. Exchange differences arising from translation are recognized in other comprehensive income and accumulated in other components of equity in the consolidated statements of financial position. When a foreign operation is disposed of, and control, significant influence or joint control over the foreign operation is lost, the cumulative amount of exchange differences relating to the foreign operation is reclassified from equity to profit or loss.

(d) Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity security of another entity. When Honda becomes a party to the contractual provision of a financial instrument, the financial instrument is recognized either as a financial asset or as a financial liability. When Honda purchases or sells a financial asset, the financial asset is recognized or derecognized at the trade date.

1) Non-derivative financial assets

Honda classifies financial assets other than derivatives into *financial assets measured at amortized cost*, *financial assets measured at fair value through other comprehensive income* or *financial assets measured at fair value through profit or loss*. Honda determines the classification of financial assets upon initial recognition.

Financial assets measured at amortized cost

A financial asset is classified into financial assets measured at amortized cost when the asset is held within a business model whose objective is to hold the asset in order to collect the contractual cash flows, and the contractual term of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortized cost are initially measured at their fair value, and are subsequently measured at amortized cost using the effective interest method.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Financial assets measured at fair value

A financial asset other than a financial asset measured at amortized cost is classified into financial assets measured at fair value. The financial assets measured at fair value are further classified into the following categories, according to their holding purposes:

Financial assets measured at fair value through other comprehensive income

Honda elects to designate investments in equity securities such as shares, held for maintaining and strengthening the trade relationship as financial assets measured at fair value through other comprehensive income.

Financial assets measured at fair value through other comprehensive income are initially measured at their fair value, and subsequent changes in fair value of the investment are presented in other comprehensive income. However, dividends from the investment are principally recognized in profit or loss.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value other than financial assets measured at fair value through other comprehensive income are classified into financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss are initially measured at their fair value, and subsequent changes in fair value are recognized in profit or loss.

Financial assets are derecognized when the contractual rights to cash flows from the financial assets expire, or when the contractual rights to receive the cash flows from the financial assets are transferred and all risks and rewards of ownership of the financial assets are substantially transferred.

When a financial asset measured at fair value through other comprehensive income is sold, an amount of accumulated other comprehensive income recognized in other components of equity in the consolidated statements of financial position is directly reclassified to retained earnings.

(Cash and cash equivalents)

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Honda includes all highly liquid debt instruments with original maturities of three months or less in cash equivalents.

2) Non-derivative financial liabilities

Financial liabilities other than derivatives are initially measured at their fair value, and are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are derecognized, when the obligations specified in the contract are discharged, canceled or expire.

3) Derivatives

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

All these derivatives are initially recognized as assets or liabilities and measured at fair value, when Honda becomes a party to the contractual provision of the derivatives. Subsequent changes in fair value of derivatives are recognized in profit or loss in the period of the changes.

Honda has not held any derivatives designated as hedging instruments for the years ended March 31, 2016, 2017 and 2018.

4) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statements of financial position, only when Honda currently has a legally enforceable right to offset the recognized amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(e) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes purchase costs and conversion costs, and it is determined principally by using the first-in first-out method. Conversion cost includes an appropriate share of production overheads on the normal operation capacity. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(f) Equipment on Operating Leases

Equipment on operating leases is measured based on the cost model and carried at its cost less accumulated depreciation and impairment losses.

A vehicle subject to operating lease is initially measured at its cost. Depreciation of equipment on operating leases is calculated on the straight-line method over the lease term. The depreciable amount is the cost of the vehicle less its residual value which is estimated by using the estimate of future used vehicle value, taking into consideration external industry data and Honda's historical experience.

(g) Property, Plant and Equipment

Property, plant and equipment is measured based on the cost model and carried at its cost less accumulated depreciation and impairment losses.

Property, plant and equipment is initially measured at its cost. Subsequent expenditures on an item of property, plant and equipment acquired, are recognized in the carrying amount of the item, only when it is probable that the expenditure will generate a future economic benefit.

Depreciation of property, plant and equipment, except for land that is not subject to depreciation, is calculated on the straight-line method over the estimated useful life. The depreciable amount is the cost of the asset less the respective

estimated residual values.

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

Buildings and structures: 3 to 50 years

Machinery and equipment: 2 to 20 years

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

The depreciation method, useful lives and residual values of property, plant and equipment are reviewed annually at each fiscal year end, and adjusted prospectively, if appropriate.

(h) Intangible Assets

Intangible assets are measured based on the cost model and carried at their cost less accumulated amortization and impairment losses.

(Research and development)

Development expenditure for a product is capitalized only when there is a technical and commercial feasibility of completing the development, Honda has intention, ability and sufficient resources to use the outcome of the development, it is probable that the outcome will generate a future economic benefit, and the cost can be measured reliably.

Capitalized development cost is measured at the sum of expenditures for development incurred between when the foregoing conditions for capitalization are initially met and when the development is completed, and includes all directly attributable costs to the development process. Capitalized development cost is amortized using the straight-line method over the expected product life cycle of the developed product ranging mainly from 2 to 6 years.

Expenditures on research and other development expenditures which do not meet the foregoing conditions are expensed as incurred.

(Other intangible asset)

Other intangible assets are initially measured at cost and principally amortized using the straight-line method over their estimated useful lives. Other intangible assets are mainly comprised of software for internal use whose estimated useful lives range from 3 to 5 years.

The amortization method and useful lives of intangible assets are reviewed annually at each fiscal year end, and adjusted prospectively, if appropriate.

(i) Lease

An arrangement that is or contains a lease is determined based on the substance of the arrangement by assessment of whether the fulfillment of that arrangement depends on use of a specific asset or group of assets, and whether a right to use the asset is transferred under the arrangement.

When an arrangement is or contains a lease, the lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership, based on the substance of the arrangement. Leases other than finance lease are classified as operating lease.

1) Lease as a lessee

A leased asset and liability for the future lease payment under a finance lease are initially recognized at the lower of fair value of the leased asset or the present value of the minimum lease payments, each determined at inception of the lease. After the initial recognition, the leased asset is accounted for according to the accounting policies applied to the asset. Lease payments under a finance lease are apportioned between the finance cost and the reduction in the carrying amount of the liability. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

2) Lease as a lessor

The finance subsidiaries of the Company engage in the business of leasing vehicles as a lessor. A receivable from customer held under a finance lease is initially recognized at the amount of net investment in the lease which is the gross investment in the lease discounted at the interest rate implicit in the lease, and included in receivables from financial services in the consolidated statements of financial position. After the initial recognition, the receivable under finance lease is accounted for in accordance with the accounting policies applied to financial assets. Vehicles subject to operating leases are presented as equipment on operating leases in the consolidated statements of financial position.

(j) Impairment

1) Financial assets measured at amortized cost

At the end of each reporting period, based on individual assets or assets grouped according to credit risk characteristics, financial assets measured at amortized cost are assessed to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment includes significant financial difficulty of the issuer or the borrowers, a default or delinquency in interest or principal payments, an increase in the probability of bankruptcy or other financial restructuring of the issuer, and disappearance of an active market for the security.

If there is an objective evidence that financial assets measured at amortized cost is impaired, the amount of impairment loss is measured as the difference between the carrying amount of the assets and its present value which is calculated by discounting estimated future cash flows using the asset's original effective interest rate. The impairment loss is recognized in profit or loss, by deducting the carrying amount of the financial assets directly or through an allowance account.

Further, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognized, the impairment loss which was recorded in prior periods is reversed and recognized in profit or loss.

Receivables from financial services Allowance for credit losses

The allowance for credit losses is management's estimate of probable losses incurred on receivables from financial services. Estimated losses on past due operating lease rental payments are also recognized through an allowance for credit losses.

Consumer finance receivables are collectively evaluated for impairment. Delinquencies and losses are continuously monitored and this historical experience provides the primary basis for estimating the allowance. Various methodologies are utilized when estimating the allowance for credit losses including models that incorporate vintage loss and delinquency migration analysis. The models take into consideration attributes of the portfolio including loan-to-value ratios, internal and external credit scores, collateral types, and loan terms. Market and economic factors

such as used vehicle prices, unemployment, and consumer debt service burdens are also incorporated into these models.

Dealer finance receivables are individually evaluated for impairment when specifically identified as impaired. Dealer finance receivables are considered to be impaired when it is probable that the finance subsidiaries of the Company will be unable to collect all amounts due according to the original terms of the loan. The determination of whether dealer loans are impaired is based on evaluations of dealerships' payment history, financial condition and cash flows, and their ability to perform under the terms of the loans. Dealer loans that have not been specifically identified as impaired are collectively evaluated for impairment.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Receivables from financial services Allowance for losses on lease residual values

The allowance for losses on lease residual values is management's estimate of probable losses arising from declines in the estimated lease residual values incurred on receivables from finance leases.

The finance subsidiaries of the Company purchase insurance to cover a substantial amount of the estimated residual value of a part of vehicles leased as finance leases to customers. The allowance for losses on lease residual values are 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.

2) Non-financial assets and investments accounted for using the equity method

At the end of the reporting period, the carrying amount of non-financial assets other than inventories and deferred tax assets (which are comprised mainly of equipment on operating leases, property, plant and equipment, and intangible assets) and investments accounted for using the equity method are assessed to determine whether or not there is any indication of impairment. If there is such an indication, the recoverable amount of such asset is estimated and compared with the carrying amount of the asset, as test of impairment.

For investments accounted for using the equity method, the entire carrying amount of each investment in affiliates and joint ventures is tested for impairment as a single asset, when there is objective evidence that the investments accounted for using the equity method may be impaired.

The recoverable amount of an individual asset or cash-generating units is the higher of fair value less costs to sell and value in use. Value in use is determined as the present value of future cash flows expected to be derived from an asset or a cash-generating unit. A cash-generating unit is determined as the smallest identifiable group of assets that generate cash inflows which are largely independent of cash inflows from other assets or a group of assets. When it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

When the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized in profit or loss. An impairment loss for a cash-generating unit is allocated to the assets on the basis of the relative carrying amount of each asset in the unit.

An impairment loss recognized for an asset or a cash-generating unit in prior period is reversed, if there is any indication that the impairment loss may have decreased or may no longer exist, and when the recoverable amount of the asset exceeds the carrying amount. If this is the case, the carrying amount of the asset is increased to its recoverable amount, but the increased carrying amount does not exceed the carrying amount (net of depreciation or amortization) calculated on the basis that no impairment loss had occurred in the prior period.

(k) Provisions

Provisions are recognized when Honda has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Provisions are measured based on the best estimate of expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, a provision is measured at the present value of the expenditures required to settle the obligation. In calculating the present value, a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability is used as the discount rate.

(l) Employee Benefits

1) Short-term employee benefits

For short-term employee benefits including salaries, bonuses and paid annual leave, when the employees render related services, the amounts expected to be paid in exchange for those services are recognized as expenses.

2) Post-employment benefits

Honda has various post-employment benefit plans including defined benefit plans and defined contribution plans.

Defined benefit plans

For defined benefit plans, the present value of defined benefit obligations less the fair value of plan assets is recognized as either liability or asset in the consolidated statements of financial position.

The present value of defined benefit obligations and service cost are principally determined for each plan using the projected unit credit method. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds that is consistent with the currency and estimated term of the post-employment benefit obligation. Net interest on the net defined benefit liability (asset) for the reporting period is determined by multiplying the net defined benefit liability (asset) by the discount rate.

Past service cost defined as the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment is recognized in profit or loss upon occurrence of the plan amendment or curtailment.

Honda recognizes the difference arising from remeasurement of present value of the defined benefit obligations and the fair value of the plan assets in other comprehensive income when it is incurred, and reclassifies it immediately to retained earnings.

Defined contribution plans

For defined contribution plans, when the employees render related services, the contribution payables to defined contribution plan are recognized as expenses.

(m) Equity

1) Common share

Common share issued by the Company is classified as equity, and the proceeds from issuance of common share are included in common stock and capital surplus.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

2) Treasury stock

Treasury stock acquired by Honda is recognized at cost and deducted from equity. When treasury stock is sold, the consideration received is recognized as equity with the difference between the carrying amount and the consideration received included in capital surplus.

(n) Revenue Recognition

Sales revenue is measured at the fair value of consideration received or receivable. Amounts collected from customers and remitted to governmental authorities such as sales taxes are accounted for on a net basis and, therefore, are deducted from sales revenue.

The specific criteria for revenue recognition for each type of transactions are as follows:

1) Sale of products

Revenue from sale of products is recognized when the significant risks and rewards of ownership of products are transferred to the customer, Honda retains neither continuous involvement nor effective control over the product, the amount of revenue and the corresponding cost can be measured reliably and collection of the relevant receivable is reasonably assured. This generally corresponds to the date of delivery of products to customers.

Honda provides dealer incentives retained by the dealer, which generally represent discounts provided from Honda to the dealer. Honda also provides incentive programs generally in the form of below-market interest rate loans or lease programs for the retail customers to enhance dealer's sales activities. The amount incurred for these programs is calculated based on the difference between the interest or lease rate offered to retail customers and the market-based interest or lease rate. These incentives are estimated and recognized at the time the product is sold to the dealer, and are deducted from sales revenue in the consolidated statements of income.

2) Rendering of financial services

Interest income from receivables from financial services is recognized using the effective interest method. Finance receivable origination fees and certain direct origination costs are included in the calculation of the effective interest rate, and the net fee or cost is amortized using the effective interest method over the contractual term of the finance receivables.

The finance subsidiaries of the Company offer financial services that contain a lease. Interest income from receivables held under a finance lease is recognized using the effective interest method. When Honda is the manufacturer or dealer lessor, sales revenue and the corresponding cost for a portion identified as sale of products is recognized in profit or loss in accordance with the policy on revenue recognition for sale of products. Revenue from operating leases is recognized on a straight-line basis over the term of the lease.

