

**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, 2017

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

Name of each exchange on which registered

Common Stock\*

New York Stock Exchange

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

None

(Title of class)

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

None

(Title of class)

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

Title of each class

Outstanding as of March 31, 2017

Common Stock

1,802,280,395\*\*

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

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 66,809,460 shares represented by American Depositary Shares.

## PART I

Item 1. Identity of Directors, Senior Management and Advisers	1
Item 2. Offer Statistics and Expected Timetable	1
Item 3. Key Information	1
A. Selected Financial Data	1
B. Capitalization and Indebtedness	2
C. Reason for the Offer and Use of Proceeds	2
D. Risk Factors	2
Item 4. Information on the Company	7
A. History and Development of the Company	7
B. Business Overview	8
C. Organizational Structure	28
D. Property, Plants and Equipment	29
Item 4A. Unresolved Staff Comments	31
Item 5. Operating and Financial Review and Prospects	32
A. Operating Results	32
B. Liquidity and Capital Resources	57
C. Research and Development	59
D. Trend Information	62
E. Off-Balance Sheet Arrangements	62
F. Tabular Disclosure of Contractual Obligations	62
G. Safe Harbor	62
Item 6. Directors, Senior Management and Employees	63
A. Directors and Senior Management	63
B. Compensation	77
C. Board Practices	78
D. Employees	78
E. Share Ownership	79
Item 7. Major Shareholders and Related Party Transactions	79
A. Major Shareholders	79
B. Related Party Transactions	80
C. Interests of Experts and Counsel	80
Item 8. Financial Information	80
A. Consolidated Statements and Other Financial Information	80
B. Significant Changes	82
Item 9. The Offer and Listing	82
A. Offer and Listing Details	82
B. Plan of Distribution	83
C. Markets	83
D. Selling Shareholders	83
E. Dilution	83
F. Expenses of the Issue	83
Item 10. Additional Information	83
A. Share Capital	83
B. Memorandum and Articles of Association	83
C. Material Contracts	91
D. Exchange Controls	92
E. Taxation	92

F. Dividends and Paying Agents .....	96
G. Statement by Experts .....	96
H. Documents on Display .....	96
I. Subsidiary Information .....	96
Item 11. Quantitative and Qualitative Disclosure about Market Risk .....	96
Item 12. Description of Securities Other than Equity Securities .....	97
A. Debt Securities .....	97
B. Warrants and Rights .....	97
C. Other Securities .....	97
D. American Depositary Shares .....	97
<b>PART II</b>	
Item 13. Defaults, Dividend Arrearages and Delinquencies .....	98
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds .....	98
Item 15. Controls and Procedures .....	98
Item 16A. Audit Committee Financial Expert .....	99
Item 16B. Code of Ethics .....	99
Item 16C. Principal Accountant Fees and Services .....	99
Item 16D. Exemptions from the Listing Standards for Audit Committees .....	100
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers .....	101
Item 16F. Change in Registrant’s Certifying Accountant .....	101
Item 16G. Corporate Governance .....	102
Item 16H. Mine Safety Disclosure .....	106
<b>PART III</b>	
Item 17. Financial Statements .....	106
Item 18. Financial Statements .....	106
Item 19. Exhibits .....	107

## PART I

Unless the context otherwise requires, the terms “we”, “us”, “our”, “Registrant”, “Company” and “Honda” as used in this Annual Report each refer to 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 four fiscal years ended March 31, 2017 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
<b>Consolidated Statement of Income Data:</b>				
Sales revenue	¥12,506,091	¥13,328,099	¥14,601,151	¥13,999,200
Operating profit	823,864	670,603	503,376	840,711
Share of profit of investments accounted for using the equity method	130,916	96,097	126,001	164,793
Profit before income taxes	933,903	806,237	635,450	1,006,986
Profit for the year	665,911	561,098	406,358	679,394
Profit for the year attributable to owners of the parent	624,703	509,435	344,531	616,569
<b>Consolidated Statement of Financial Position Data:</b>				
Total assets	16,048,438	18,425,837	18,229,294	18,958,123
Financing liabilities, including current and non-current	5,846,948	6,759,839	6,526,248	6,809,118
Equity attributable to owners of the parent	6,335,534	7,108,627	6,761,433	7,295,296
Total equity	6,558,928	7,382,821	7,031,788	7,569,626
Common stock	86,067	86,067	86,067	86,067
<b>Per Share Data:</b>				
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
Earnings per share attributable to owners of the parent*1				
Basic and diluted	¥ 346.62	¥ 282.66	¥ 191.16	¥ 342.10
Dividends declared during the period per common share*2	79.00	88.00	88.00	90.00
	(US\$ 0.77)	(US\$ 0.73)	(US\$ 0.78)	(US\$ 0.80)

- \*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 ¥24 (\$0.21) per common share aggregating ¥43.2 billion (\$386 million) relating to fiscal 2017 was determined by our Board of Directors in May 2017 and approved by our shareholders in June 2017. This dividend will be paid in June 2017. 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, 2017, the noon buying rate was ¥110.71=\$1.00. The average exchange rate for the period shown is the average of the month-end rates during the period.

<u>Years ended or ending March 31,</u>	<u>Noon Buying Rate</u>			
	<u>Average</u>	<u>Period end</u>	<u>High</u>	<u>Low</u>
		<u>(Yen per \$1.00)</u>		
2013 .....	83.26	94.16	96.16	77.41
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 (through May 31, 2017) .....	111.08	110.71	114.19	108.40
<u>Month,</u>			<u>High</u>	<u>Low</u>
			<u>(Yen per \$1.00)</u>	
December 2016 .....			118.32	113.50
January 2017 .....			117.68	112.72
February 2017 .....			114.34	111.74
March 2017 .....			115.02	110.48
April 2017 .....			111.52	108.40
May 2017 .....			114.19	110.68

*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.

## **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 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 in these countries related to emissions, fuel economy, noise, vehicle safety, factory pollution levels, climate change or other factors 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.

### **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, 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. With respect to the quality of our products, which serves as the pillar of our brand image, we recognize that our mainstay products provide personal mobility and touch human lives, so we place top priority on the safety and security of our customers and constantly strive to further enhance the quality of our development, production and service-related activities. However, if for some unforeseeable reason a product defect does occur, from the standpoint of assuring the safety and security of our customers, it is possible that Honda will issue a recall or take some other action considered to be appropriate. In such an event, the Honda brand image could be damaged and this could adversely impact Honda's business operations as well as our results.

#### **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.

**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 shareholders. If the shareholders 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 shareholders is usually made at an ordinary general meeting of shareholders held in June. The payment of quarterly dividends 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, 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, 2015, 2016 and 2017, Honda’s capital expenditures were ¥2,579.2 billion, ¥2,860.6 billion and ¥2,572.7 billion, respectively, on an accrual basis. Also, capital

expenditures excluding those with respect to equipment on operating leases were ¥898.0 billion, ¥893.1 billion and ¥690.0 billion, respectively, on an accrual basis. For further details of Honda's capital expenditures during fiscal 2017, see Item 4.D "Property, Plants and Equipment" of this Annual Report.

## B. Business Overview

### General

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, 2015, 2016 and 2017:

	Fiscal years ended March 31,		
	2015	2016	2017
	Yen (billions)		
Motorcycle Business	¥ 1,846.6	¥ 1,805.4	¥ 1,716.1
Automobile Business	9,603.3	10,625.4	10,086.8
Financial Services Business	1,555.5	1,835.6	1,878.0
Power Product and Other Businesses	322.5	334.7	318.1
Total	<u>¥13,328.0</u>	<u>¥14,601.1</u>	<u>¥13,999.2</u>

	Fiscal years ended March 31,		
	2015	2016	2017
	Yen (billions)		
Japan	¥ 1,800.4	¥ 1,754.1	¥ 1,799.7
North America	6,837.6	8,114.1	7,618.0
Europe	655.3	693.5	639.2
Asia	2,899.0	3,124.0	3,085.6
Other Regions	1,135.6	915.2	856.4
Total	<u>¥13,328.0</u>	<u>¥14,601.1</u>	<u>¥13,999.2</u>

### 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-side (SxS).

The following table sets out unit sales for Honda's Motorcycle business, including motorcycles, and all-terrain vehicles (ATVs) 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, 2015, 2016 and 2017:

	Fiscal years ended March 31,								
	2015			2016			2017		
	Honda Group Unit Sales*	Consolidated Unit Sales*	Revenue	Honda Group Unit Sales*	Consolidated Unit Sales*	Revenue	Honda Group Unit Sales*	Consolidated Unit Sales*	Revenue
	Units (thousands)	Units (thousands)	Yen (billions)	Units (thousands)	Units (thousands)	Yen (billions)	Units (thousands)	Units (thousands)	Yen (billions)
Japan . . . . .	199	199	¥ 72.4	180	180	¥ 66.8	156	156	¥ 62.7
North America . . . . .	286	286	154.7	308	308	186.0	294	294	168.0
Europe . . . . .	191	191	116.9	204	204	125.0	217	217	118.2
Asia . . . . .	15,345	8,478	1,050.4	15,133	8,650	1,107.6	15,937	9,513	1,088.1
Other Regions . . . . .	1,571	1,571	451.9	1,230	1,230	319.7	1,057	1,057	278.9
Total . . . . .	<u>17,592</u>	<u>10,725</u>	<u>¥1,846.6</u>	<u>17,055</u>	<u>10,572</u>	<u>¥1,805.4</u>	<u>17,661</u>	<u>11,237</u>	<u>¥1,716.1</u>
Motorcycle revenue as a percentage of total sales revenue . . . . .			14%			12%			12%

\* 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.

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

Passenger cars:

*Accord, Brio, City, Civic, Fit/Jazz*

Light trucks:

*CR-V, 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, 2015, 2016 and 2017:

	Fiscal years ended March 31,								
	2015			2016			2017		
	Honda Group Unit Sales*	Consolidated Unit Sales*	Revenue	Honda Group Unit Sales*	Consolidated Unit Sales*	Revenue	Honda Group Unit Sales*	Consolidated Unit Sales*	Revenue
	Units (thousands)	Units (thousands)	Yen (billions)	Units (thousands)	Units (thousands)	Yen (billions)	Units (thousands)	Units (thousands)	Yen (billions)
Japan . . . . .	761	696	¥1,526.0	668	614	¥ 1,439.9	668	603	¥ 1,453.4
North America . . . .	1,750	1,750	5,199.0	1,929	1,929	6,186.7	1,970	1,970	5,704.2
Europe . . . . .	161	161	456.5	172	172	491.2	184	184	450.7
Asia . . . . .	1,426	637	1,795.7	1,723	670	1,962.5	1,964	684	1,948.1
Other Regions . . . .	269	269	625.9	251	251	544.9	242	242	530.2
Total . . . . .	<u>4,367</u>	<u>3,513</u>	<u>¥9,603.3</u>	<u>4,743</u>	<u>3,636</u>	<u>¥10,625.4</u>	<u>5,028</u>	<u>3,683</u>	<u>¥10,086.8</u>
Automobile revenue as a percentage of total sales revenue . . . . .			72%			73%			73%

\* 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.

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, 2015, 2016 and 2017:

	Fiscal years ended March 31,		
	2015	2016	2017
		Yen (billions)	
Japan	¥ 119.7	¥ 162.0	¥ 210.9
North America	1,376.2	1,619.2	1,616.2
Europe	14.2	14.4	12.1
Asia	12.1	12.6	10.5
Other Regions	33.1	27.2	28.2
Total	<u>¥1,555.5</u>	<u>¥1,835.6</u>	<u>¥1,878.0</u>
Financial Services revenue as a percentage of total sales revenue . . .	12%	13%	13%

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, and walking assist devices.

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, 2015, 2016 and 2017:

	Fiscal years ended March 31,					
	2015		2016		2017	
	Honda Group Unit Sales / Consolidated Unit Sales*	Revenue	Honda Group Unit Sales / Consolidated Unit Sales*	Revenue	Honda Group Unit Sales / Consolidated Unit Sales*	Revenue
	Units (thousands)	Yen (billions)	Units (thousands)	Yen (billions)	Units (thousands)	Yen (billions)
Japan	338	¥ 82.1	363	¥ 85.2	301	¥ 72.6
North America	2,705	107.6	2,811	122.0	2,977	129.5
Europe	1,091	67.5	1,008	62.8	1,035	58.0
Asia	1,382	40.6	1,349	41.2	1,430	38.9
Other Regions	467	24.5	434	23.1	378	18.9
Total	<u>5,983</u>	<u>¥322.5</u>	<u>5,965</u>	<u>¥334.7</u>	<u>6,121</u>	<u>¥318.1</u>
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

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 2017, approximately 90% of Honda’s motorcycle units on a group basis were sold in Asia. Approximately 39% of Honda’s automobile units (including sales under the Acura Brand) on a group basis were sold in North America followed by 39% in Asia and 13% in Japan. Approximately 49% of Honda’s power products units on a group basis were sold in North America followed by 23% in Asia and 17% 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 2017, 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 44% 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, 2017.

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.

## ***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 of Ministry of Environment decided to introduce WLTP.

##### **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.



## **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, NO<sub>x</sub> 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 will be lowered even more than the Euro 5 levels for NO<sub>x</sub> and THC plus NO<sub>x</sub>. Additionally, Euro 6 required limits on particle numbers from gasoline vehicles with direct injection engines. The required ethanol density of test fuel will also be increased, starting from September 2016.

The European Commission proposed the transition 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 starts from September 2017.

## **Russia**

The Euro 4 regulation has been in effect from January 2010. Additionally, 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.

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 implements BS IV (Bharat Stage IV) regulations from April 2017 and is expected to implement BS VI regulation 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.

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

Thailand is scheduled to implement Euro 6b regulation from 2023 and Euro 6c regulation from 2028.

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 June 2019.

Ukraine is scheduled to implement Euro 6 regulation from January 2018.

Turkey implemented Euro 6 regulation from January 2016.

Brazilian authorities are currently proposing a new emission regulation known as PROCONVE L7. This regulation is a unique Brazilian regulation based on U.S. regulations. This regulation is expected to be much stricter than current regulation, 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 is scheduled to implement Tier 2 regulations and Euro 4 regulation in December 2017.

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

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

### **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 CO<sub>2</sub> reduction. CO<sub>2</sub> emissions after burning ethanol fuel produced with biomass resources (such as plants or wood) are not counted as CO<sub>2</sub> emissions under the Kyoto Protocol.

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.

### **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-CO<sub>2</sub>/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, then-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-CO<sub>2</sub>/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 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 (although such report is a technical report, and not a decision document). Although the EPA independently issued a final determination not to alter the greenhouse gas regulation one year ahead of initial schedule in January 2017, after the political transition to the Trump administration, the EPA announced an intention to reconsider its final determination in concert with the NHTSA. The EPA has announced its intention to make a new final determination regarding the appropriateness of the standards no later than April 2018. On the other hand, CARB decided in March 2017 not to change the greenhouse gas regulations applicable for the 2022-2025 model years on March 2017.

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

## **Europe**

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

Pursuant to the CO<sub>2</sub> regulations, the European Commission set a more stringent target of 130 grams of carbon dioxide per kilometer for new passenger cars offered for sale in the EU from 2012. In addition, the CO<sub>2</sub> regulations provided manufacturers with the necessary incentive to reduce the CO<sub>2</sub> emissions of their vehicles by imposing an excess emissions premium if their average emission levels are above the limit value curve. This premium 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 more stringent regulation that targets 95 g/km of CO<sub>2</sub> for 2020.

The European Commission is planning to replace the current European type-approval procedure for fuel consumption and CO<sub>2</sub> emissions of cars based on NEDC with new WLTC and WLTP in 2017. During the transitional years, WLTP-measured CO<sub>2</sub> values would be calculated to NEDC CO<sub>2</sub> values to check compliance to NEDC based CO<sub>2</sub> target. A new WLTP based target for each manufacturer will be set from 2021.

The European Commission has announced its intention to amend CO<sub>2</sub> regulation beyond 2025. The introduction of the proposed regulations is planned to be announced by end of 2017.

## **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 / CO<sub>2</sub> regulations in 2017 and 2022 in a phased manner.