(o) Income Taxes

Income tax expenses are presented as the aggregate amount of current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss, except for the tax arising from a transaction which is recognized either in other comprehensive income or directly in equity.

Current taxes are measured at the amount expected to be paid to (or recovered from) the taxation authorities in respect of the taxable profit (or tax loss) for the reporting period, using the tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the carrying amount of assets or liabilities in the consolidated statements of financial position and the tax base of the assets or liabilities and carryforward of unused tax losses and tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses, and unused tax credits can be utilized.

Deferred tax liabilities for taxable temporary differences related to investments in subsidiaries and affiliates, and interest in joint ventures are not recognized to the extent that Honda is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future. Deferred tax assets for deductible temporary differences arising from investments in subsidiaries and affiliates, and interest in joint ventures are recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which they can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the assets are realized or the liabilities are settled, based on the tax rates and tax laws enacted or substantively enacted at the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which Honda expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Honda reviews the carrying amount of deferred tax assets at the end of each reporting period, and reduces the carrying amount of deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax assets to be utilized.

Deferred tax assets and deferred tax liabilities are offset, only when Honda has a legally enforceable right to set off current tax assets against current tax liabilities, and the same taxation authority levies income taxes either on the same taxable entity or on different taxable entity which intends either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously.

Honda recognizes the impact of tax positions in the consolidated financial statements, if any, based on Honda's assessment of various factors including interpretations of tax law and prior experiences, when it is probable that the positions will be sustained upon examination by the taxation authorities.

(p) Earnings per Share

Basic earnings per share is calculated by dividing profit for the year attributable to owners of the parent by the weighted average number of common shares outstanding during the period.

(4) Segment Information

Honda has four reportable segments: Motorcycle business, Automobile business, Financial services business and Power product and other businesses, which are based on Honda's organizational structure and characteristics of products and services. Operating segments are defined as the components of Honda for which separate financial

information is available that is evaluated regularly by the chief operating decision maker 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 the Company's consolidated financial statements.

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), side-by-sides (SxS) and relevant parts	Research and development Manufacturing Sales and related services
Automobile Business	Automobiles and relevant parts	Research and development Manufacturing Sales and related services
Financial Services Business	Financial services	Retail loan and lease related to Honda products Others
Power Product and Other Businesses	Power products and relevant parts, and others	Research and development Manufacturing Sales and related services Others

(a) Segment Information

Segment information as of and for the years ended March 31, 2016, 2017 and 2018 is as follows:

As of and for the year ended March 31, 2016

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 1,805,429	¥ 10,625,405	¥ 1,835,605	¥ 334,712	¥ 14,601,151	¥	¥ 14,601,151
Intersegment		142,280	14,095	17,532	173,907	(173,907)	
Total	1,805,429	10,767,685	1,849,700	352,244	14,775,058	(173,907)	14,601,151
Segment profit (loss)	¥ 181,773	¥ 153,366	¥ 199,358	¥ (31,121)	¥ 503,376	¥	¥ 503,376

Share of profit of investments accounted for using the equity method	¥ 26,077	¥ 99,362	¥	¥ 562	¥ 126,001	¥	¥ 126,001
Segment assets	1,412,404	7,493,086	9,071,874	333,586	18,310,950	(81,656)	18,229,294
Investments accounted for using the equity method	97,195	491,122		4,685	593,002		593,002
Depreciation and amortization	76,267	564,631	622,874	13,770	1,277,542		1,277,542
Capital expenditures	73,541	796,209	1,972,647	18,251	2,860,648		2,860,648
Impairment losses on non-financial assets	99	4,684	6,470	92	11,345		11,345
Provision for credit and lease residual losses on receivables from financial services			26,899		26,899		26,899

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

As of and for the year ended March 31, 2017

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 1,716,165	¥ 10,086,816	¥ 1,878,094	¥ 318,125	¥ 13,999,200	¥	¥ 13,999,200
Intersegment		169,850	13,188	31,567	214,605	(214,605)	
Total	1,716,165	10,256,666	1,891,282	349,692	14,213,805	(214,605)	13,999,200
Segment profit (loss)	¥ 170,740	¥ 501,181	¥ 178,449	¥ (9,659)	¥ 840,711	¥	¥ 840,711
Share of profit of investments accounted for using the equity method							
Segment assets	¥ 31,835	¥ 132,411	¥	¥ 547	¥ 164,793	¥	¥ 164,793
Investments accounted for using the equity method	1,505,637	7,543,388	9,437,044	312,303	18,798,372	159,751	18,958,123
Depreciation and amortization	93,410	499,067		4,785	597,262		597,262
Capital expenditures	79,398	576,546	664,940	14,544	1,335,428		1,335,428
Impairment losses on non-financial assets	66,241	607,629	1,886,607	12,272	2,572,749		2,572,749
Provision for credit and lease residual losses on receivables from financial services	185	626	7,987	170	8,968		8,968
			31,448		31,448		31,448

As of and for the year ended March 31, 2018

Yen (millions)

	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 2,038,712	¥ 10,852,171	¥ 2,123,194	¥ 347,069	¥ 15,361,146	¥	¥ 15,361,146
Intersegment		193,038	14,071	24,097	231,206	(231,206)	
Total	2,038,712	11,045,209	2,137,265	371,166	15,592,352	(231,206)	15,361,146
Segment profit (loss)	¥ 267,015	¥ 373,840	¥ 196,067	¥ (3,364)	¥ 833,558	¥	¥ 833,558
Share of profit of investments accounted for using the equity method							
Segment assets	¥ 31,270	¥ 215,843	¥	¥ 530	¥ 247,643	¥	¥ 247,643
Investments accounted for using the equity method	1,533,367	7,879,769	9,409,243	314,838	19,137,217	211,947	19,349,164
Depreciation and amortization	89,498	584,922		5,097	679,517		679,517
Capital expenditures	74,128	616,321	748,503	15,164	1,454,116		1,454,116
Impairment losses on non-financial assets	63,927	514,910	1,801,554	14,243	2,394,634		2,394,634
Provision for credit and lease residual losses on receivables from financial services	42	3,648	11,911	4	15,605		15,605
			36,699		36,699		36,699

Explanatory notes:

1. Segment profit (loss) of each segment is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before share of profit of investments accounted for using the equity method and finance income and finance costs. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable.
2. Segment assets of each segment are defined as total assets including investments accounted for using the equity method, derivatives, 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 revenues are generally made at values that approximate arm's-length prices.

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

4. Reconciling items include elimination of intersegment transactions and balances as well as unallocated corporate assets. Unallocated corporate assets, included in reconciling items as of March 31, 2016, 2017 and 2018 amounted to ¥451,387 million, ¥530,809 million and ¥519,780 million, respectively, which consist primarily of the Company's cash and cash equivalents and financial assets measured at fair value through other comprehensive income.
5. Provisions for product warranties accrued for the years ended March 31, 2016, 2017 and 2018 are ¥607,646 million, ¥198,016 million and ¥219,575 million, respectively. These are mainly included in Automobile business.
6. The amount of write-down of inventories recognized as an expense for the year ended March 31, 2016 is ¥27,610 million and this is primarily related to aircraft and aircraft engines, which are included in Power Product and Other businesses. The amounts of write-down of inventories recognized as an expense for the years ended March 31, 2017 and 2018 are ¥22,707 million and ¥67,768 million, respectively. These are related to Automobile business and aircraft and aircraft engines, which are included in Power Product and Other businesses.

(b) Product or Service Groups Information

Sales revenue by product or service groups of Honda for the years ended March 31, 2016, 2017 and 2018 is as follows:

	Yen (millions)		
	2016	2017	2018
Motorcycles and relevant parts	¥ 1,679,130	¥ 1,598,935	¥ 1,919,232
All-terrain vehicles (ATVs), side-by-sides (SxS) and relevant parts	126,299	117,230	119,480
Automobiles and relevant parts	11,446,424	10,920,594	11,813,125
Financial services	1,014,586	1,044,316	1,162,240
Power products and relevant parts	268,486	245,881	266,233
Others	66,226	72,244	80,836
Total	¥ 14,601,151	¥ 13,999,200	¥ 15,361,146

(c) Geographical Information

The sales revenue and carrying amounts of non-current assets other than financial instruments and deferred tax assets based on the location of the Company and its subsidiaries as of and for the years ended March 31, 2016, 2017 and 2018 are as follows:

As of and for the year ended March 31, 2016

Yen (millions)

	Japan	United States	Other Countries	Total
Sales revenue	¥ 2,022,931	¥ 7,263,557	¥ 5,314,663	¥ 14,601,151
Non-current assets other than financial instruments and deferred tax assets	¥ 2,426,439	¥ 3,759,009	¥ 1,611,133	¥ 7,796,581
As of and for the year ended March 31, 2017				

	Yen (millions)			
	Japan	United States	Other Countries	Total
Sales revenue	¥ 2,114,833	¥ 6,755,460	¥ 5,128,907	¥ 13,999,200
Non-current assets other than financial instruments and deferred tax assets	¥ 2,492,467	¥ 4,067,831	¥ 1,688,360	¥ 8,248,658

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****As of and for the year ended March 31, 2018**

	Yen (millions)			
	Japan	United States	Other Countries	Total
Sales revenue	¥ 2,240,033	¥ 7,028,633	¥ 6,092,480	¥ 15,361,146
Non-current assets other than financial instruments and deferred tax assets	¥ 2,580,515	¥ 3,784,531	¥ 1,696,056	¥ 8,061,102

(d) Supplemental Geographical Information

In addition to the disclosure required by IFRS, Honda provides the following supplemental information for the financial statements users:

Supplemental geographical information based on the location of the Company and its subsidiaries

As of and for the year ended March 31, 2016

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥ 2,022,931	¥ 8,123,655	¥ 693,255	¥ 2,955,690	¥ 805,620	¥ 14,601,151	¥	¥ 14,601,151
Inter-geographic areas	1,905,654	413,427	82,782	579,683	3,032	2,984,578	(2,984,578)	
Total	3,928,585	8,537,082	776,037	3,535,373	808,652	17,585,729	(2,984,578)	14,601,151
Operating profit (loss)	¥ (98,714)	¥ 210,862	¥ 18,747	¥ 335,508	¥ (8,322)	¥ 458,081	¥ 45,295	¥ 503,376
Assets	¥ 4,258,071	¥ 10,240,942	¥ 719,561	¥ 2,467,481	¥ 603,754	¥ 18,289,809	¥ (60,515)	¥ 18,229,294
Non-current assets other than financial instruments and deferred tax assets	¥ 2,426,439	¥ 4,364,808	¥ 118,992	¥ 713,968	¥ 172,374	¥ 7,796,581	¥	¥ 7,796,581

As of and for the year ended March 31, 2017

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥ 2,114,833	¥ 7,621,550	¥ 638,436	¥ 2,893,404	¥ 730,977	¥ 13,999,200	¥	¥ 13,999,200
Inter-geographic areas	1,998,576	476,518	150,957	562,629	2,518	3,191,198	(3,191,198)	
Total	4,113,409	8,098,068	789,393	3,456,033	733,495	17,190,398	(3,191,198)	13,999,200
Operating profit (loss)								
	¥ 104,560	¥ 398,725	¥ 12,112	¥ 331,466	¥ 29,016	¥ 875,879	¥ (35,168)	¥ 840,711
Assets								
Non-current assets other than financial instruments and deferred tax assets	¥ 4,236,574	¥ 10,743,185	¥ 675,983	¥ 2,694,622	¥ 670,332	¥ 19,020,696	¥ (62,573)	¥ 18,958,123
	¥ 2,492,467	¥ 4,766,609	¥ 107,443	¥ 694,919	¥ 187,220	¥ 8,248,658	¥	¥ 8,248,658

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****As of and for the year ended March 31, 2018**

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥ 2,240,033	¥ 8,067,455	¥ 680,497	¥ 3,541,680	¥ 831,481	¥ 15,361,146	¥	¥ 15,361,146
Inter-geographic areas	2,240,651	517,150	236,717	679,340	6,043	3,679,901	(3,679,901)	
Total	4,480,684	8,584,605	917,214	4,221,020	837,524	19,041,047	(3,679,901)	15,361,146
Operating profit (loss)	¥ 86,916	¥ 278,476	¥ 15,837	¥ 402,620	¥ 43,831	¥ 827,680	¥ 5,878	¥ 833,558
Assets	¥ 4,405,523	¥ 10,651,191	¥ 727,045	¥ 2,942,053	¥ 659,781	¥ 19,385,593	¥ (36,429)	¥ 19,349,164
Non-current assets other than financial instruments and deferred tax assets	¥ 2,580,515	¥ 4,530,019	¥ 105,649	¥ 683,006	¥ 161,913	¥ 8,061,102	¥	¥ 8,061,102

Explanatory notes:

1. Major countries or regions in each geographic area:

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

2. Operating profit (loss) of each geographical region is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before share of profit of investments accounted for using the equity method and finance income and finance costs.

3. Assets of each geographical region are defined as total assets including investments accounted for using the equity method, derivatives, and deferred tax assets.
4. Sales revenues between geographic areas are generally made at values that approximate arm's-length prices.
5. Reconciling items include elimination of inter-geographic transactions and balances as well as unallocated corporate assets. Unallocated corporate assets, included in reconciling items as of March 31, 2016, 2017 and 2018 amounted to ¥451,387 million, ¥530,809 million and ¥519,780 million, respectively, which consist primarily of the Company's cash and cash equivalents and financial assets measured at fair value through other comprehensive income.