Australia is considering introducing fuel economy / CO<sub>2</sub> regulations.

Taiwan introduced corporate average fuel consumption regulations.

Mexico carried over the regulation value of fuel economy / CO<sub>2</sub> regulations for 2016 model years to 2017 model years.

The Province of Quebec in Canada proposed to introduce 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. 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 also implemented automobile recycling laws on December 12, 2010, following the regulations established by the European Union. In addition, China, Vietnam, 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. Current main discussion issues are “definition of each technical level (partially—fully automated driving) of automated driving”, “cyber security”, “privacy protection principles” and “amendment of current road traffic law”.

### **Japan**

In November 2007, the MLIT issued safety standards, which have been applicable from July 1, 2012, for vehicles which use high voltage electric power such as electric vehicles or hybrid electric vehicles, to avoid electric shocks during normal operations and post-crash. Furthermore, in 2011, they adopted Economic Commission for Europe (ECE) R100, which was amended to incorporate the Japanese electrical safety standard.

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 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 aims at reaching an agreement among the contracting parties by 2017.

In January 2010, the MLIT started preparing a guideline for noise measurements regarding the danger of hybrid vehicles remaining silent and also started studying how to regulate this.

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

In March 2010, an accident in the United States caused by sudden unintended acceleration prompted the MLIT to consider introducing a “brake-override system”.

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.

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 2020’s. 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.

## **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 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 in or after 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 in or after 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 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 on 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, truck, 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.

## **Europe**

Legislation regarding a new system called “eCall” is under consideration in the EU and is already implemented in the Customs Union, which is organized by Russia, Kazakhstan and Belarus. eCall is a system that can automatically transmit vehicle status (e.g., Supplemental Restraint System (SRS) deployment, location, direction and other information) to conventional infrastructures simultaneously with voice messages when accidents occur. Some relevant draft standards have been published in the EU. The effective date of the EU eCall for new vehicle types is scheduled for March 31, 2018. Final standards have already been published in the Customs Union. The effective date of eCall for the Customs Union (ERA-GLONASS) was on or after January 1, 2015 for new vehicle types and on or after January 1, 2017 for all vehicles.

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 2017.

## **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 2016 include:

- + Limits of dimensions, axle load and masses for motor vehicles, trailers and combination vehicles;
- + Photometric characteristics of power-driven vehicle front fog lamps;
- + Symbols for controls, indicators and tell-tales of motor vehicles;
- + Electric vehicle charging systems;
- + Electric Vehicle Power Batteries Recycling Technology Policy (2015); and
- + Cybersecurity Law.

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 Safety specifications for power-driven vehicles operating on roads;
- + Amendment to Road Vehicle-Vehicle Identification Number;
- + Amendment to Test methods and requirements for the misuse of automotive airbag systems;
- + Amendment to Performance requirements and test methods of tire pressure monitoring systems for passenger cars;
- + Amendment to Safety property requirements and test methods for automobile fuel tank;
- + Amendment to Road vehicle plate and label;
- + Amendment to Photometric characteristics of daytime running lamps for motor vehicles;
- + 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. Also, the Saudi Standards, Metrology and Quality Org. (SASO) is continually working with GCC standardization Organization (GSO) and prepared a draft standard on technical regulations regarding electric vehicles. This standard is expected to be completed before the end of this year with the participation of the relevant six major international vehicle manufacturers. SASO's participation in these efforts is consistent with the ambitious "Vision of the Kingdom in 2030" and "National Transformation Program (NTP) 2020" initiatives announced by the Saudi government.

In India, the government has proposed AIS-145, a new standard for additional safety features, although the official gazette which would mandate this standard has not been issued yet. 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.

In Malaysia, the Road Transport Department (JPJ) issued a notification which makes installation of electronic stability control systems mandatory. This will be effective from June 2018.

In Cambodia, the Ministry of Industry & 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 has emissions regulations for motorcycles applicable to all classes of engine displacement. Some aspects of these requirements, such as standards for hydrocarbon levels and durability testing, are stricter than the current European regulations, namely the Euro 4 regulation.

Japan has implemented Phase 3 emission requirements, which are similar to Euro 4 regulation. The Phase 3 emission requirements, which introduces more stringent emission limits, simultaneous application of fuel evaporative gas regulation as well as mandatory installation of the On-Board Diagnostics (OBD) systems, became effective as of October 2016.

#### **The United States**

Emissions regulations regarding off-road motorcycles and ATVs were introduced in 2006. In addition, the EPA adopted the current California emissions standards regarding on-road motorcycles on a national basis, two

years behind the schedule of California. The EPA regulations include fuel permeation requirements rather than traditional evaporative emission standards. California issued new evaporative emission standards for off-road highway vehicle (ORHV) involving diurnal test and tip test. It will apply from the 2018 model year.

The EPA emission standard has strengthened the class III HC + NO<sub>x</sub> limit value to 0.8 g/km as of 2010 model year vehicles. As for greenhouse gases, reporting has been mandated for each emission gas (CO<sub>2</sub> from 2011 model year, CH<sub>4</sub> from 2012 model year and N<sub>2</sub>O from 2013 model year, respectively).

## **Europe**

The EU has issued regulations to reform the Whole Vehicle Type Approval (WVTA) scheme in order to further enforce exhaust emissions following the Euro 4 and Euro 5 steps. Euro 4 requirements apply to new type approved vehicles from January 2016 and apply to all vehicles registered from January 2017. Euro 5 requirements will apply to new type approved vehicles from January 2020 and will apply to all vehicles registered from January 2021. The new requirements introduce not only mode emission gas restrictions but also evaporative emission, durability and OBD requirements. As for L1e category vehicles (mopeds), the Euro 4 requirements apply to new type approved vehicles from 2017 and will apply to all vehicles registered from 2018 based on the WVTA amendment.

## **Other Regions**

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

In Brazil, the Worldwide-harmonized Motorcycle Test Cycle (WMTC) was introduced. The WMTC became effective from the beginning of 2014. Brazil introduced the WMTC durability requirement as of January 2014 and introduced stricter emission limit and evaporative gas restrictions as of January 2016.

India has implemented a new emission regulation called Bharat Stage IV (BS IV). It applied to new motorcycles from April 2016, and applies to all motorcycles registered from April 2017. India has published a BS VI regulation, which will apply from 2020. In doing so, they will skip the introduction of a BS V regulation.

## **2. Recycling / REACH**

### **Europe**

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

### **Other Regions**

Vietnam and India each 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 implemented the EMC requirement (UNECE R10) as of August 1, 2011. The amended version (R10.04) became applicable to new type vehicles from August 2016 and to all vehicles from October 2016.

Japan adopted the requirements for lighting devices (UNECE R50) and symmetry front beams (UNECE R113) in 2015 and issued new standards for control/tell-tales (UNECE R60) which will apply to all motorcycles from July 2017. They also 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 will apply to new type motorcycles from January 2018, and to all motorcycles from January 2020.

### **The United States**

The NHTSA amended the federal standard for lighting devices (FMVSS 108) to change visibility and other requirements, which became effective as of December 2012.

The NHTSA issued an amendment regulation to FMVSS108 “Lamps, reflective devices and associated equipment” to harmonize the license plate holder angle requirement (this allows license plates to be mounted on a plane up to 30 degrees upward; previously, the maximum allowable upward mounting angle was 15 degrees) with the European Regulation on December 17, 2015.

### **Europe**

The EU has issued regulations to change the WVTA scheme in order to further enforce safety. The new safety regulations require advanced brake systems and functional safety and electrical safety requirements. The new EU WVTA (EU Regulation No. 168/2013) was published on March 2, 2013. This new system became applicable to new type motorcycles from January 2016 and will apply to new type mopeds from January 2017.

The EU Commission finalized Delegated Regulations concerning environmental and propulsion unit performance (EU Regulation No. 134/2014), vehicle functional safety (EU Regulation No. 3/2014), vehicle construction and general requirements (EU Regulation No. 44/2014). The Implementing Regulation (EU Regulation No. 901/2014) was published on July 18, 2014 and the regulations established the new EU WVTA system.

The new WVTA system requires motorcycle manufacturers to make vehicle repair and maintenance information available through their websites.