(5) Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Cash and deposits	¥ 1,528,861	¥ 1,691,645
Cash equivalents	577,115	564,843
Total	¥ 2,105,976	¥ 2,256,488

Cash equivalents held by Honda mainly consist of money market funds and certificates of deposit.

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Trade receivables are classified as financial assets measured at amortized cost.

Trade receivables as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Trade accounts and notes receivable	¥ 675,032	¥ 688,102
Other	103,504	126,750
Allowance for doubtful accounts	(14,510)	(14,389)
Total	¥ 764,026	¥ 800,463

The changes in the allowance for doubtful trade receivables for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Balance at beginning of year	¥ 5,367	¥ 15,888	¥ 14,510
Provision	¥ 11,786	¥ 5,046	¥ 858
Charge-offs	(593)	(6,389)	(706)
Exchange differences on translating foreign operations	(672)	(35)	(273)
Balance at end of year	¥ 15,888	¥ 14,510	¥ 14,389

(7) Receivables from Financial Services

The finance subsidiaries of the Company provide various financial services to customers and dealers in order to support the sale of products. These receivables from financial services are categorized as follows:

Consumer finance receivables:

Retail receivables primarily consist of receivables from installment contracts with customers.

Finance lease receivables primarily consist of receivables from non-cancelable auto leases with customers.

Dealer finance receivables:

Wholesale receivables primarily consist of financing receivables from dealers for the purchase of inventories and dealer loans.

Receivables from financial services are classified into financial assets measured at amortized cost.

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Receivables from financial services as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Consumer finance receivables:		
Retail	¥ 4,199,715	¥ 4,187,420
Finance lease	184,339	165,156
Dealer finance receivables:		
Wholesale	608,549	651,141
Subtotal	¥ 4,992,603	¥ 5,003,717
Allowance for credit losses	¥ (31,499)	¥ (34,803)
Allowance for losses on lease residual values	(1,663)	(743)
Unearned interest income and fees	(9,888)	(10,108)
Total	¥ 4,949,553	¥ 4,958,063
Current assets	¥ 1,878,938	¥ 1,840,699
Non-current assets	3,070,615	3,117,364
Total	¥ 4,949,553	¥ 4,958,063

Finance lease receivables

The gross investment in the lease and the present value of minimum lease payments receivable as of March 31, 2017 and 2018 are as follows:

	Yen (millions)			
As of March 31, 2017	Within 1 year	Between 1 and 5 years	Later than 5 years	Total
Gross investment in the lease	¥ 72,066	¥ 111,941	¥ 332	¥ 184,339
Unearned interest income and fees	(1,952)	(7,919)	(17)	(9,888)
Unguaranteed residual values	(23,712)	(43,941)	(2)	(67,655)
Present value of minimum lease payments receivable	¥ 46,402	¥ 60,081	¥ 313	¥ 106,796

As of March 31, 2018	Yen (millions)			Total
	Within 1 year	Between 1 and 5 years	Later than 5 years	
Gross investment in the lease	¥ 65,253	¥ 99,845	¥ 58	¥ 165,156
Unearned interest income and fees	(2,023)	(8,078)	(7)	(10,108)
Unguaranteed residual values	(27,480)	(50,636)	(0)	(78,116)
Present value of minimum lease payments receivable	¥ 35,750	¥ 41,131	¥ 51	¥ 76,932

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

The changes in the allowance for credit losses on receivables from financial services for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)			Total
	Retail	Finance lease	Wholesale	
Balance as of April 1, 2015	¥ 22,649	¥ 499	¥ 1,890	¥ 25,038
Provision	¥ 24,148	¥ 457	¥ 769	¥ 25,374
Charge-offs	(31,258)	(268)	(64)	(31,590)
Recoveries	8,839	107	98	9,044
Exchange differences on translating foreign operations	(2,078)	(33)	(190)	(2,301)
Balance as of March 31, 2016	¥ 22,300	¥ 762	¥ 2,503	¥ 25,565
Provision	¥ 29,870	¥ 338	¥ (278)	¥ 29,930
Charge-offs	(33,045)	(287)	(382)	(33,714)
Recoveries	8,487	69	3	8,559
Exchange differences on translating foreign operations	1,255	(73)	(23)	1,159
Balance as of March 31, 2017	¥ 28,867	¥ 809	¥ 1,823	¥ 31,499
Provision	¥ 36,037	¥ 214	¥ 336	¥ 36,587
Charge-offs	(39,478)	(299)	(271)	(40,048)
Recoveries	8,368	50	13	8,431
Exchange differences on translating foreign operations	(1,718)	47	5	(1,666)
Balance as of March 31, 2018	¥ 32,076	¥ 821	¥ 1,906	¥ 34,803

For more information on allowance for credit losses, see note 25.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(8) Other Financial Assets**

Other financial assets as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Financial assets measured at amortized cost:		
Receivables other than trade receivables and receivables from financial services	¥ 95,552	¥115,046
Debt securities	68,263	104,286
Guaranty deposits	16,944	14,234
Restricted cash	44,555	48,230
Other	6,825	9,225
Allowance for doubtful accounts	(10,964)	(10,145)
Financial assets measured at fair value through other comprehensive income:		
Equity securities	188,657	210,682
Financial assets measured at fair value through profit or loss:		
Derivatives	35,513	88,345
Debt securities	68,694	69,829
Total	¥ 514,039	¥649,732
Current assets	¥ 149,427	¥213,177
Non-current assets	364,612	436,555
Total	¥ 514,039	¥649,732

The changes in the allowance for doubtful accounts for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Balance at beginning of year	¥ 12,061	¥ 11,731	¥ 10,964
Provision	¥ 1,382	¥ 219	¥ 343
Charge-offs	(1,528)	(936)	(1,179)
Exchange differences on translating foreign operations	(184)	(50)	17

Balance at end of year	¥ 11,731	¥ 10,964	¥ 10,145
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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Major securities included in financial assets measured at fair value through other comprehensive income as of March 31, 2017 and 2018 are as follows:

As of March 31, 2017

	Yen (millions)
	Fair value
Sirius XM Holdings Inc.	¥ 54,216
Stanley Electric Co., Ltd.	29,322
Mitsubishi UFJ Financial Group, Inc.	10,147
NIPPON SEIKI CO., LTD.	8,989
Daido Steel Co., Ltd.	6,944
Shindengen Electric Manufacturing Co., Ltd.	6,227

As of March 31, 2018

	Yen (millions)
	Fair value
Sirius XM Holdings Inc.	¥ 62,207
Stanley Electric Co., Ltd.	36,295
Mitsubishi UFJ Financial Group, Inc.	10,108
Shindengen Electric Manufacturing Co., Ltd.	9,394
NIPPON SEIKI CO., LTD.	7,247
Daido Steel Co., Ltd.	7,101

(9) Inventories

Inventories as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Finished goods	¥ 810,885	¥ 931,774
Work in process	77,151	69,702
Raw materials	476,094	521,979
Total	¥ 1,364,130	¥ 1,523,455

The amounts of write-down of inventories recognized as an expense for the years ended March 31, 2016, 2017 and 2018 are ¥27,610 million, ¥22,707 million and ¥67,768 million, respectively.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(10) Investments accounted for using the equity method**

Honda's equity in affiliates and joint ventures as of March 31, 2017 and 2018 is as follows:

	Yen (millions)	
	2017	2018
Investments accounted for using the equity method:		
Affiliates	¥ 320,786	¥ 359,784
Joint ventures	276,476	319,733
Total	¥ 597,262	¥ 679,517
Honda's equity of undistributed earnings:		
Affiliates	¥ 223,749	¥ 261,296
Joint ventures	193,046	230,387
Total	¥ 416,795	¥ 491,683

For the years ended March 31, 2016 and 2017, the Company recognized impairment losses of ¥28,887 million and ¥12,871 million on certain investments accounted for using the equity method, respectively, because there is objective evidence of impairment from declines in quoted market values. The impairment losses are included in share of profit of investments accounted for using the equity method in the consolidated statements of income and mainly included in the automobile business segment. For the year ended March 31, 2018, the Company did not recognize any significant impairment losses.

In addition, for the year ended March 31, 2018, the Company recognized reversal of impairment losses of ¥15,782 million, which had been previously recognized, on certain investments accounted for using the equity method mainly due to the recovery of quoted market values. The reversal of impairment losses is included in share of profit of investments accounted for using the equity method in the consolidated statements of income and mainly included in the automobile business segment.

Honda's share of comprehensive income of affiliates and joint ventures for the years ended March 31, 2016, 2017 and 2018 is as follows:

	Yen (millions)		
	2016	2017	2018
Profit for the year:			
Affiliates	¥ 8,538	¥ 9,626	¥ 45,501

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Joint ventures	117,463	155,167	202,142
Total	¥ 126,001	¥ 164,793	¥ 247,643
Other comprehensive income:			
Affiliates	¥ (12,096)	¥ (6,560)	¥ 4,983
Joint ventures	(25,769)	(12,822)	7,325
Total	¥ (37,865)	¥ (19,382)	¥ 12,308
Comprehensive income for the year:			
Affiliates	¥ (3,558)	¥ 3,066	¥ 50,484
Joint ventures	91,694	142,345	209,467
Total	¥ 88,136	¥ 145,411	¥ 259,951

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

Combined financial information in respect of affiliates and joint ventures as of March 31, 2017 and 2018, and for the years ended March 31, 2016, 2017 and 2018 is as follows:

(Affiliates)

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
For the year ended March 31, 2016				
Sales revenue	¥ 219,265	¥ 2,708,831	¥ 6,818	¥ 2,934,914
Profit for the year	13,780	91,316	1,147	106,243

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
As of and for the year ended March 31, 2017				
Current assets	¥ 65,944	¥ 1,033,934	¥ 7,811	¥ 1,107,689
Non-current assets	31,542	1,153,112	24,229	1,208,883
Total assets	97,486	2,187,046	32,040	2,316,572
Current liabilities	30,556	665,251	2,653	698,460
Non-current liabilities	5,922	273,264	1,355	280,541
Total liabilities	36,478	938,515	4,008	979,001
Total equity	¥ 61,008	¥ 1,248,531	¥ 28,032	¥ 1,337,571
Sales revenue	¥ 158,174	¥ 2,515,601	¥ 6,724	¥ 2,680,499
Profit for the year	10,112	60,145	973	71,230

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
As of and for the year ended March 31, 2018				
Current assets	¥ 56,573	¥ 1,091,352	¥ 8,190	¥ 1,156,115
Non-current assets	29,300	1,078,735	22,481	1,130,516
Total assets	85,873	2,170,087	30,671	2,286,631

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Current liabilities	25,806	614,762	2,399	642,967
Non-current liabilities	5,638	231,325	1,280	238,243
Total liabilities	31,444	846,087	3,679	881,210
Total equity	¥ 54,429	¥ 1,324,000	¥ 26,992	¥ 1,405,421
Sales revenue	¥ 168,229	¥ 2,589,380	¥ 6,777	¥ 2,764,386
Profit for the year	11,115	99,119	1,001	111,235

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

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
For the year ended March 31, 2016				
Sales revenue	¥ 706,527	¥ 2,962,929	¥ 4,069	¥ 3,673,525
Profit for the year	47,248	196,796	149	244,193

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
As of and for the year ended March 31, 2017				
Current assets	¥ 214,096	¥ 1,054,611	¥ 2,395	¥ 1,271,102
Non-current assets	106,989	257,843	624	365,456
Total assets	321,085	1,312,454	3,019	1,636,558
Current liabilities	179,948	860,100	859	1,040,907
Non-current liabilities	8,624	41,868	1,035	51,527
Total liabilities	188,572	901,968	1,894	1,092,434
Total equity	¥ 132,513	¥ 410,486	¥ 1,125	¥ 544,124
Sales revenue	¥ 671,227	¥ 3,038,643	¥ 4,796	¥ 3,714,666
Profit for the year	58,585	250,451	380	309,416

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
As of and for the year ended March 31, 2018				
Current assets	¥ 208,510	¥ 1,219,060	¥ 2,736	¥ 1,430,306
Non-current assets	106,351	285,869	600	392,820
Total assets	314,861	1,504,929	3,336	1,823,126

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Current liabilities	176,486	930,759	759	1,108,004
Non-current liabilities	9,884	73,508	1,190	84,582
Total liabilities	186,370	1,004,267	1,949	1,192,586
Total equity	¥ 128,491	¥ 500,662	¥ 1,387	¥ 630,540
Sales revenue	¥ 701,676	¥ 3,835,476	¥ 5,151	¥ 4,542,303
Profit for the year	56,733	347,661	337	404,731

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(11) Equipment on Operating Leases**

The changes in cost, accumulated depreciation and impairment losses, and the carrying amounts of equipment on operating leases for the years ended March 31, 2017 and 2018 are as follows:

(Cost)

	Yen (millions)
Balance as of April 1, 2016	¥ 4,526,072
Additions	¥ 1,882,696
Sales or disposal	(1,286,691)
Exchange differences on translating foreign operations	(7,534)
Other	
Balance as of March 31, 2017	¥ 5,114,543
Additions	¥ 1,799,155
Sales or disposal	(1,475,302)
Exchange differences on translating foreign operations	(219,950)
Other	
Balance as of March 31, 2018	¥ 5,218,446

(Accumulated depreciation and impairment losses)

	Yen (millions)
Balance as of April 1, 2016	¥ (847,961)
Depreciation	¥ (662,081)
Sales or disposal	507,160
Exchange differences on translating foreign operations	989
Other	(7,987)
Balance as of March 31, 2017	¥ (1,009,880)

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Depreciation	¥ (744,717)
Sales or disposal	591,721
Exchange differences on translating foreign operations	44,474
Other	(11,911)
Balance as of March 31, 2018	¥(1,130,313)

(Carrying amount)

	Yen (millions)
Balance as of March 31, 2017	¥ 4,104,663
Balance as of March 31, 2018	4,088,133

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

Future minimum lease payments expected to be received under non-cancelable operating leases as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Within 1 year	¥ 677,119	¥ 689,284
Between 1 and 5 years	800,473	777,582
Later than 5 years		
Total	¥ 1,477,592	¥ 1,466,866

Future minimum lease payments expected to be received as shown above should not necessarily be considered indicative of future cash collections.

(12) Property, Plant and Equipment

The changes in cost, accumulated depreciation and impairment losses, and the carrying amounts of property, plant and equipment for the years ended March 31, 2017 and 2018 are as follows:

(Cost)

	Yen (millions)				
	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
Balance as of April 1, 2016	¥ 546,619	¥ 2,168,768	¥ 5,040,301	¥ 275,232	¥ 8,030,920
Additions	¥ 4	¥ 16,550	¥ 129,307	¥ 442,499	¥ 588,360
Reclassification	2,077	69,978	366,463	(438,518)	
Sales or disposal	(2,519)	(15,188)	(208,415)		(226,122)
Exchange differences on translating foreign operations	478	(9,627)	(23,354)	(397)	(32,900)
Other	196	793	837	(1,730)	96

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Balance as of March 31, 2017	¥	546,855	¥	2,231,274	¥	5,305,139	¥	277,086	¥	8,360,354
Additions	¥	397	¥	7,725	¥	134,604	¥	342,052	¥	484,778
Reclassification		1,216		58,706		359,442		(419,364)		
Sales or disposal		(1,543)		(13,937)		(276,782)				(292,262)
Exchange differences on translating foreign operations		(1,733)		(34,039)		(140,296)		(6,390)		(182,458)
Other				(936)		(1,602)		(825)		(3,363)
Balance as of March 31, 2018	¥	545,192	¥	2,248,793	¥	5,380,505	¥	192,559	¥	8,367,049

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

	Yen (millions)					
	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total	
Balance as of April 1, 2016	¥ (3,684)	¥ (1,166,635)	¥ (3,718,703)	¥ (2,334)	¥ (4,891,356)	
Depreciation		¥ (75,754)	¥ (408,379)		¥ (484,133)	
Sales or disposal	70	12,378	178,293		190,741	
Exchange differences on translating foreign operations	79	6,460	21,937	237	28,713	
Other	(331)	(788)	(2,749)	(73)	(3,941)	
Balance as of March 31, 2017	¥ (3,866)	¥ (1,224,339)	¥ (3,929,601)	¥ (2,170)	¥ (5,159,976)	
Depreciation		¥ (75,561)	¥ (437,894)		¥ (513,455)	
Sales or disposal	18	12,136	239,645		251,799	
Exchange differences on translating foreign operations	(32)	16,217	103,037	(99)	119,123	
Other	(299)	785	(2,677)	84	(2,107)	
Balance as of March 31, 2018	¥ (4,179)	¥ (1,270,762)	¥ (4,027,490)	¥ (2,185)	¥ (5,304,616)	

(Carrying amount)

	Yen (millions)					
	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total	
Balance as of March 31, 2017	¥ 542,989	¥ 1,006,935	¥ 1,375,538	¥ 274,916	¥ 3,200,378	
	541,013	978,031	1,353,015	190,374	3,062,433	

Balance as of March 31,
2018

For commitments for purchases of property, plant and equipment, see note 28.

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(13) Intangible Assets**

The changes in cost, accumulated amortization and impairment losses, and carrying amounts of intangible assets for the years ended March 31, 2017 and 2018 are as follows:

(Cost)

	Yen (millions)			
	Capitalized development costs	Software	Other	Total
Balance as of April 1, 2016	¥ 987,654	¥ 353,553	¥ 36,935	¥ 1,378,142
Additions	¥	¥ 8,712	¥ 2,049	¥ 10,761
Internally developed	121,037	17,228		138,265
Sales or disposal	(131,529)	(30,342)	(1,861)	(163,732)
Exchange differences on translating foreign operations	127	(3,693)	(1,146)	(4,712)
Other	(155)	1,587	(2,115)	(683)
Balance as of March 31, 2017	¥ 977,134	¥ 347,045	¥ 33,862	¥ 1,358,041
Additions	¥	¥ 12,765	¥ 2,469	¥ 15,234
Internally developed	132,800	13,586		146,386
Sales or disposal	(137,637)	(13,757)	(1,695)	(153,089)
Exchange differences on translating foreign operations	667	(4,388)	(289)	(4,010)
Other		(88)	(878)	(966)
Balance as of March 31, 2018	¥ 972,964	¥ 355,163	¥ 33,469	¥ 1,361,596

(Accumulated amortization and impairment losses)

	Yen (millions)			
	Capitalized development costs	Software	Other	Total
Balance as of April 1, 2016	¥ (337,112)	¥ (203,499)	¥ (12,592)	¥ (553,203)

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Amortization	¥	(152,548)	¥	(36,515)	¥	(151)	¥	(189,214)
Sales or disposal		131,529		29,029		1,891		162,449
Exchange differences on translating foreign operations		2		1,579		(464)		1,117
Other		(1)		(2,506)		1,509		(998)
Balance as of March 31, 2017	¥	(358,130)	¥	(211,912)	¥	(9,807)	¥	(579,849)
Amortization	¥	(153,922)	¥	(40,663)	¥	(1,359)	¥	(195,944)
Sales or disposal		137,637		12,610		1,057		151,304
Exchange differences on translating foreign operations		(28)		3,423		352		3,747
Other				(146)		806		660
Balance as of March 31, 2018	¥	(374,443)	¥	(236,688)	¥	(8,951)	¥	(620,082)

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

	Yen (millions)							
	Capitalized development costs		Software	Other	Total			
Balance as of March 31, 2017	¥	619,004	¥	135,133	¥	24,055	¥	778,192
Balance as of March 31, 2018		598,521		118,475		24,518		741,514

Amortization of capitalized development costs is included in research and development, and amortization of other intangible assets is included in cost of sales, selling, general and administrative, and research and development in the consolidated statements of income.

For commitments for purchases of intangible assets, see note 28.

(14) Trade Payables

Trade payables are classified as financial liabilities measured at amortized cost.

Trade payables as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)			
	2017		2018	
Trade accounts and notes payable	¥	1,013,307	¥	1,075,545
Other		170,037		149,082
Total	¥	1,183,344	¥	1,224,627

(15) Financing Liabilities

Financing liabilities are classified as financial liabilities measured at amortized cost.

Financing liabilities presented in current liabilities as of March 31, 2017 and 2018 consist of the following:

Yen (millions)

	2017	2018
Current:		
Commercial paper	¥ 791,630	¥ 849,605
Loans	310,123	312,992
Medium-term notes	36,411	40,070
Asset-backed securities	23,947	33,980
Subtotal	¥ 1,162,111	¥ 1,236,647
Reclassification from non-current liabilities (Current portion)	¥ 1,624,817	¥ 1,680,614
Total	¥ 2,786,928	¥ 2,917,261

The weighted average interest rates for financing liabilities presented in current liabilities (excluding reclassification from non-current liabilities) as of March 31, 2017 and 2018 are as follows:

	2017	2018
Weighted average interest rate	1.09%	1.51%

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

Financing liabilities presented in non-current liabilities as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Non-current:		
Loans	¥ 1,290,579	¥ 1,253,429
Medium-term notes	2,909,568	2,885,168
Corporate bonds	459,510	454,543
Asset-backed securities	987,350	969,223
Subtotal	¥ 5,647,007	¥ 5,562,363
Reclassification to current liabilities (Current portion)	¥ (1,624,817)	¥ (1,680,614)
Total	¥ 4,022,190	¥ 3,881,749

The interest rate range and payment due date for financing liabilities presented in non-current liabilities (including reclassification to current liabilities) as of March 31, 2017 and 2018 are as follows:

	2017	2018
Loans	Interest rate: 0.09% - 17.00%	Interest rate: 0.09% - 15.00%
	Due: 2017 - 2046	Due: 2018 - 2046
Medium-term notes	Interest rate: 0.07% - 7.63%	Interest rate: 0.07% - 7.63%
	Due: 2017 - 2027	Due: 2018 - 2028
Corporate bonds	Interest rate: 0.01% - 0.59%	Interest rate: 0.01% - 0.59%
	Due: 2017 - 2021	Due: 2018 - 2022
Asset-backed securities	Interest rate: 0.13% - 2.05%	Interest rate: 0.13% - 2.83%
	Due: 2017 - 2022	Due: 2018 - 2023
<i>(Pledged assets)</i>		

Pledged assets for financing liabilities as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Trade receivables	¥ 18,229	¥ 24,571
Receivables from financial services	1,038,177	1,047,676
Inventories		17,528
Property, plant and equipment	61,644	58,720
Total	¥ 1,118,050	¥ 1,148,495

Receivables from financial services are pledged as collateral for liabilities related to asset-backed securities transactions. Other items are mainly pledged as collateral for secured bank loans.

As is customary in Japan, bank loans are extended 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.

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

(Reconciliation of liabilities arising from financing activities)

The changes in liabilities arising from financing activities for the year ended March 31, 2018 are as follows:

	Yen (millions)							Balance as of March 31, 2018
	Balance as of April 1, 2017	Cash flows from financing activities	Cash flows from operating activities	Acquisitions	Non-cash changes Changes in foreign currency exchange rates	Changes in fair value	Other	
Short-term financing liabilities	¥ 1,162,111	¥ 101,885	¥	¥	¥ (28,854)	¥	¥ 1,505	¥ 1,236,647
Long-term financing liabilities	5,647,007	80,042			(169,403)		4,717	5,562,363
Lease obligations* ¹	69,364	(47,449)		50,610	(468)		566	72,623
Derivative financial liabilities (assets)* ²	25,300		(3,308)		(1,732)	(36,466)		(16,206)
Total	¥ 6,903,782	¥ 134,478	¥ (3,308)	¥ 50,610	¥ (200,457)	¥ (36,466)	¥ 6,788	¥ 6,855,427

Explanatory notes:

*1 The cash flows arising from lease obligations are included in other, net in cash flows from financing activities in the consolidated statements of cash flows.

*2 Derivative financial liabilities (assets) are held by the finance subsidiaries of the Company to hedge foreign currency risk for principals and interests payment of long-term financing liabilities. The cash flows related to repayments of principals are included in cash flows from financing activities, while the cash flows related to interest paid are included in cash flows from operating activities.

(16) Other Financial Liabilities

Other financial liabilities as of March 31, 2017 and 2018 consist of the following:

	Yen (millions)	
	2017	2018
Financial liabilities measured at amortized cost:		
Lease obligations	¥ 69,364	¥ 72,623
Other	42,585	50,001
Financial liabilities measured at fair value through profit or loss:		
Derivatives	55,076	52,786
Total	¥ 167,025	¥ 175,410
Current liabilities	¥ 119,784	¥ 115,405
Non-current liabilities	47,241	60,005
Total	¥ 167,025	¥ 175,410

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(17) Provisions**

The components of and changes in provisions for the year ended March 31, 2018 are as follows:

	Yen (millions)		
	Product warranties*	Other	Total
Balance as of April 1, 2017	¥ 520,130	¥ 76,900	¥ 597,030
Provision	¥ 219,575	¥ 40,162	¥ 259,737
Charge-offs	(239,903)	(40,540)	(280,443)
Reversal	(30,022)	(2,974)	(32,996)
Exchange differences on translating foreign operations	(12,184)	(4,525)	(16,709)
Balance as of March 31, 2018	¥ 457,596	¥ 69,023	¥ 526,619

Current liabilities and non-current liabilities of provisions as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Current liabilities	¥ 348,095	¥ 305,994
Non-current liabilities	248,935	220,625
Total	¥ 597,030	¥ 526,619

Explanatory note:

* Honda recognizes provisions for product warranties to cover future product warranty expenses. Honda recognizes costs for general warranties on products Honda sells and for specific warranty programs, including product recalls. Honda recognizes general estimated warranty costs at the time products are sold to customers. Honda also recognizes specific estimated warranty program costs when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. These provisions are estimated 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. Provision for product

warranties are utilized for expenditures based on the demand from customers and dealers.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(18) Employee Benefits

(a) Post-employment Benefits

Honda has various pension plans covering substantially all of their employees in Japan and certain employees in foreign countries. The Company and its Japanese subsidiaries provide plans similar to a cash balance pension plan or other defined benefit pension plans in accordance with the Defined-Benefit Corporate Pension Act of Japan. The Company and some of its subsidiaries have retirement benefit plans as well as lump-sum retirement benefit plans, in which the amount of benefits is basically determined based on the level of salary, service years, and other factors. In addition, certain consolidated subsidiaries in North America provide mainly health care and life insurance benefits to retired employees.

The Company's pension plans are administered by the Honda Pension Fund (the Fund) which is legally independent of the Company. The Director of the Fund has the fiduciary duty to comply with laws, the directives by the Minister of Health, Labour and Welfare, and the Director-Generals of Regional Bureaus of Health and Welfare made pursuant to those laws, and the by-laws of the Fund and the decisions made by the Board of Representatives of the Fund. The Company is required to make contributions to the Fund and obligated to make contributions in the amount stipulated by the Fund. Contributions are also regularly reviewed and adjusted as necessary to the extent permitted by laws and regulations.