### **Other Regions**

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 for new vehicle models manufactured on and after April 1, 2018. All vehicles manufactured on and after April 1, 2019 shall be fitted with an advanced brake system. Two-wheeled vehicles with engine capacity 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 fitted with ABS or CBS. All other categories of two-wheeled vehicles shall be fitted with ABS in India.

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 they will add 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.

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

In September 2016, CARB has published a proposed regulation to amend California's evaporative emission regulation for small off-road spark ignition equipment.

### **Canada**

In June 2016, the Department of Environment published a proposed 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 discussion.

### **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.

### **Australia**

The Australian Federal Government announced that they will introduce exhaust emission/evaporative 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 scheduled to be implemented in 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.

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 generators rated 19kW and below. This regulation was proposed to address the carbon monoxide poisoning injuries occurring from portable generator.

### **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 will expire 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 2018.

### **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**

In 2015, Argentina amended the certification system for generators. 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.

## *Preparing for the Future*

### Management Challenges and Preparing for the Future

Honda will focus its energies on the tasks set out below in order to overcome the challenges described in “Operating Results” in “Item 5. Operating and Financial Review and Prospects.”

#### 1. Product Quality

Honda will strive to improve its product quality by verification within each development, purchasing, production, sales, and service department, along with integrated verification through coordination among those departments.

#### 2. Research and Development

Focusing on the fields of “mobility” and “people’s daily lives,” Honda is committed to creating new value to meet the increasingly diverse expectations of its customers by combining its forte of creative manufacturing with progress in digital technologies such as AI and big data. Honda will reinforce its product development structure so that it manifests Honda’s identity as well as adopt open innovation with other companies and research institutions, in an effort to materialize a research and development structure that creates both product and experience.

#### 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 the global spread of electric-powered motor technology. 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

Honda will develop technologies to lead the effort of reducing traffic accidents. Honda is working to develop safety technologies that enhance accident prediction and prevention, technologies to help reduce the risk of injuries to passengers and pedestrians from car accidents, and technologies that enhance compatibility between large and small vehicles, as well as expand its lineup of products incorporating such technologies. Honda will also improve safety by developing technologies to commercialize automated driving, and by using artificial intelligence and connectivity technologies. In addition, Honda will reinforce traffic safety programs in Japan and abroad, advance driving and motorcycling training programs provided by local dealerships, and work actively in partnership with communities to build and improve the traffic environment.

#### 6. The Environment

Honda will step up its efforts to create better, cleaner, and more fuel-efficient engine technologies, further improve recyclables, and develop zero-emission technologies and electric-powered motors throughout its product lines, in order to lead the effort to create a carbon-free society. In addition, Honda has set a target to reduce total CO<sub>2</sub> emissions by 50% compared to year 2000 levels by 2050. To achieve this target, it will strengthen its efforts to realize reductions in CO<sub>2</sub> emissions through the entirety of its corporate activities including the supply chain, through means such as further advancing its energy-efficiency technologies and making effective use of

renewable energy, as well as effectively utilizing resources and properly disposing of waste. Furthermore, Honda will strengthen its efforts in advancing technologies in the area of total energy management to reduce CO<sub>2</sub> emissions related to mobility and people's everyday lives.

#### 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 will strive to be a company that its shareholders, investors, customers, and society want to exist.

#### C. Organizational Structure

As of March 31, 2017, the Company had 90 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.

<u>Company</u>	<u>Country of Incorporation</u>	<u>Function</u>	<u>Percentage Ownership and Voting Interest</u>
Honda R&D Co., Ltd. . . . .	Japan	Research & Development	100.0
Honda Engineering Co., Ltd. . . . .	Japan	Manufacturing and Sales of machine tools, equipment and production techniques	100.0
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

<u>Company</u>	<u>Country of Incorporation</u>	<u>Function</u>	<u>Percentage Ownership and Voting Interest</u>
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

#### *D. Property, Plants and Equipment*

The following table sets out information, as of March 31, 2017, with respect to Honda's principal manufacturing facilities, all of which are owned by Honda:

<u>Location</u>	<u>Number of Employees</u>	<u>Principal Products Manufactured</u>
Sayama, Saitama, Japan . . . . .	4,952	Automobiles
Naka-ku, Hamamatsu, Shizuoka, Japan . . . . .	2,058	Power products and transmissions
Suzuka, Mie, Japan . . . . .	5,901	Automobiles
Ozu-machi, Kikuchi-gun, Kumamoto, Japan . . . . .	2,198	Motorcycles, all-terrain vehicles, power products and engines
Greensboro, North Carolina, U.S.A . . . . .	1,060	Aircrafts
Burlington, North Carolina, U.S.A. . . . .	89	Aircraft engines
Marysville, Ohio, U.S.A. . . . .	4,883	Automobiles
Anna, Ohio, U.S.A. . . . .	2,569	Engines
East Liberty, Ohio, U.S.A. . . . .	1,913	Automobiles
Lincoln, Alabama, U.S.A. . . . .	4,821	Automobiles and engines
Greensburg, Indiana, U.S.A. . . . .	2,443	Automobiles
Alliston, Canada . . . . .	4,270	Automobiles and engines
El Salto, Mexico . . . . .	2,535	Motorcycles and automobiles
Celaya, Mexico . . . . .	5,076	Automobiles
Swindon, U.K. . . . .	2,567	Automobiles and engines
Gebze, Turkey . . . . .	776	Motorcycles and automobiles
Guangzhou, China . . . . .	839	Automobiles
Gurugram, India . . . . .	3,170	Motorcycles
Greater Noida, India . . . . .	2,564	Automobiles
Alwar, India . . . . .	2,634	Motorcycles and automobiles
Narasapura, India . . . . .	1,829	Motorcycles



<u>Location</u>	<u>Number of Employees</u>	<u>Principal Products Manufactured</u>
Ahemdabad, India . . . . .	791	Motorcycles
Karawang, Indonesia . . . . .	2,566	Automobiles and engines
Melaka, Malaysia . . . . .	2,662	Automobiles
Ayutthaya, Thailand . . . . .	2,610	Automobiles
Prachinburi, Thailand . . . . .	1,102	Automobiles
Bangkok, Thailand . . . . .	3,529	Motorcycles and power products
Phuc Yen, Vietnam . . . . .	4,382	Motorcycles and automobiles
Duy Tien, Vietnam . . . . .	304	Motorcycles
Buenos Aires, Argentina . . . . .	1,263	Motorcycles and automobiles
Sumare, Brazil . . . . .	3,132	Automobiles
Manaus, Brazil . . . . .	5,829	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, 2017, the Company's property, with a net book value of approximately ¥61.6 billion, was subject to specific mortgages securing indebtedness.

### ***Capital Expenditures***

Capital expenditures in the fiscal year ended March 31, 2017 were applied to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities.

Total capital expenditures for the year amounted to ¥2,423.7 billion, decreased by ¥191.2 billion from the previous year. Also, total capital expenditures, excluding equipment on operating leases, for the year amounted to ¥541.0 billion, decreased by ¥106.4 billion from the previous year. Spending by business segment is shown below.

	<b>Fiscal years ended March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>Increase (Decrease)</b>
	<b>Yen (millions)</b>		
Motorcycle Business . . . . .	¥ 59,229	¥ 50,040	¥ (9,189)
Automobile Business . . . . .	571,796	480,471	(91,325)
Financial Services Business . . . . .	1,968,257	1,883,220	(85,037)
Financial Services Business (Excluding Equipment on Operating Leases) . . .	719	524	(195)
Power Product and Other Businesses . . . . .	15,754	10,006	(5,748)
Total . . . . .	¥2,615,036	¥2,423,737	¥(191,299)
Total (Excluding Equipment on Operating Leases) . . . . .	¥ 647,498	¥ 541,041	¥(106,457)

Intangible assets are not included in the table above.

In Motorcycle business, we made capital expenditures of ¥50,040 million in the fiscal year ended March 31, 2017. 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 ¥480,471 million in the fiscal year ended March 31, 2017. 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 ¥524 million in the fiscal year ended March 31, 2017, while capital expenditures for equipment on operating leases were ¥1,882,696 million.

In Power products and other businesses, capital expenditures of ¥10,006 million in the fiscal year ended March 31, 2017, were deployed to upgrade, streamline, and modernize manufacturing facilities, and to improve R&D facilities.

*Plans after fiscal year 2017*

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, 2018 are shown below.

	<b>Fiscal year ending March 31, 2018</b>
	<b>Yen (millions)</b>
Motorcycle Business . . . . .	¥ 59,600
Automobile Business . . . . .	454,600
Financial Services Business . . . . .	1,600
Power Product and Other Businesses . . . . .	<u>14,200</u>
Total . . . . .	<u><u>¥530,000</u></u>

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.

***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, 2017, the United States economy continued to recover, 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 personal consumption. In the Asian economies, India experienced a moderate recovery and there was an upward trend in the economies of Thailand and Indonesia, while China’s economy slowed gradually in the first half of the fiscal year and saw an upturn in the second half. The Japanese economy continued on a gradual recovery track, mainly due to improvement in employment conditions and steady personal consumption.

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

##### **Overview of Fiscal Year 2017 Operating Performance**

Honda’s consolidated sales revenue for the fiscal year ended March 31, 2017 decreased 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. Operating profit increased 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.

##### **Motorcycle Business**

Honda’s consolidated unit sales of motorcycles and all-terrain vehicles (ATVs) in fiscal year 2017 totaled 11,237 thousand units, an increase of 6.3% from the previous fiscal year, due mainly to increases primarily in India and Vietnam, which more than offset a decline in Brazil.

##### **Automobile Business**

Honda’s consolidated unit sales of automobiles totaled 3,683 thousand units in fiscal year 2017, an increase of 1.3% from the previous fiscal year, due mainly to increases in sales units in North America and Asia mainly due to the launch of new models.

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

Honda’s consolidated unit sales of power products in fiscal year 2017 totaled 6,121 thousand units, an increase of 2.6% from the previous fiscal year primarily due to an increase in sales units in North America and Asia, which more than offset a decline in Japan.

## ***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.

### **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.

### **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.

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.

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\* 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.

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\* 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 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\*<sup>1</sup> increased around 3% from the previous fiscal year to approximately 5,070 thousand units in fiscal year 2017.

Honda's consolidated unit sales in Japan decreased 1.8% from the previous fiscal year to 603 thousand units\*<sup>2</sup> 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.

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

\*<sup>2</sup> 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.

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\* 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.

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\* 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\*<sup>1</sup> 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\*<sup>2</sup>.

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\*<sup>3</sup> 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.

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

\*<sup>2</sup> Source: CAAM (China Association of Automobile Manufacturers)

\*<sup>3</sup> 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.

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.

### ***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.

### ***Asia***

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.

## ***Fiscal Year 2016 Compared with Fiscal Year 2015***

### **Sales Revenue**

Honda's consolidated sales revenue for the fiscal year ended March 31, 2016, increased by ¥1,273.0 billion, or 9.6%, to ¥14,601.1 billion from the fiscal year ended March 31, 2015, due mainly to increased sales revenue in the Automobile business and Financial services business operations. 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 ¥853.9 billion, or 6.4%, compared to the increase as reported of ¥1,273.0 billion, which includes positive foreign currency translation effects.

### **Operating Costs and Expenses**

Operating costs and expenses increased by ¥1,440.2 billion, or 11.4%, to ¥14,097.7 billion from the previous fiscal year. Cost of sales increased by ¥1,001.6 billion, or 9.7%, to ¥11,332.3 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased consolidated unit sales in the Automobile business. Selling, general and administrative expenses increased by ¥388.3 billion, or 22.6%, to ¥2,108.8 billion from the previous fiscal year, due mainly to increased product warranty expenses. Product warranty expenses include expenses related to airbag inflators. Research and development expenses increased by ¥50.3 billion, or 8.3%, to ¥656.5 billion from the previous fiscal year.

### **Operating Profit**

Operating profit decreased by ¥167.2 billion, or 24.9%, to ¥503.3 billion from the previous fiscal year, due mainly to an increase in selling, general and administrative expenses including product warranty expenses and negative foreign currency effects, 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 negative foreign currency effects of approximately ¥60.1 billion, operating profit would have decreased by approximately ¥107.0 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 provides financial statements users with additional useful information for understanding Honda’s results.

### **Profit before Income Taxes**

Profit before income taxes decreased by ¥170.7 billion, or 21.2%, to ¥635.4 billion. The main factors behind this decrease, 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 ¥29.9 billion, due mainly to an increase in profit attributable to increased sales revenue at affiliates and joint ventures in Asia, which was partially offset by a recognition of impairment loss on certain investments accounted for using the equity method.

Finance income and finance costs had a negative impact of ¥33.4 billion, due mainly to a decrease in gains on foreign exchange. 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 ¥16.0 billion, or 6.5%, to ¥229.0 billion from the previous fiscal year. The average effective tax rate increased 5.7 percentage points to 36.1% 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 decreased by ¥154.7 billion, or 27.6%, to ¥406.3 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 decreased by ¥164.9 billion, or 32.4%, to ¥344.5 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 ¥10.1 billion, or 19.7%, to ¥61.8 billion from the previous fiscal year, due mainly to an increase in profit for the year of the subsidiaries in Asia which have non-controlling interests.

## **Business Segments**

### **Motorcycle Business**

Honda’s consolidated unit sales of motorcycles and all-terrain vehicles (ATVs) totaled 10,572 thousand units, decreased by 1.4% from the previous fiscal year, due mainly to a decrease in consolidated unit sales in Other Regions, which was partially offset by increase in Asia.

Sales revenue from external customers decreased by ¥41.2 billion, or 2.2%, to ¥1,805.4 billion from the previous fiscal year, due mainly to negative 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 ¥13.1 billion, or 0.7%, compared to the decrease as reported of ¥41.2 billion, which includes negative foreign currency translation effects.

Operating costs and expenses decreased by ¥30.8 billion, or 1.9%, to ¥1,623.6 billion from the previous fiscal year. Cost of sales decreased by ¥30.3 billion, or 2.3%, to ¥1,312.4 billion, due mainly to a decrease in costs attributable to decreased consolidated unit sales and positive foreign currency effects. Selling, general and administrative expenses decreased by ¥9.3 billion, or 4.0%, to ¥224.5 billion, due mainly to positive foreign currency effects. Research and development expenses increased by ¥8.8 billion, or 11.4%, to ¥86.6 billion.

Operating profit decreased by ¥10.3 billion, or 5.4%, to ¥181.7 billion from the previous fiscal year, due mainly to negative foreign currency effects, which was partially offset by continuing cost reduction.

### **Japan**

Total industry demand for motorcycles in Japan\* decreased by around 6% from the previous fiscal year to approximately 390 thousand units in fiscal year 2016.

Honda's consolidated unit sales in Japan declined 9.5% from the previous fiscal year to 180 thousand units in fiscal year 2016, reflecting an overall decline in unit sales of scooter models, despite an increase in unit sales of the *Tact 50cc* scooter and certain other 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, increased around 2% from the previous year to approximately 720 thousand units in calendar year 2015.

Honda's consolidated unit sales in North America increased 7.7% from the previous fiscal year to 308 thousand units in fiscal year 2016. This was mainly due to a sales increase of side-by-side (SxS) models, centered on the new *Pioneer 1000*, and motorcycles, 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 9% from the previous year to approximately 810 thousand units in calendar year 2015.

Honda's consolidated unit sales in Europe increased 6.8% from the previous fiscal year to 204 thousand units in fiscal year 2016, mostly as a result of robust sales of commuter models and the launch of the new *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\* decreased around 6% from the previous year to approximately 39,140 thousand units in calendar year 2015.

Looking at market conditions by country, in calendar year 2015, demand in India increased about 1% from the previous year to approximately 16,120 thousand units. Demand in China decreased around 14% from the previous year to approximately 9,200 thousand units. Demand in Indonesia decreased around 18% from the previous year to approximately 6,480 thousand units. Vietnam saw demand increase around 5% from the previous year to approximately 2,840 thousand units. Demand in Thailand declined around 1% from the previous year to approximately 1,670 thousand units. Demand in Pakistan increased around 16% from the previous year to approximately 1,520 thousand units.