In August 2016, the Company and its certain subsidiaries in Japan decided, effective April 1, 2017, to extend mandatory retirement age from 60 years old to 65 years old and introduce a flexible retirement scheme that enables employees to choose retirement age between 60 years old and 65 years old, along with amendments to their defined benefit pension plans to align with the postponement of the retirement age, to fulfill diversifying needs of individual employees. The plan amendments include the revision of the benefit curve that makes a lump-sum benefit payment at the retirement age between 60 years old and 65 years old under the new plan consistent with a lump-sum benefit payment at the previous mandatory retirement age. In addition, one of the defined benefit pension plans was replaced by a defined contribution plan.

These plan amendments resulted in a reduction of the defined benefit obligations and recognition of the past service cost in profit or loss. Honda recognized ¥84,024 million of past service cost in a credit to profit or loss, of which ¥37,197 million is included in cost of sales, ¥21,385 million is included in selling, general and administrative and ¥25,442 million is included in research and development in the consolidated statements of income for the year ended March 31, 2017. The defined benefit obligations and plan assets were also remeasured.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)***1) Defined benefit obligations and plan assets*

The changes in present value of defined benefit obligations and fair value of plan assets of the Company and certain of its consolidated subsidiaries for the years ended March 31, 2017 and 2018 are as follows:

	Yen (millions)			
	2017		2018	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Present value of defined benefit obligations:				
Balance at beginning of year	¥ 1,454,421	¥ 1,050,938	¥ 1,362,192	¥ 1,057,351
Current service cost	36,937	27,009	35,138	28,387
Past service cost	(84,024)	1,258		506
Interest cost	7,177	37,974	10,493	39,401
Plan participants' contributions		1,276		1,579
Transfer to defined contribution plan			(63,055)	
Remeasurements:				
Changes in demographic assumptions	59,491	(3,895)	13,843	(1,951)
Changes in financial assumptions	(67,125)	18,807	19,783	30,612
Other	(6,707)	(10,681)	(4,599)	(21,512)
Benefits paid	(37,978)	(37,733)	(42,320)	(56,631)
Exchange differences on translating foreign operations		(27,602)		(34,989)
Balance at end of year	¥ 1,362,192	¥ 1,057,351	¥ 1,331,475	¥ 1,042,753
Fair value of plan assets:				
Balance at beginning of year	¥ 1,130,443	¥ 758,700	¥ 1,182,140	¥ 795,561
Interest income	5,693	27,891	9,630	29,950
Actual return on plan assets, excluding interest income	29,778	44,522	45,841	35,412
Employer contributions	52,655	22,683	21,652	25,964
Plan participants' contributions		1,276		1,579
Benefits paid	(36,429)	(37,733)	(40,190)	(56,631)
Exchange differences on translating foreign operations		(21,778)		(24,307)
Balance at end of year	¥ 1,182,140	¥ 795,561	¥ 1,219,073	¥ 807,528

Net defined benefit liabilities	¥ 180,052	¥ 261,790	¥ 112,402	¥ 235,225
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2) *Fair value of plan assets*

Honda's investment policies for the Japanese and foreign pension plan assets 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 target asset allocations, consistent with accepted tolerance for risks. Honda sets target asset allocations for each asset category 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 investment environment of plan assets.

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

The fair value of the Japanese and foreign pension plan assets by asset category as of March 31, 2017 and 2018 is as follows:

As of March 31, 2017

	Yen (millions)					
	Japanese plans			Foreign plans		
	Market price in active market		Total	Market price in active market		Total
Quoted	Unquoted	Quoted		Unquoted		
Cash and cash equivalents	¥ 10,886	¥	¥ 10,886	¥ 4,813	¥	¥ 4,813
Equity securities:						
Japan	28,030	7	28,037	15,272		15,272
United States	210,479		210,479	76,458	104	76,562
Other	221,904	173	222,077	96,859	4,169	101,028
Debt securities:						
Japan	79,086		79,086		107	107
United States	3,326	119,139	122,465		100,106	100,106
Other	145,506	73,496	219,002		44,295	44,295
Group annuity insurance:						
General accounts		30,368	30,368			
Separate accounts		14,606	14,606			
Pooled funds:						
Real estate funds					50,900	50,900
Private equity funds					63,529	63,529
Hedge funds		112,317	112,317		51,738	51,738
Commingled and other mutual funds	2,321	121,681	124,002	6,740	248,336	255,076
Other	8	8,807	8,815	(1,039)	33,174	32,135
Total	¥ 701,546	¥ 480,594	¥ 1,182,140	¥ 199,103	¥ 596,458	¥ 795,561

As of March 31, 2018

	Yen (millions)					
	Japanese plans			Foreign plans		
	Market price in active market		Total	Market price in active market		Total
Quoted	Unquoted	Quoted		Unquoted		

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Cash and cash equivalents	¥ 5,464	¥	¥ 5,464	¥ 5,659	¥	¥ 5,659
Equity securities:						
Japan	31,306		31,306	18,333		18,333
United States	214,783		214,783	92,774		92,774
Other	228,083		228,083	94,156	4,503	98,659
Debt securities:						
Japan	73,125	1,375	74,500		183	183
United States	2,799	121,574	124,373		105,986	105,986
Other	149,589	94,703	244,292		12,561	12,561
Group annuity insurance:						
General accounts		32,322	32,322			
Separate accounts		16,243	16,243			
Pooled funds:						
Real estate funds					61,459	61,459
Private equity funds					73,972	73,972
Hedge funds		112,011	112,011		53,357	53,357
Commingled and other mutual funds	2,213	130,645	132,858	54,063	213,938	268,001
Other	8	2,830	2,838	(875)	17,459	16,584
Total	¥ 707,370	¥ 511,703	¥ 1,219,073	¥ 264,110	¥ 543,418	¥ 807,528

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

The significant actuarial assumptions used to determine the present value of defined benefit obligations as of March 31, 2017 and 2018 are as follows:

	2017		2018	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Discount rate	0.8%	2.8 - 4.4%	0.7%	2.8 - 4.2%
Rate of salary increase	1.7%	2.5 - 3.0%	1.7%	2.5 - 3.0%

4) Sensitivity analysis

The effects on defined benefit obligations of 0.5% increase or decrease in the discount rate as of March 31, 2017 and 2018 are as follows:

	Yen (millions)			
	2017		2018	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
0.5% decrease	¥ 108,795 increase	¥ 98,171 increase	¥ 112,535 increase	¥ 97,682 increase
0.5% increase	¥ 96,670 decrease	¥ 86,324 decrease	¥ 99,540 decrease	¥ 85,897 decrease

This sensitivity analysis shows changes in defined benefit obligations as of March 31, 2017 and 2018, as a result of changes in actuarial assumptions that the Company can reasonably assume. This analysis is based on provisional calculations, and thus actual results may differ from the analysis. In addition, changes in the rate of salary increase are not expected.

5) Cash flows

The amount of contributions to plan assets made by the Company and certain of its consolidated subsidiaries are determined based on various factors such as the level of salary and service years of employees, status of plan asset reserve, and actuarial calculations. In accordance with the provisions of the Defined Benefit Corporate Pension Act, the Honda Pension Fund also recalculates the amount of contributions every five years at the end of the reporting period as a base date, in an effort to ensure balanced finances in the future. The Company and certain of its consolidated subsidiaries may make contributions of a necessary amount if the amount of reserve falls below the minimum base amount.

The Company and certain of its consolidated subsidiaries expect to contribute ¥21,720 million to its Japanese pension plans and ¥26,087 million to its foreign pension plans in the year ending March 31, 2019.

The weighted average duration of defined benefit obligations as of March 31, 2017 and 2018 are as follows:

	2017		2018	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Weighted average duration of defined benefit obligations	15 years	16 years	16 years	17 years

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

Personnel expenses included in the consolidated statements of income for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Personnel expenses	¥ 1,497,127	¥ 1,373,578	¥ 1,576,012

Personnel expenses include salaries, bonuses, social security expenses and expenses relating to post-employment benefits.

(19) Equity*(a) Management of Capital*

Honda makes investments in capital and research and development to improve corporate value through growth on a global basis. In order to meet these funding needs, Honda makes capital management through consideration of the balance between financing liabilities and equity.

Financing liabilities and equity of Honda as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Financing liabilities	¥ 6,809,118	¥ 6,799,010
Equity	7,569,626	8,234,095

(b) Common Stock

The Company's total number of shares authorized and issued for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Shares		
	2016	2017	2018
Total number of authorized shares			
Balance at end of year			
Common shares, no par value	7,086,000,000	7,086,000,000	7,086,000,000
Total number of issued shares			

Balance at beginning of year	1,811,428,430	1,811,428,430	1,811,428,430
Changes during the year			
Balance at end of year	1,811,428,430	1,811,428,430	1,811,428,430

All of the issued shares as of March 31, 2016, 2017 and 2018 have been paid in full.

(c) Capital Surplus and Retained Earnings

Capital surplus consists of surplus that is derived from equity transactions and not recorded in common stock, and its primary component is capital reserves. The Companies Act of Japan provides that no less than 50% of the paid-in amount or proceeds of issuance of shares shall be incorporated in common stock, and that the remaining shall be incorporated in capital reserves. Capital reserves may be incorporated in common stock upon approval of the General Meeting of Shareholders.

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

Retained earnings consist of legal reserves and accumulated earnings. The Companies Act of Japan provides that earnings in an amount equal to 10% of cash dividends from retained earnings shall be appropriated as a capital reserve or a legal reserve on the date of distribution of retained earnings until an aggregated amount of capital reserve and legal reserve equals 25% of common stock. Legal reserves may be used upon approval of the General Meeting of Shareholders. Certain foreign consolidated subsidiaries are also required to appropriate their earnings under the laws of respective countries.

(d) Treasury Stock

The total number of the Company's treasury stock held by Honda as of March 31, 2016, 2017 and 2018 is as follows:

	Shares		
	2016	2017	2018
Common shares	9,144,911	9,148,035	33,150,615

Under the Companies Act of Japan, the number of shares and total value of treasury stock acquisition may be determined, upon approval of the General Meeting of Shareholders, within the amount available for distribution. Furthermore, treasury stock may be acquired through market transactions or tender offers in accordance with the articles of incorporation within the conditions set forth in the Companies Act, upon approval of the Board of Directors.

(e) Other Components of Equity

The changes in other components of equity for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)					
	Net changes in revaluation of financial assets measured at fair value through other comprehensive income			Exchange differences on translating foreign operations		Total
	Remeasurements of defined benefit plans					
Balance as of April 1, 2015	¥	¥	79,245	¥	714,789	¥ 794,034
Adjustment during the year	¥ (76,342)	¥	(16,456)	¥	(440,313)	¥ (533,111)
Reclassification to retained earnings	76,342		(1,150)			75,192

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Balance as of March 31, 2016	¥	¥	61,639	¥	274,476	¥ 336,115
Adjustment during the year	¥ 64,478	¥	24,049	¥	(9,017)	¥ 79,510
Reclassification to retained earnings	(64,478)		259			(64,219)
Balance as of March 31, 2017	¥	¥	85,947	¥	265,459	¥ 351,406
Adjustment during the year	¥ 12,125	¥	20,655	¥	(192,572)	¥(159,792)
Reclassification to retained earnings	(12,125)		(1,197)			(13,322)
Balance as of March 31, 2018	¥	¥	105,405	¥	72,887	¥ 178,292

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

Each component of other comprehensive income and related tax effect including non-controlling interests for the years ended March 31, 2016, 2017 and 2018 are as follows:

For the year ended March 31, 2016

	Before-tax	Yen (millions) Tax benefit (expense)	Net-of-tax
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans:			
Amount incurred during the year	¥ (93,561)	¥ 22,852	¥ (70,709)
Net changes	(93,561)	22,852	(70,709)
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	(24,308)	8,511	(15,797)
Net changes	(24,308)	8,511	(15,797)
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	(1,554)	280	(1,274)
Net changes	(1,554)	280	(1,274)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations:			
Amount incurred during the year	(430,191)		(430,191)
Reclassification to profit or loss	39		39
Net changes	(430,152)		(430,152)
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	(37,554)	929	(36,625)
Reclassification to profit or loss	35	(1)	34

Net changes	(37,519)	928	(36,591)
Total other comprehensive income	¥ (587,094)	¥ 32,571	¥ (554,523)

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****For the year ended March 31, 2017**

	Before-tax	Yen (millions) Tax benefit (expense)	Net-of-tax
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans:			
Amount incurred during the year	¥ 90,502	¥ (32,348)	¥ 58,154
Net changes	90,502	(32,348)	58,154
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	34,189	(11,482)	22,707
Net changes	34,189	(11,482)	22,707
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	3,317	(55)	3,262
Net changes	3,317	(55)	3,262
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations:			
Amount incurred during the year	7,923	3	7,926
Reclassification to profit or loss	141	(3)	138
Net changes	8,064		8,064
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	(24,158)	1,428	(22,730)
Reclassification to profit or loss	100	(14)	86
Net changes	(24,058)	1,414	(22,644)
Total other comprehensive income	¥ 112,014	¥ (42,471)	¥ 69,543

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****For the year ended March 31, 2018**

	Before-tax	Yen (millions) Tax benefit (expense)	Net-of-tax
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans:			
Amount incurred during the year	¥ 47,383	¥ (34,039)	¥ 13,344
Net changes	47,383	(34,039)	13,344
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	20,020	(732)	19,288
Net changes	20,020	(732)	19,288
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	1,729	(41)	1,688
Net changes	1,729	(41)	1,688
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations:			
Amount incurred during the year	(204,372)	(4)	(204,376)
Reclassification to profit or loss	188	4	192
Net changes	(204,184)		(204,184)
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	12,266	(521)	11,745
Reclassification to profit or loss	(1,155)	30	(1,125)
Net changes	11,111	(491)	10,620
Total other comprehensive income	¥ (123,941)	¥ (35,303)	¥ (159,244)

The components of other comprehensive income included in non-controlling interests for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Remeasurements of defined benefit plans	¥ 5,073	¥(4,413)	¥ 1,534
Net changes in revaluation of financial assets measured at fair value through other comprehensive income	(55)	9	6
Exchange differences on translating foreign operations	(26,430)	(5,563)	(992)
Total	¥(21,412)	¥(9,967)	¥ 548

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

The Company distributes retained earnings within the available amount calculated in accordance with the Companies Act of Japan. The amount of retained earnings available for distribution is calculated based on the amount of retained earnings recorded in the Company's non-consolidated accounting records prepared in accordance with accounting principles generally accepted in Japan.