Honda's consolidated unit sales in Asia increased 2.0% from the previous fiscal year to 8,650 thousand units in fiscal year 2016. This was due in part to brisk sales of scooter models such as the *Vision* scooter in Vietnam, increased sales of the *TMX125 Alpha* model in the Philippines, as well as other factors.

Honda's consolidated unit sales do not include sales by P.T. Astra Honda Motor in Indonesia, which is a joint venture accounted for using the equity method. P.T. Astra Honda Motor's unit sales for fiscal year 2016 decreased around 9% from the previous fiscal year to approximately 4,450 thousand units due mainly to lackluster overall market conditions, despite steady 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.

### ***Other Regions***

Total demand for motorcycles in Brazil\*, the principal market within Other Regions, declined about 17% from the previous year to approximately 1,190 thousand units in calendar year 2015, mainly due to an increase in unemployment and stricter lending standards for retail loans amid a continued worsening of economic conditions.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales decreased 21.7% from the previous fiscal year to 1,230 thousand units in fiscal year 2016, mainly reflecting an 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 3,636 thousand units, increased by 3.5% 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.

Sales revenue from external customers increased by ¥1,022.0 billion, or 10.6%, to ¥10,625.4 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 ¥682.7 billion, or 7.1%, compared to the increase as reported of ¥1,022.0 billion, which includes positive foreign currency translation effects. Sales revenue including intersegment sales increased by ¥1,009.8 billion, or 10.3%, to ¥10,767.6 billion from the previous fiscal year.

Operating costs and expenses increased by ¥1,136.2 billion, or 12.0%, to ¥10,614.3 billion from the previous fiscal year. Cost of sales increased by ¥708.6 billion, or 9.3%, to ¥8,350.5 billion, due mainly to an increase in costs attributable to increased consolidated unit sales and negative foreign currency effects. Selling, general and administrative expenses increased by ¥385.9 billion, or 28.9%, to ¥1,723.7 billion, due mainly to increased product warranty expenses. Product warranty expenses include expenses related to airbag inflators. Research and development expenses increased by ¥41.5 billion, or 8.3%, to ¥539.9 billion.

Operating profit decreased by ¥126.3 billion, or 45.2%, to ¥153.3 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses including product warranty expenses and negative foreign currency effect, which was partially offset by an increase in profit attributable to increased sales revenue and model mix as well as continuing cost reduction.



Proportion of retail unit sales by vehicle category:

	Fiscal year ended March 31,	
	2015	2016
Passenger cars: <i>Accord, Accord Hybrid, Amaze, Brio, Brio Amaze, Brio Satya, City, Civic, Civic Tourer, Civic Type R, Crider, CR-Z, Fit/Jazz, Fit/Jazz Hybrid, Freed, Freed Hybrid, Freed Spike, Freed Spike Hybrid, Grace, Grace Hybrid, Greiz, Honda Mobilio, Insight, Jade, Jade Hybrid, Legend Hybrid, Mobilio, Shuttle, Shuttle Hybrid, Spirior, Acura ILX, Acura RLX, Acura TLX</i>	58%	52%
Light trucks: <i>BR-V, Crosstour, CR-V, Elysion, Odyssey, Odyssey Hybrid, Pilot, Step WGN, Vezel/HR-V, Vezel Hybrid, XR-V, Acura MDX, Acura RDX</i>	33%	41%
Mini vehicles: <i>Acty, N-BOX, N-BOX +, N-BOX Slash, N-ONE, N-WGN, S660, Vamos</i>	9%	7%

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 15% lower and our mini vehicles category was approximately 60% lower than total weighted average contribution margin for the fiscal year ended March 31, 2016. 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\*<sup>1</sup> decreased around 7% from the previous fiscal year to approximately 4,930 thousand units in fiscal year 2016. This was greatly influenced by the impact of a tax increase on mini vehicles.

Honda's consolidated unit sales in Japan decreased 11.8% from the previous fiscal year to 614 thousand units\*<sup>2</sup> in fiscal year 2016. The main reason for the decline was a tax increase on mini vehicles. This was despite the positive effect from the introduction of new automobile models such as the *Shuttle*, and a full model change of the *Step WGN*, and other factors.

Honda's unit production of automobiles in fiscal year 2016 decreased 12.3% from the previous fiscal year to 761 thousand units. This was mainly due to the negative effect of a decline in unit sales in Japan, which more than offset an increase in export volume.

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

\*<sup>2</sup> 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, rose around 6% from the previous year to approximately 17,470 thousand units in calendar year 2015. This was mainly attributable to a continued recovery in economic conditions, including the positive effects of an improvement in employment conditions, a gradual rise in housing starts, and a continued increase in personal consumption, as well as a surge in light truck sales as a result of lower gasoline prices.

Under these conditions, Honda's consolidated unit sales in North America increased 10.2% from the previous fiscal year to 1,929 thousand units in fiscal year 2016. This increase was mainly attributable to the effect of launching the new *HR-V* model, and brisk sales of the *CR-V* and *Civic* models.

Honda manufactured 1,919 thousand units in fiscal year 2016, an increase of 6.0% from the previous fiscal year. This increase mainly reflected an increase in unit production at Honda's plants in the United States and Canada, primarily to cope with brisk sales of *CR-V* and *Civic* models, and increased production of *HR-V* model at the plant in Mexico.

\* Source: Autodata

## ***Europe***

Total demand for automobiles in Europe\* increased about 9% from the previous year to approximately 14,200 thousand units in calendar year 2015, mainly driven by the gradual recovery in economic conditions.

Honda's consolidated unit sales in Europe increased 6.8% from the previous fiscal year to 172 thousand units in fiscal year 2016. This was mainly due to the positive effect of launching the new *HR-V* model.

Unit production at Honda's U.K. plant in fiscal year 2016 was roughly level with the previous fiscal year at 115 thousand units.

\* 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 3% from the previous year to approximately 7,090 thousand units\*<sup>1</sup> in calendar year 2015. This was mainly due to a recovery in demand in India despite a moderate slowdown in Indonesia. Total demand for automobiles in China increased about 5% from the previous calendar year to approximately 24,590 thousand units\*<sup>2</sup>.

Honda's consolidated unit sales in Asia outside Japan increased 5.2% from the previous fiscal year to 670 thousand units in fiscal year 2016. This increase was mainly attributable to brisk sales of the *HR-V* in Malaysia and Indonesia, the launch of the new *Mobilio* model in the Philippines, and the effect of launching the new *BR-V* model in Indonesia.

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 33.5% from the previous fiscal year to 1,053 thousand units in fiscal year 2016. The increase was mainly attributable to strong sales of the *XR-V* and *Vezel* models.

Honda's unit production by consolidated subsidiaries in Asia increased 3.0% from the previous fiscal year to 718 thousand units\*<sup>3</sup> in fiscal year 2016.

Meanwhile, unit production by Chinese joint ventures Dongfeng Honda Automobile Co., Ltd. and Guangqi Honda Automobile Co., Ltd. increased 29.5% from the previous fiscal year to 1,049 thousand units in fiscal year 2016.

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\*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 26% from the previous year to approximately 2,480 thousand units in calendar year 2015. The decrease resulted mainly from a deterioration in the unemployment rate and an increase in loan interest rates amid continued difficult economic conditions and a downturn due to the termination of the tax reduction program for manufactured products (IPI (Imposto Sobre Produtos Industrializados)).

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales decreased 6.7% from the previous fiscal year to 251 thousand units in fiscal year 2016. This result was due to a decrease in sales mainly in the Middle East, which was more than offset brisk sales of the *HR-V* model in Brazil and other factors.

Unit production at Honda's plant in Brazil increased 7.5% from the previous fiscal year to 144 thousand units in fiscal year 2016.

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\* 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, 2016 decreased by ¥332.7 billion, or 3.7%, to ¥8,686.1 billion from the March 31, 2015. 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, 2016 would have increased by approximately ¥236.0 billion, or 2.6%, compared to the decrease as reported of ¥332.7 billion, which includes negative foreign currency translation effects.