The amounts recognized as dividends of retained earnings for the years ended March 31, 2016, 2017 and 2018 are as follows:

*1) Dividend payout***For the year ended March 31, 2016**

Resolution	The Ordinary General Meeting of Shareholders on June 17, 2015
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	March 31, 2015
Effective date	June 18, 2015
Resolution	The Board of Directors Meeting on July 31, 2015
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	June 30, 2015
Effective date	August 25, 2015
Resolution	The Board of Directors Meeting on November 4, 2015
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	September 30, 2015
Effective date	November 30, 2015
Resolution	The Board of Directors Meeting on January 29, 2016
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	December 31, 2015
Effective date	February 26, 2016

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****For the year ended March 31, 2017**

Resolution	The Ordinary General Meeting of Shareholders on June 16, 2016
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	March 31, 2016
Effective date	June 17, 2016
Resolution	The Board of Directors Meeting on August 2, 2016
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	June 30, 2016
Effective date	August 25, 2016
Resolution	The Board of Directors Meeting on October 31, 2016
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	September 30, 2016
Effective date	November 29, 2016
Resolution	The Board of Directors Meeting on February 3, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	December 31, 2016
Effective date	February 28, 2017

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****For the year ended March 31, 2018**

Resolution	The Ordinary General Meeting of Shareholders on June 15, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	March 31, 2017
Effective date	June 16, 2017

Resolution	The Board of Directors Meeting on August 1, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	June 30, 2017
Effective date	August 25, 2017

Resolution	The Board of Directors Meeting on November 1, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	September 30, 2017
Effective date	November 29, 2017

Resolution	The Board of Directors Meeting on February 2, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	44,456
Dividend per share (yen)	25.00
Record date	December 31, 2017
Effective date	February 28, 2018

2) Dividends payable of which record date was in the year ended March 31, 2018, effective after the period

Resolution	The Board of Directors Meeting on April 27, 2018
Type of shares	Common shares
Resource for dividend	Retained earnings
Total amount of dividends (millions of yen)	48,013
Dividend per share (yen)	27.00
Record date	March 31, 2018
Effective date	May 30, 2018

(20) Sales Revenue

Sales revenue for the years ended March 31, 2016, 2017 and 2018 consists of the following:

	Yen (millions)		
	2016	2017	2018
Sales of products	¥ 13,586,565	¥ 12,954,884	¥ 14,198,906
Revenue from financial services	1,014,586	1,044,316	1,162,240
Total	¥ 14,601,151	¥ 13,999,200	¥ 15,361,146

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(21) Research and Development**

Research and development costs for the years ended March 31, 2016, 2017 and 2018 consist of the following:

	Yen (millions)		
	2016	2017	2018
Research and development expenditures incurred during the reporting period	¥ 719,810	¥ 659,918	¥ 730,734
Amount capitalized	(190,992)	(121,037)	(132,800)
Amortization of capitalized development costs	127,684	152,548	153,922
Total	¥ 656,502	¥ 691,429	¥ 751,856

(22) Finance Income and Finance Costs

Finance income and finance costs for the years ended March 31, 2016, 2017 and 2018 consist of the following:

	Yen (millions)		
	2016	2017	2018
Interest income:			
Financial assets measured at amortized cost	¥ 27,348	¥ 31,331	¥ 39,645
Financial assets measured at fair value through profit or loss	1,120	1,058	1,546
Total	28,468	32,389	41,191
Interest expense:			
Financial liabilities measured at amortized cost	(18,146)	(12,471)	(12,970)
Other, net:			
Dividends received:			
Financial assets measured at fair value through other comprehensive income	3,955	4,922	4,708
Financial assets measured at fair value through profit or loss	3	11	15
Gains (losses) on derivatives:			
Financial assets and financial liabilities measured at fair value through profit or loss	35,675	(51,416)	67,132
Gains (losses) on foreign exchange	(42,509)	21,902	(69,197)
Other	(1,373)	6,145	2,893
Total	(4,249)	(18,436)	5,551

Total

¥ 6,073 ¥ 1,482 ¥ 33,772

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(23) Income Taxes***(a) Income Tax Expense*

Profit before income taxes and income tax expense for the years ended March 31, 2016, 2017 and 2018 consist of the following:

	Yen (millions)								
	2016			2017			2018		
	Japan	Foreign	Total	Japan	Foreign	Total	Japan	Foreign	Total
Profit (loss) before income taxes	¥ (88,987)	¥ 724,437	¥ 635,450	¥ 88,336	¥ 918,650	¥ 1,006,986	¥ 126,915	¥ 988,058	¥ 1,114,973
Income tax expense (benefit):									
Current taxes	(7,085)	155,031	147,946	9,072	187,077	196,149	(2,956)	280,316	277,360
Deferred taxes	(767)	81,913	81,146	21,425	110,018	131,443	25,149	(316,175)	(291,026)
Total	¥ (7,852)	¥ 236,944	¥ 229,092	¥ 30,497	¥ 297,095	¥ 327,592	¥ 22,193	¥ (35,859)	¥ (13,666)

The statutory income tax rate in Japan for the years ended March 31, 2016, 2017 and 2018 was 32.5%, 30.4% and 30.4%, respectively. The foreign subsidiaries are subject to taxes based on income at rates ranging from 16.0% to 36.7%.

The Japanese statutory income tax rate for the years ended March 31, 2016, 2017 and 2018 differs from the average effective tax rate for the following reasons:

	2016	2017	2018
Statutory income tax rate*1	32.5%	30.4%	30.4%
Difference in statutory income tax rates of foreign subsidiaries	(0.2)	0.0	(1.1)
Effects of investments accounted for using the equity method	(6.4)	(4.9)	(6.7)

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Effects of undistributed earnings and withholding taxes on royalty	8.9	6.1	7.0
Changes in unrecognized deferred tax assets	2.5	2.7	(0.2)
Effects of income and expense not taxable and deductible for tax purpose	0.7	0.2	0.1
Effects of tax credit	(3.4)	(1.3)	(2.1)
Other adjustments relating to prior years	1.9	(0.2)	0.3
Adjustments for the uncertain tax positions on income taxes	0.2	0.3	0.7
Transfer pricing tax refund* ²	(3.0)		
Adjustments for the changes in income tax laws* ³	0.5	(0.1)	(30.1)
Other	1.9	(0.7)	0.5
Average effective tax rate	36.1%	32.5%	(1.2)%

Explanatory notes:

- *1 On March 31, 2015, the National Diet of Japan approved amendments to existing income tax laws. Upon the change in the laws, the statutory income tax rate in Japan was changed to approximately 33% for fiscal years beginning on or after April 1, 2015 and would be changed to approximately 32% for fiscal years beginning on or after April 1, 2016. On March 29, 2016, the National Diet of Japan approved amendments to existing income tax laws. Upon the change in the laws, the statutory income tax rate in Japan for fiscal years beginning on and after April 1, 2016 was changed to approximately 30%.

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

*2 In May 2015, the lawsuit related to transfer pricing involving the Company's transactions with certain consolidated subsidiaries in Brazil was concluded, and it was ruled that the Company shall receive a tax refund with corresponding interest in Japan. As a result, income tax expense decreased by ¥19,145 million for the year ended March 31, 2016.

*3 The Tax Cuts and Jobs Act (the Act) was enacted in the United States on December 22, 2017. Due to the Act, the federal corporate income tax rate in the United States applicable to the Company's United States businesses was reduced from 35% to a blended rate of 31.55% for the fiscal year ended March 31, 2018 and to 21% from the fiscal year commencing on April 1, 2018. The Company has recognized impacts of the enactment of the Act, including a decrease in income tax expenses of ¥346,129 million, as a result of reevaluating deferred tax assets and liabilities in its consolidated subsidiaries in the United States based on the reduced federal corporate income tax rate, for the fiscal year ended March 31, 2018.

(b) Deferred Tax Assets and Deferred Tax Liabilities

The components by major factor in deferred tax assets and deferred tax liabilities as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Deferred tax assets:		
Inventories	¥ 72,577	¥ 66,801
Accrued expenses	85,353	67,410
Provisions	171,172	121,898
Property, plant and equipment	30,031	26,803
Intangible assets	24,285	19,167
Retirement benefit liabilities	144,924	92,272
Carryforward of unused tax losses	46,951	36,732
Carryforward of unused tax credit	25,223	33,743
Other	127,764	126,079
Total	¥ 728,280	¥ 590,905
Deferred tax liabilities:		
Property, plant and equipment	¥ 120,191	¥ 85,606
Intangible assets	188,245	177,899
Other financial assets	44,536	42,886
Finance leases	31,066	33,878
Operating leases	1,004,017	641,134
Undistributed earnings	45,723	58,630

Other	73,443	51,256
Total	¥ 1,507,221	¥ 1,091,289
Net deferred tax assets (liabilities)	¥ (778,941)	¥ (500,384)

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

The changes in deferred tax assets and deferred tax liabilities recognized as income tax expense in the consolidated statements of income for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Inventories	¥ (1,737)	¥ 7,886	¥ 5,541
Provisions	(95,477)	49,864	45,492
Property, plant and equipment	23,520	19,551	(27,520)
Retirement benefit liabilities	1,752	16,212	(623)
Operating leases	115,217	83,414	(328,950)
Undistributed earnings	6,796	(3,704)	12,655
Carryforward of unused tax losses	6,339	(13,346)	9,226
Carryforward of unused tax credit	13,341	(6,394)	(10,300)
Other	11,395	(22,040)	3,453
Total	¥ 81,146	¥ 131,443	¥ (291,026)

Honda considers the probability that a portion of, or all of, the deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credit can be utilized against future taxable profits in the recognition of deferred tax assets. In assessing recoverability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable profit and tax planning strategies. Based upon the level of historical taxable profit and projections for future taxable profit over the periods for which the deferred tax assets are deductible, management believes it is probable that Honda will utilize the benefits of these deferred tax assets as of March 31, 2017 and 2018. Uncertainty of estimates of future taxable profit could increase due to changes in the economic environment surrounding Honda, effects by market conditions, effects of currency fluctuations or other factors. Deferred tax assets recognized by entities that have suffered a loss in either the preceding or current period are ¥32,111 million and ¥21,911 million as of March 31, 2017 and 2018, respectively.

Deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credit for which deferred tax assets are not recognized as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Deductible temporary differences	¥ 298,933	¥ 301,349
Carryforward of unused tax losses	226,977	218,783
Carryforward of unused tax credit	20,211	6,202

The components by expiry of the carryforward of unused tax losses for which deferred tax assets are not recognized as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Within 1 year	¥ 25	¥ 3,755
Between 1 and 5 years	83,751	86,277
Between 5 and 20 years	73,431	56,605
Indefinite periods	69,770	72,146
Total	¥ 226,977	¥ 218,783

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

The components by expiry of the carryforward of unused tax credit for which deferred tax assets are not recognized as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Within 1 year	¥	¥ 541
Between 1 and 5 years	2,304	1,727
Between 5 and 20 years	17,907	3,934
Indefinite periods		
Total	¥20,211	¥6,202

The aggregate amounts of temporary differences relating to investments in subsidiaries and interests in joint ventures for which deferred tax liabilities are not recognized as of March 31, 2017 and 2018 are ¥4,417,892 million and ¥4,709,772 million, respectively.

(24) Earnings Per Share

Earnings per share attributable to owners of the parent for the years ended March 31, 2016, 2017 and 2018 are calculated based on the following information. There were no dilutive potential common shares outstanding for the years ended March 31, 2016, 2017 and 2018.

	2016	2017	2018
Profit for the year attributable to owners of the parent (millions of yen)	¥ 344,531	¥ 616,569	¥ 1,059,337
Weighted average number of common shares outstanding, basic (shares)	1,802,285,138	1,802,282,093	1,793,088,970
Basic earnings per share attributable to owners of the parent (yen)	¥ 191.16	¥ 342.10	¥ 590.79

(25) Financial Risk Management*(a) Risk Management*

Honda has manufacturing operations throughout the world and sells products and components to various countries. In the course of these activities, Honda holds trade receivables arising from business activities, receivables from financial services, trade payables and financing liabilities, and is thus exposed to market risk, credit risk and liquidity risk associated with the holding of such financial instruments.

These risks are evaluated by Honda through periodic monitoring.

(b) Market Risk

Honda is exposed to the risk that the fair value or future cash flows of a financial instrument fluctuates because of changes in foreign currency exchange rates and interest rates.

Honda uses derivatives that consist mainly of foreign currency forward exchange contracts, foreign currency option contracts, currency swap agreements and interest rate swap agreements to reduce primarily the risk that future cash flows of a financial instrument fluctuates because of changes in foreign currency exchange rates and interest rates.

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

Derivatives are used within the scope of actual demand, in accordance with risk management policies. In addition, Honda does not hold any derivatives for trading purpose.

1) Foreign currency exchange rate risk

Honda has manufacturing operations throughout the world and exports products and components to various countries. Honda purchases materials and components and sells its products and components in foreign currencies. Therefore, currency fluctuations may affect Honda's profit and the value of the financial instruments it holds.

Foreign currency forward exchange contracts and foreign currency option contracts are used to hedge currency risk of transactions denominated in foreign currencies (principally U.S. dollars).

(Foreign currency exchange rate risk sensitivity analysis)

Sensitivity analysis of Honda's foreign currency exchange rate risk associated with holding financial instruments as of March 31, 2017 and 2018 is as follows.

The following scenario demonstrates the impact of a 1% appreciation of the Japanese yen against the U.S. dollar on profit before income taxes, holding all variables other than the foreign currency exchange rate constant.

	Yen (millions)	
	2017	2018
Impact on profit before income taxes	¥ (915)	¥ (829)

2) Interest rate risk

Honda is exposed to market risk for changes in interest rates related primarily to its debt obligations and receivables from financial services. In addition to short-term financing such as commercial paper, Honda has long-term debt with both fixed and floating rates. Honda's receivables from financial services primarily use fixed rates. Interest rate swap agreements are mainly used to manage interest rate risk exposure of receivables from financial services and to match finance costs with finance income. Currency swap agreements used among different currencies, also serve to hedge foreign currency exchange risk as well as interest rate risk.

(Interest rate risk sensitivity analysis)

Sensitivity analysis of Honda's interest rate risk associated with holding financial instruments as of March 31, 2017 and 2018 is as follows.

The following scenario demonstrates the impact of a 100 basis point rise in interest rates on profit before income taxes, holding all variables other than interest rates constant.

	Yen (millions)	
	2017	2018
Impact on profit before income taxes	¥(16,611)	¥ (1,569)
<i>3) Equity price risk</i>		

Honda is exposed to equity price risk as a result of its holdings of marketable equity securities. Marketable equity securities are held for purposes other than trading, and are mainly classified into financial assets measured at fair value through other comprehensive income.

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

Honda is exposed to the risk that one party to a financial instrument causes a financial loss for the other party by failing to discharge an obligation. Honda reduces the risk of financial assets other than derivatives in accordance with credit administration rules. Honda reduces the risk of derivatives by limiting the counterparties to major international banks and financial institutions that meet the internally established credit guidelines.

The credit risk is mainly in receivables from financial services. Credit risk of the portfolio of consumer finance receivables can be affected by general economic conditions. Adverse changes such as a rise in unemployment can increase the likelihood of defaults. Declines in used vehicle prices can reduce the amount of recoveries on repossessed collaterals. The finance subsidiaries of the Company manage exposures to credit risk in consumer finance receivables by monitoring and adjusting underwriting standards, which affect the level of credit risk that Honda assumes, pricing contracts for expected losses, and focusing collection efforts to minimize losses.

Credit risk on dealer finance receivables is affected primarily by the financial strength of the dealers within the portfolio, the value of collateral securing the financings, and economic and market factors that could affect the creditworthiness of dealers. The finance subsidiaries of the Company manage exposures to credit risk in dealer finance receivables by performing comprehensive reviews of dealers prior to establishing financing arrangements and continuously monitoring the payment performance and creditworthiness of these dealers.

At the finance subsidiaries of the Company in North America, consumer finance receivables are charged off when they become 120 days past due or earlier if they have been specifically identified as uncollectible. Dealer finance receivables are charged off when they have been individually identified as uncollectible. At the finance subsidiaries of the Company in other areas except for North America, finance receivables are charged off when they have been identified as substantially uncollectible according to the internal standards of each subsidiary.

1) Aging analysis of receivables from financial services

At the finance subsidiaries of the Company in North America, consumer finance receivables are considered delinquent if more than 10% of a monthly scheduled payment is contractually past due on a cumulative basis. Dealer finance receivables are considered delinquent when any principal payments are past due. At the finance subsidiaries of the Company in other areas except for North America, finance receivables are considered delinquent when any principal payments are past due.

The analysis of the age of receivables from financial services that are past due as of March 31, 2017 and 2018 is as follows:

As of March 31, 2017	Yen (millions)				Total
	Less than 30 days past due	30-59 days past due	60-89 days past due	90 days and greater	

	past due				
Consumer finance receivables:					
Retail	¥ 162,876	¥ 26,934	¥ 4,677	¥ 4,455	¥ 198,942
Finance lease	1,776	395	112	142	2,425
Dealer finance receivables:					
Wholesale	13,420	200	49	166	13,835
Total	¥ 178,072	¥ 27,529	¥ 4,838	¥ 4,763	¥ 215,202

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

As of March 31, 2018	Yen (millions)				Total
	Less than 30 days past due	30-59 days past due	60-89 days past due	90 days and greater past due	
Consumer finance receivables:					
Retail	¥ 174,649	¥ 29,692	¥ 5,683	¥ 3,930	¥ 213,954
Finance lease	858	218	41	93	1,210
Dealer finance receivables:					
Wholesale	16,843	858	103	79	17,883
Total	¥ 192,350	¥ 30,768	¥ 5,827	¥ 4,102	¥ 233,047

2) Credit quality indicators

The collection experience of consumer finance receivables provides an indication of the credit quality of consumer finance receivables. The likelihood of accounts being charged off becomes significantly higher once an account becomes 60 days delinquent. Accordingly, the finance subsidiaries of the Company classify their portfolios of consumer finance receivables into groups the finance subsidiaries of the Company consider to be performing and nonperforming. Accounts that are delinquent for 60 days or greater are included in the nonperforming group and all other accounts are considered to be performing.

A credit quality indicator for dealer finance receivables is the internal risk ratings for the dealerships. Dealerships are assigned an internal risk rating based primarily on their financial condition. At a minimum, risk ratings for dealerships are updated annually and more frequently for dealerships with weaker risk ratings.

3) Maximum exposure to credit risk

The maximum exposure to credit risk at the end of each reporting period, with the exception of the guarantees stated in note 28 is the carrying amount of Honda's financial assets.

(d) Liquidity Risk

Honda raises funds by commercial paper, bank loans, medium-term notes, corporate bonds and securitization of finance receivables. Honda is exposed to the liquidity risk that Honda would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

Exposure to liquidity risk is managed by maintaining sufficient capital resources, a sufficient level of liquidity and a sound balance sheet. Honda meets its working capital targets primarily through cash generated by business operations and bank loans. Honda funds financial programs for customers and dealers primarily from commercial paper, bank loans, medium-term notes, corporate bonds and securitization of finance receivables.

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The unused portions of the credit facility of Honda's commercial paper and medium-term note programs as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Commercial paper	¥ 767,516	¥ 660,740
Medium-term notes	2,979,309	1,923,587
Total	¥ 3,746,825	¥ 2,584,327

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

Honda is authorized to obtain financing at prevailing interest rates under these programs.

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, Honda has sufficient committed lines of credit that serve as alternative liquidity for the commercial paper issued regularly to replace debt.

The unused portions of the committed lines of credit extended by financial institutions to Honda as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Commercial paper programs	¥ 1,090,406	¥ 1,047,551
Other	58,924	59,502
Total	¥ 1,149,330	¥ 1,107,053

Borrowings under those committed lines of credit generally are available at the prime interest rate.

*Maturity analysis of financial liabilities**1) Non-derivative financial liabilities*

Non-derivative financial liabilities by maturity as of March 31, 2017 and 2018 are as follows:

As of March 31, 2017	Yen (millions)				
	Carrying amount	Within 1 year	Between 1 and 5 years	Later than 5 years	Total contractual cash flows
Trade payables	¥ 1,183,344	¥ 1,183,344	¥	¥	¥ 1,183,344
Financing liabilities	6,809,118	2,883,047	3,763,441	443,776	7,090,264
Accrued expenses	417,736	417,736			417,736
Other financial liabilities	111,949	67,329	33,196	11,887	112,412
Total	¥ 8,522,147	¥ 4,551,456	¥ 3,796,637	¥ 455,663	¥ 8,803,756

As of March 31, 2018	Yen (millions)	
	Carrying amount	Within 1 year

			Between 1 and 5 years	Later than 5 years	Total contractual cash flows
Trade payables	¥ 1,224,627	¥ 1,224,627	¥	¥	¥ 1,224,627
Financing liabilities	6,799,010	3,030,934	3,784,440	283,459	7,098,833
Accrued expenses	404,719	404,719			404,719
Other financial liabilities	122,624	66,457	32,380	24,498	123,335
Total	¥ 8,550,980	¥ 4,726,737	¥ 3,816,820	¥ 307,957	¥ 8,851,514

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)***2) Derivative financial liabilities*

Derivative financial liabilities by maturity as of March 31, 2017 and 2018 are as follows:

As of March 31, 2017	Yen (millions)			Total contractual cash flows
	Within 1 year	Between 1 and 5 years	Later than 5 years	
Derivative financial liabilities	¥ 11,576	¥ 59,810	¥ 19,063	¥ 90,449

As of March 31, 2018	Yen (millions)			Total contractual cash flows
	Within 1 year	Between 1 and 5 years	Later than 5 years	
Derivative financial liabilities	¥ 17,162	¥ 42,529	¥ 3,057	¥ 62,748

(26) Fair Value*(a) Definition of Fair Value Hierarchy*

Honda uses a three-level hierarchy 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. Honda recognizes the transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(b) Method of Fair Value Measurement

The fair values of assets and liabilities are determined based on relevant market information and through the use of an appropriate valuation method.

The measurement methods and assumptions used in the measurement of assets and liabilities are as follows:

(Cash and cash equivalents, trade receivables and trade payables)

The fair values approximate their carrying amounts due to their short-term maturities.

(Receivables from financial services)

The fair value of receivables from financial services is measured primarily by discounting future cash flows using the current interest rates applicable for these receivables of similar remaining maturities. Fair value measurement for receivables from financial services is classified as Level 3.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(Debt securities)

Debt securities consist mainly of mutual funds, corporate bonds, local bonds and auction rate securities.

The fair value of mutual funds with an active market is measured by using quoted market prices. Fair value measurement for mutual funds with an active market is classified as Level 1.

The fair values of corporate bonds and local bonds are measured based on proprietary pricing models provided by specialists and/or market makers and the models obtain a wide array of market observable inputs such as credit ratings and discount rates. Fair value measurements for corporate bonds and local bonds are classified as Level 2.

The subsidiary's auction rate securities are A to AAA rated and are insured by qualified guarantee agencies, and reinsured by the Secretary of Education and the United States government, and guaranteed at approximately 95% by the United States government. To measure fair value of auction rate securities, Honda uses a 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.

(Equity securities)

The fair value of equity securities with an active market is measured by using quoted market prices. Fair value measurement for equity securities with an active market is classified as Level 1.

The fair value of equity securities with no active market is measured mainly by using the comparable company valuation method and other appropriate valuation methods. Fair value measurement for equity securities with no active market is classified as Level 3.

Price book-value ratio (PBR) of a comparable company are used as a significant unobservable input in the fair value measurement of equity securities classified as Level 3. The fair value increases (decreases) as PBR of a comparable company rise (decline). Such fair value measurements are conducted in accordance with the group accounting policy approved by the appropriate person of authority and based upon valuation methods determined by a valuator such as personnel in accounting divisions of Honda.

(Derivatives)

Derivatives consist mainly of foreign currency forward exchange contracts, foreign currency option contracts, currency swap agreements and interest rate swap agreements.

The fair values of foreign currency forward exchange contracts and foreign currency option contracts are measured by using market observable inputs such as spot exchange rates, discount rates and implied volatility. The fair values of currency swap agreements and interest rate swap agreements are measured by discounting future cash flows using market observable inputs such as LIBOR rates, swap rates, and foreign exchange rates. Fair value measurements for

these derivatives are classified as Level 2.

The credit risk of the counterparties is considered in the valuation of derivatives.

(Financing liabilities)

The fair value of financing liabilities is measured by discounting future cash flows using interest rates currently available for liabilities of similar terms and remaining maturities. Fair value measurement of financing liabilities is mainly classified as Level 2.

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)***(c) Assets and Liabilities Measured at Fair Value on a recurring basis*

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and 2018 consist of the following:

As of March 31, 2017	Yen (millions)				Total			
	Level 1	Level 2	Level 3					
Other financial assets:								
Financial assets measured at fair value through profit or loss:								
Derivatives								
Foreign exchange instruments	¥	¥	8,850	¥	¥ 8,850			
Interest rate instruments			26,663		26,663			
Total			35,513		35,513			
Debt securities								
		24,096	38,988	5,610	68,694			
Financial assets measured at fair value through other comprehensive income:								
Equity securities								
		177,339		11,318	188,657			
Total	¥	201,435	¥	74,501	¥	16,928	¥	292,864
Other financial liabilities:								
Financial liabilities measured at fair value through profit or loss:								
Derivatives								
Foreign exchange instruments	¥	¥	33,483	¥	¥ 33,483			
Interest rate instruments			21,593		21,593			
Total			55,076		55,076			
Total	¥	¥	55,076	¥	¥	55,076		

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2017.