Sales revenue from external customers increased by ¥280.0 billion, or 18.0%, to ¥1,835.6 billion from the previous fiscal year, due mainly to an increase in operating lease revenues and revenues on disposition of lease vehicles. 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 ¥151.1 billion, or 9.7%, compared to the increase as reported of ¥280.0 billion, which includes positive foreign currency translation effects. Sales revenue including intersegment sales increased by ¥281.7 billion, or 18.0%, to ¥1,849.7 billion from the previous fiscal year.

Operating costs and expenses increased by ¥285.0 billion, or 20.9%, to ¥1,650.3 billion from the previous fiscal year. Cost of sales increased by ¥275.2 billion, or 21.6%, to ¥1,547.1 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 ¥9.7 billion, or 10.4%, to ¥103.1 billion.

Operating profit decreased by ¥3.2 billion, or 1.6%, to ¥199.3 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses.

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

Honda's consolidated unit sales of power products totaled 5,965 thousand units, decreased by 0.3% from the previous fiscal year, due mainly to a decrease in consolidated unit sales in Europe, which was partially offset by an increase in North America.

Sales revenue from external customers increased by ¥12.1 billion, or 3.8%, to ¥334.7 billion from the previous fiscal year, due mainly to 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 ¥6.8 billion, or 2.1%, compared to the increase as reported of ¥12.1 billion, which includes positive foreign currency translation effects. Sales revenue including intersegment sales increased by ¥5.3 billion, or 1.5%, to ¥352.2 billion from the previous fiscal year.

Operating costs and expenses increased by ¥32.5 billion, or 9.3%, to ¥383.3 billion from the previous fiscal year. Cost of sales increased by ¥30.6 billion, or 11.5%, to ¥296.0 billion, due mainly to an increase in operating costs in Other businesses. Selling, general and administrative expenses increased by ¥1.9 billion, or 3.6%, to ¥57.4 billion. Research and development expenses totaled to ¥29.8 billion basically unchanged from the previous fiscal year.

Operating loss was ¥31.1 billion, an increase of ¥27.2 billion from the previous fiscal year, due mainly to an increase in operating costs in Other businesses.

\* Aircraft and aircraft engines which began deliveries in December 2015 are included in the Power product and other businesses segment.

### ***Japan***

Honda's consolidated unit sales in power product business operations in Japan increased 7.4% from the previous fiscal year to 363 thousand units in fiscal year 2016. This was mainly due to an increase in sales of OEM engines\*, which more than offset a decline in sales of snow blowers and other models.

\* 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 3.9% from the previous fiscal year to 2,811 thousand units in fiscal year 2016. This was mainly attributable to an increase in sales of generators, lawn mowers, and OEM engines.

### ***Europe***

Honda's consolidated unit sales in Europe decreased 7.6% from the previous fiscal year to 1,008 thousand units in fiscal year 2016. This was mostly due to a decline in sales of OEM engines.

## ***Asia***

Honda's consolidated unit sales in Asia decreased 2.4% from the previous fiscal year to 1,349 thousand units in fiscal year 2016. The main reason was a decrease in sales of OEM engines, despite an increase 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 7.1% from the previous fiscal year to 434 thousand units in fiscal year 2016. This was mainly due to a decrease in sales of OEM engines.

## **Geographical Information**

### ***Japan***

In Japan, sales revenue from domestic and export sales was ¥3,928.5 billion basically unchanged from the previous fiscal year, due mainly to an increase in sales revenue in the Financial services business, which was partially offset by a decrease in sales revenue in the Automobile business. Operating loss was ¥98.7 billion, a decrease in operating profit of ¥308.8 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses including product warranty expenses and a decrease in profit attributable to decreased sales revenue and model mix, which was partially offset by positive foreign currency effects.

### ***North America***

In North America, where the United States is the principal market, sales revenue increased by ¥1,336.2 billion, or 18.6%, to ¥8,537.0 billion from the previous fiscal year, due mainly to an increase in sales revenue in the Automobile business and Financial services business. Operating profit increased by ¥29.3 billion, or 16.2%, to ¥210.8 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales revenue and model mix, which was partially offset by increased selling, general and administrative expenses including product warranty expenses and negative foreign currency effects.

### ***Europe***

In Europe, sales revenue increased by ¥52.1 billion, or 7.2%, to ¥776.0 billion from the previous fiscal year, due mainly to an increase in sales revenue in the Automobile business. Operating profit was ¥18.7 billion, an increase of ¥41.3 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales revenue and model mix, which was partially offset by increased selling, general and administrative expenses and negative foreign currency effects.

### ***Asia***

In Asia, sales revenue increased by ¥206.8 billion, or 6.2%, to ¥3,535.3 billion from the previous fiscal year, due mainly to an increase in sales revenue in the Automobile business and Motorcycle business. Operating profit increased by ¥56.6 billion, or 20.3%, to ¥335.5 billion from the previous fiscal year, due mainly to continuing cost reduction, increased profit attributable to increased sales revenue and model mix and positive foreign currency effects, which was partially offset by increased selling, general and administrative expenses.

### ***Other Regions***

In Other Regions, sales revenue decreased by ¥141.6 billion, or 14.9%, to ¥808.6 billion from the previous fiscal year, due mainly to a decrease in sales revenue in the Motorcycle business. Operating loss was ¥8.3 billion, a decrease of ¥48.4 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses and negative foreign currency effects, which was partially offset by continuing cost reduction.

## **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 years ended March 31, 2015 and 2016 are approximately ¥120.0 billion and approximately ¥436.0 billion, respectively.

### **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.

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, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Provisions for product warranties			
Balance at beginning of year	¥ 274,231	¥ 421,523	¥ 727,441
Provision*	295,035	607,646	198,016
Charge-offs	(156,787)	(257,574)	(341,416)
Reversal	(12,171)	(12,907)	(54,324)
Exchange differences on translating foreign operations	21,215	(31,247)	(9,587)
Balance at end of year	<u>¥ 421,523</u>	<u>¥ 727,441</u>	<u>¥ 520,130</u>
Sales revenue	¥13,328,099	¥14,601,151	¥13,999,200

\* Provisions for product warranties accrued during the period for the years ended March 31, 2015, 2016 and 2017 are ¥295.0 billion, ¥607.6 billion and ¥198.0 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 rates 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.

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 rates, 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 2017, the provision for fiscal year 2017 and the allowance balance at the end of fiscal year 2017 would have increased by approximately ¥5.6 billion and ¥3.1 billion, respectively. Note that this sensitivity analysis may be asymmetric and is specific to the base conditions in fiscal year 2017.



*Additional Narrative of the Change in Credit Loss*

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

	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
<b>For the year ended March 31, 2015</b>				
Allowance for credit losses				
Balance at beginning of year . . . . .	¥ 21,970	¥ 636	¥ 2,594	¥ 25,200
Provision . . . . .	18,213	349	(202)	18,360
Charge-offs . . . . .	(26,673)	(620)	(385)	(27,678)
Recoveries . . . . .	9,101	131	27	9,259
Exchange differences on translating foreign operations . . . . .	38	3	(144)	(103)
Balance at end of year . . . . .	<u>¥ 22,649</u>	<u>¥ 499</u>	<u>¥ 1,890</u>	<u>¥ 25,038</u>
Ending balance of receivables from financial services . . . . .	¥4,901,918	¥260,543	¥556,735	¥5,719,196
Average balance of receivables from financial services . . . . .	¥4,732,809	¥295,315	¥526,817	¥5,554,941
Net charge-offs as a % of average balance of receivables from financial services . . . . .	0.37%	0.17%	0.07%	0.33%
Allowance as a % of ending balance of receivables from financial services . . . . .	0.46%	0.19%	0.34%	0.44%
	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
<b>For the year ended March 31, 2016</b>				
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 . . . . .	<u>¥ 22,300</u>	<u>¥ 762</u>	<u>¥ 2,503</u>	<u>¥ 25,565</u>
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%

	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
<b>For the year ended March 31, 2017</b>				
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%

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

	Yen (millions)		
	2015	2016	2017
Provision for credit losses on past due lease payments under operating leases . . . .	¥1,869	¥2,141	¥2,493
Impairment losses on operating leases due to early termination . . . . .	¥4,077	¥5,486	¥7,987

#### ***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.

#### ***Fiscal Year 2016 Compared with Fiscal Year 2015***

The provision for credit losses on receivables from financial services for the fiscal year ended March 31, 2016 increased by ¥7.0 billion, or 38.2%, from the fiscal year ended March 31, 2015. Net charge-offs of receivables from financial services for the fiscal year ended March 31, 2016 increased by ¥4.1 billion, or 22.4%, from the fiscal year ended March 31, 2015. The increase in the provision for credit losses and net charge-offs was attributable to higher loss severities on receivables in our North American finance subsidiaries. Impairment losses on operating leases due to early termination for the fiscal year ended March 31, 2016 increased by ¥1.4 billion, or 34.6%, from the fiscal year ended March 31, 2015 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

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, 2017 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 ¥6.6 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 ¥1.2 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 2017. 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, 2017 were 0.8% and 1.7%, respectively. Our assumed discount rate and rate of salary increase for foreign plans as of March 31, 2017 were 2.8 - 4.4% 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.