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

As of March 31, 2018	Yen (millions)			Total
	Level 1	Level 2	Level 3	
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥	¥ 38,926	¥	¥ 38,926
Interest rate instruments		49,419		49,419
Total		88,345		88,345
Debt securities				
	26,763	37,860	5,206	69,829
Financial assets measured at fair value through other comprehensive income:				
Equity securities				
	198,011		12,671	210,682
Total	¥ 224,774	¥ 126,205	¥ 17,877	¥ 368,856
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥	¥ 16,417	¥	¥ 16,417
Interest rate instruments		36,369		36,369
Total		52,786		52,786
Total	¥	¥ 52,786	¥	¥ 52,786

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2018.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended March 31, 2017 and 2018 are as follows:

For the year ended March 31, 2017	Yen (millions)	
	Debt securities	Equity securities
Balance as of April 1, 2016	¥ 5,521	¥ 10,370

Total gains or losses:

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Profit or loss	108		
Other comprehensive income			187
Purchases			1,120
Sales			(168)
Exchange differences on translating foreign operations	(19)		(191)
Balance as of March 31, 2017	¥ 5,610	¥	11,318
Unrealized gains or losses included in profit or loss on assets held at March 31, 2017	¥ 108	¥	

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

For the year ended March 31, 2018	Yen (millions)	
	Debt securities	Equity securities
Balance as of April 1, 2017	¥ 5,610	¥ 11,318
Total gains or losses:		
Profit or loss	111	
Other comprehensive income		(323)
Purchases		1,833
Sales	(222)	(107)
Exchange differences on translating foreign operations	(293)	(50)
Balance as of March 31, 2018	¥ 5,206	¥ 12,671
Unrealized gains or losses included in profit or loss on assets held at March 31, 2018	¥ 111	¥

Explanatory notes:

- Gains or losses included in profit or loss for the years ended March 31, 2017 and 2018 are included in other, net in finance income and finance costs in the consolidated statements of income.
- Gains or losses included in other comprehensive income for the years ended March 31, 2017 and 2018 are included in net changes in revaluation of financial assets measured at fair value through other comprehensive income in the consolidated statements of comprehensive income.

(d) Financial Assets and Financial Liabilities measured at amortized cost

The carrying amounts and fair values of financial assets and financial liabilities measured at amortized cost as of March 31, 2017 and 2018 are as follows:

	Yen (millions)			
	2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from financial services	¥ 4,949,553	¥ 4,952,670	¥ 4,958,063	¥ 4,935,772
Debt securities	68,263	68,264	104,286	104,284
Financing liabilities	6,809,118	6,841,558	6,799,010	6,795,675

The table does not include financial assets and financial liabilities measured at amortized cost whose fair values approximate their carrying amounts.

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Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(27) Offsetting of Financial Assets and Financial Liabilities**

The offsetting information regarding financial assets and financial liabilities as of March 31, 2017 and 2018 is as follows:

As of March 31, 2017	Yen (millions)					Net Amounts
	Gross amounts of recognized financial assets and financial liabilities	Amounts offset in the consolidated statements of financial position	Net amounts presented in the consolidated statements of financial position	Amounts not offset due to not meeting offsetting criteria despite being subject to a master netting agreement or similar agreement		
Other financial assets						
Derivatives	¥ 35,513	¥	¥ 35,513	¥ (20,082)	¥ 15,431	
Other financial liabilities						
Derivatives	55,076		55,076	(20,082)	34,994	

As of March 31, 2018	Yen (millions)					Net Amounts
	Gross amounts of recognized financial assets and financial liabilities	Amounts offset in the consolidated statements of financial position	Net amounts presented in the consolidated statements of financial position	Amounts not offset due to not meeting offsetting criteria despite being subject to a master netting agreement or similar agreement		
Other financial assets						
Derivatives	¥ 88,345	¥	¥ 88,345	¥ (39,415)	¥ 48,930	
Other financial liabilities						
Derivatives	52,786		52,786	(39,415)	13,371	

Generally, the set-off rights on financial instruments that do not meet the offsetting criteria for offsetting financial assets and financial liabilities become enforceable only under special circumstances, such as when the counterparty can no longer fulfill its obligations due to bankruptcy and other reasons.

(28) Commitments and Contingent Liabilities*(a) Commitments*

1) *Purchase commitments*

Commitments for purchases of property, plant and equipment and other commitments as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Commitments for purchases of property, plant and equipment and other commitments	¥ 84,095	¥ 71,188

2) *Non-cancellable lease commitments*

Honda is the lessee under several operating leases, primarily for office and other facilities, and certain office equipment.

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

Future minimum lease payments under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Within 1 year	¥ 16,722	¥ 17,126
Between 1 and 5 years	32,289	35,577
Later than 5 years	19,662	22,784
Total	¥ 68,673	¥ 75,487

Lease payments under operating leases recognized as expenses for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Lease payments under operating leases recognized as expenses	¥ 32,934	¥ 32,030	¥ 35,180
<i>(b) Guarantees</i>			

Honda has entered into various guarantee agreements, which mainly consist of loan commitments to dealers and guarantees of bank loans of employees for their housing costs. The undiscounted maximum amount of potential payment for Honda's major guarantee obligations as of March 31, 2017 and 2018 is as follows:

	Yen (millions)	
	2017	2018
Loan commitments	¥ 120,554	¥ 112,798
Guarantee of employee loans	¥ 16,146	¥ 13,871
<i>1) Loan commitments</i>		

Honda maintains unused balances on committed lines to dealers based on loan commitment contracts. Although committed lines have been extended, they will not necessarily be withdrawn, as certain contracts contain terms and conditions of withdrawal that require screening of the obligor's credit standing.

2) Guarantee of employee loans

Honda guarantees the bank loans of employees for their housing costs. If an employee defaults on his/her loan payments, Honda is required to perform under the guarantee. As of March 31, 2018, 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.

(c) Claims and Lawsuits

Honda is subject to potential liability under various lawsuits and claims. Honda recognizes a provision for loss contingencies when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recognized 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.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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 provision. Punitive damages are claimed in certain of these lawsuits.

After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the ultimate outcome of such lawsuits and pending claims should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position or results of operations.

Loss related to airbag inflators

Honda has been conducting market-based measures in relation to airbag inflators. Honda recognizes a provision for specific warranty costs when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. There is a possibility that Honda will need to recognize additional provisions when new evidence related to the product recalls arise, however, it is not possible for Honda to reasonably estimate the amount and timing of potential future losses as of the date of this report.

In the United States and Canada, various class action lawsuits and civil lawsuits related to the above mentioned market-based measures have been filed against Honda. The plaintiffs have claimed for properly functioning airbag inflators, compensation of economic losses including incurred costs and the decline in the value of vehicles, as well as punitive damages. Most of the class action lawsuits in the United States were transferred to the United States District Court for the Southern District of Florida and consolidated into a multidistrict class action litigation.

For the year ended March 31, 2018, Honda has reached a settlement with the plaintiffs of the multidistrict class action litigation in the United States. This settlement is subject to final court approval. Honda recognized the settlement of ¥53,739 million as selling, general and administrative expense, which includes funds contributed to enhance airbag inflator recall activities.

For the class action lawsuits and civil lawsuits other than the above, Honda did not recognize a provision for loss contingencies because the conditions for a provision have not been met as of the date of this report. Therefore, it is not possible for Honda to reasonably estimate the amount and timing of potential future losses as of the date of this report because there are some uncertainties, such as the period when these lawsuits will be concluded.

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(29) Structured Entities**

Honda considers whether its control over structured entities exists under IFRS 10 Consolidated Financial Statements. Honda consolidates structured entities over which it has control, by comprehensively determining whether its control over the entity exists based on any contractual arrangements with such entity as well as the percentage of its voting or similar rights in the entity.

The finance subsidiaries of the Company periodically securitize finance receivables for liquidity and funding purposes and transfer finance receivables to a trust which is newly established to issue asset-backed securities. The finance subsidiaries of the Company are deemed to have the power to direct the activities of these trusts that most significantly impact the trusts' economic performance, as they retain servicing rights in all securitizations, and manage delinquencies and defaults of the underlying receivables. Furthermore, the finance subsidiaries of the Company are deemed to have the obligation to absorb losses of these trusts that could potentially be significant to these trusts, as they would absorb the majority of the expected losses of these trusts by retaining certain subordinated interests of these trusts. Therefore, the Company is deemed to have substantial control over these trusts and has consolidated them, as structured entities over which it has control.

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.

There were no significant unconsolidated structured entities as of March 31, 2017 and 2018.

(30) Related Parties*(a) Related Party Transactions*

Honda mainly purchases materials, supplies and services from affiliates and joint ventures, and sells finished goods, parts used in its products, equipment and services to them in the ordinary course of business. Transactions with affiliates and joint ventures are generally made at values that approximate arm's-length prices.

The balances of receivables and payables with affiliates and joint ventures as of March 31, 2017 and 2018 are as follows:

	Yen (millions)	
	2017	2018
Receivables:		
Affiliates	¥ 21,877	¥ 21,259
Joint ventures	230,004	242,672
Total	¥ 251,881	¥ 263,931

Payables:			
Affiliates	¥	151,878	¥ 148,017
Joint ventures		53,601	33,351
Total	¥	205,479	¥ 181,368

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

The amount of the transactions with affiliates and joint ventures for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Sales revenue:			
Affiliates	¥ 140,274	¥ 115,188	¥ 119,725
Joint ventures	557,867	598,177	744,435
Total	¥ 698,141	¥ 713,365	¥ 864,160
Purchase:			
Affiliates	¥ 1,349,971	¥ 1,376,581	¥ 1,407,755
Joint ventures	122,529	145,161	143,800
Total	¥ 1,472,500	¥ 1,521,742	¥ 1,551,555

(b) Compensation to Key Management

Compensation paid to the directors of the Company for the years ended March 31, 2016, 2017 and 2018 are as follows:

	Yen (millions)		
	2016	2017	2018
Remuneration	¥ 724	¥ 677	¥ 719
Bonus	251	275	231
Total	¥ 975	¥ 952	¥ 950

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

Major consolidated subsidiaries as of March 31, 2018 are as follows:

Company	Country of Incorporation	Function	Percentage Ownership and Voting Interest
Honda R&D Co., Ltd.	Japan	Research & Development	100.0
Honda Finance Co., Ltd.	Japan	Finance	100.0
American Honda Motor Co., Inc.	U.S.A.	Sales	100.0
Honda Aero., Inc.	U.S.A.	Manufacturing	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 Aircraft Company, LLC	U.S.A.	Research & Development, Manufacturing and Sales	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 Bank GmbH	Germany	Finance	100.0
Honda Turkiye A.S	Turkey	Manufacturing and Sales	100.0
Honda Motor (China) Investment Co., Ltd.	China	Coordination of Subsidiaries Operation and Sales	100.0
Honda Auto Parts Manufacturing Co., Ltd.	China	Manufacturing	100.0

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Honda Automobile (China) Co., Ltd.	China	Manufacturing	65.0
Honda Motorcycle & Scooter India (Private) Ltd.	India	Manufacturing and Sales	100.0
Honda Cars India Limited	India	Manufacturing and Sales	100.0
P.T. Honda Precision Parts Manufacturing	Indonesia	Manufacturing	100.0
P.T. Honda Prospect Motor	Indonesia	Manufacturing and Sales	51.0
Honda Malaysia Sdn Bhd	Malaysia	Manufacturing and Sales	51.0
Honda Taiwan Co., Ltd.	Taiwan	Sales	100.0
Asian Honda Motor Co., Ltd.	Thailand	Coordination of Subsidiaries Operation and Sales	100.0
Honda Leasing (Thailand) Co., Ltd.	Thailand	Finance	100.0
Honda Automobile (Thailand) Co., Ltd.	Thailand	Manufacturing and Sales	89.0
Thai Honda Manufacturing Co., Ltd.	Thailand	Manufacturing	83.0
A.P. Honda Co., Ltd.	Thailand	Sales	61.0
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
Banco Honda S.A.	Brazil	Finance	100.0
Honda Automoveis do Brasil Ltda.	Brazil	Manufacturing and Sales	100.0
Moto Honda da Amazonia Ltda.	Brazil	Manufacturing and Sales	100.0

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(31) Subsequent Event

Acquisition of the Company's Own Shares

The Board of Directors of the Company, at its meeting held on April 27, 2018, resolved that the Company will acquire its own shares pursuant to Article 459, Paragraph 1 of the Company Law and Article 33 of the Company's Articles of Incorporation for the purpose, among others, of improving efficiency of its capital structure and implementing a flexible capital strategy.

Details of the acquisition are as follows: (a) class of shares to be acquired is shares of Common Stock, (b) total number of shares to be acquired is up to 18,000 thousand shares (1.0% of total number of issued shares (excluding treasury stock)), (c) total amount of shares to be acquired is up to ¥70,000 million, (d) the acquisition of its own shares will run from May 7, 2018 to December 31, 2018, and (e) the method of acquisition is to purchase the shares on the Tokyo Stock Exchange.

(32) Approval of Release of Consolidated Financial Statements

The release of the consolidated financial statements was approved by Takahiro Hachigo, President and Representative Director, Chief Executive Officer and Kohei Takeuchi, Senior Managing Director and Chief Financial Officer on June 20, 2018.

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INDEX OF EXHIBITS

- 1.1 Articles of Incorporation of the registrant (English translation)
 - 1.2 Share Handling Regulations of the registrant (English translation)
 - 1.3 Regulations of the Board of Directors of the registrant (English translation)
 - 1.4 Regulations of the Audit and Supervisory Committee 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 JPMorgan Chase Bank, N.A.), as Depositary, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (2)
 - 2.3 Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (2)
 - 2.4 Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (3)
 - 2.5 Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006, among the parties referred to in Exhibit 2.2 above (4)
 - 2.6 Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)
 - 8.1 List of Significant Subsidiaries (See Organizational Structure in Item 4.C of this Form 20-F)
 - 11.1 Code of Ethics (6)
 - 12.1 Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a)
 - 12.2 Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a)
 - 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
 - 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350
-
- (1) Incorporated by reference to the registrant's Annual Report on Form 20-F filed on September 27, 2001. (P)
 - (2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995. (P)
 - (3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001. (P)
 - (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.

(P) Paper exhibits

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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/ Takahiro Hachigo
 Takahiro Hachigo
 President and Representative Director
 Chief Executive Officer

Date: June 20, 2018
Tokyo, Japan