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, 2016 and 2017. 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 ¥477.6 billion as of March 31, 2017. In addition, the Company’s finance subsidiaries fund financial programs for customers and dealers primarily from medium-term notes, bank loans, securitization of finance receivables, commercial paper and corporate bonds. The year-end balance of liabilities associated with these finance subsidiaries’ funding for Financial services business was ¥6,484.5 billion as of March 31, 2017.

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

## **Cash Flows**

### ***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.

### ***Fiscal Year 2016 Compared with Fiscal Year 2015***

Consolidated cash and cash equivalents on March 31, 2016 increased by ¥285.7 billion from March 31, 2015, to ¥1,757.4 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 ¥1,390.9 billion of cash inflows. Cash inflows from operating activities increased by ¥370.5 billion compared with the previous fiscal year, due mainly to an increase in cash received from customers, which was partially offset by increased payments for parts and raw materials.

Net cash used in investing activities amounted to ¥875.0 billion of cash outflows. Cash outflows from investing activities increased by ¥34.5 billion compared with the previous fiscal year, due mainly to an increase in payments for acquisitions of other financial assets.

Net cash used in financing activities amounted to ¥95.2 billion of cash outflows. Cash outflows from financing activities increased by ¥107.7 billion compared with the previous fiscal year, due mainly to a decrease in proceeds from financing liabilities.

## **Liquidity**

The ¥2,105.9 billion in cash and cash equivalents as of March 31, 2017 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, 2017 corresponds to approximately 1.8 months of sales revenue, and Honda believes it has sufficient liquidity for its business operations.

At the same time, Honda is aware of the possibility that various factors, such as recession-induced market contraction and financial and foreign exchange market volatility, may adversely affect liquidity. For this reason, finance subsidiaries that carry total short-term borrowings of ¥1,046.9 billion have committed lines of credit equivalent to ¥1,090.4 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, 2017 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, 2017.

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

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

### C. Research and Development

The Company and its consolidated subsidiaries use the most-advanced technologies 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 2015, 2016 and 2017 were ¥670.3 billion, ¥719.8 billion and ¥659.9 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.

R&D activities by segment are as follows.

### Motorcycle Business

In the Motorcycle Business segment, Honda is aiming to deliver appealing products in a timely manner that offer outstanding environmental performance and that will enable customers to experience the joy of ownership.

Among major technological achievements, in the medium motorcycle sector, Honda developed a four-stroke DOHC 4-valve in-line two-cylinder water-cooled engine, which is both very powerful at low-to-medium rotation and has the characteristic of accelerating sharply to high rotation. This newly developed engine was installed in *CBR250RR*, launched in Indonesia and Japan, which has a new frame design boasting both strength and flexibility, and adopting a newly developed suspension.

In the large motorcycle sector, we launched the *CBR1000RR* in Europe, Japan, the United States and other countries, as a product of our thorough pursuit of reduction in weight and size. In addition to adopting the newly designed die-cast aluminum seat rail and the titanium muffler with a new structure and achieving the lightest frame in its class by reducing the weight of frame components, it also incorporates new electrical control technology that supports ‘joy of control’, with a power unit that seeks both improved output and controllability characteristics, the *Honda Selectable Torque Control* feature and a riding mode that can be adjusted according to preferences. We also launched the *X-ADV* in Europe and other countries, designed for comfort and convenience in urban riding, and featuring adventurous styling and equipment. On top of its four-stroke OHC 4-valve in-line two-cylinder 745cc water-cooled engine that is easy to handle from low rotation to high rotation, the dual clutch transmission (DCT) is also featured as standard equipment.

Furthermore, we have begun to consider a business alliance with Yamaha Motor Co., Ltd. regarding collaboration in the area of small-sized scooters. Going forward, we are aiming for OEM supply of 50cc scooter models for the Japanese market, the joint development and OEM supply of next-generation 50cc business scooter models, and collaborations regarding electric motorcycles in the Class-1 category\* for further popularization.

R&D expenditures in this segment incurred during the fiscal year 2015, 2016 and 2017 were ¥73.7 billion, ¥76.7 billion and ¥74.3 billion, respectively.

\*The Class-1 category: A category defined by the Road Vehicles Act of Japan as ‘vehicles equipped with two or more wheels and an engine with total displacement of 50 cc or less or an electric motor with rated output of 0.60 kW or less’.

## **Automobile Business**

In the Automobile Business segment, Honda has been involved in R&D activities under the themes of ‘Creating New Values’ and ‘Advanced R&D Activities Worldwide’.

Among major technological achievements in the Automobile Business segment, Honda launched *NSX* supercar in the United States, Canada, Japan and other countries. The *SPORT HYBRID SH-AWD* incorporates a hybrid system, which controls the driving force of the automobile electrically, by combining the newly developed V-type six-cylinder twin turbo engine that adopts a mid-mounted layout, a high-efficiency motor, 9-speed DCT, a twin motor unit (TMU), and other features. The body is lightweight yet has high rigidity, realized by using a variety of materials centering around extruded aluminum, while the all-aluminum suspension allows both swift handling and stability at high speeds. Furthermore, the *Integrated Dynamic System* feature, which selects the optimal set of vehicle characteristics out of four driving modes depending on the driving environment, is also installed.

Also, by newly designing components such as motors and batteries, we reduced the size and weight of the hybrid system *SPORT HYBRID i-MMD*, and launched *ACCORD* with high output and high torque in the United States, China and other countries. In addition to renewing the interior and exterior designs, *Honda SENSING*, an advanced safety and driver-assistive system, is featured as standard equipment.

In the United States, after the 10th generation *CIVIC Sedan* and *CIVIC Coupe* were launched, we subsequently launched the five-door model *CIVIC Hatchback*. The *CIVIC Hatchback* uses the 1.5L direct injection VTEC Turbo engine for its powertrain, CVT and 6-speed manual transmission for transmission, and features *Honda SENSING*. In addition, in North America, we launched the *CR-V* which features the 1.5L direct injection turbo engine for the first time, on top of the existing 2.4L direct injection DOHC i-VTEC engine. Transmission for all grades are equipped with CVT, and Honda’s proprietary speed control system *G-Design Shift* has been used.

In Japan, we launched *FREED*, which offers a versatile seating arrangement and ensures ample cabin space, as well as *FREED+*, where the ultra-low floor for the cargo space further increased the cargo space usability, and

a flat space that makes it possible to sleep in the vehicle along with underfloor storage were simultaneously achieved. In addition to adopting *Honda SENSING*, for the powertrain, gasoline-power vehicles feature the 1.5L direct injection DOHC i-VTEC engine and high-efficiency CVT, while hybrid vehicles feature the *SPORT HYBRID i-DCD*. Both vehicles provide a superior fuel economy and a powerful drive.

R&D expenditures in this segment incurred during the fiscal year 2015, 2016 and 2017 were ¥567.3 billion, ¥614.2 billion and ¥559.8 billion, respectively.

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

Honda has involved research and development in the Power Products Business, based on the principle 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, Honda launched the *BF5* and *BF6* compact four-stroke outboard engines, featuring a large capacity internal fuel tank which enables a long running time, in Europe, the United States, Canada, Japan and other countries. Equipped with an oil alert function that warns the ship operator of an oil volume drop, improved convenience due to features such as the compact, easily-stored tiller handle, minimal recoil due to less pulling force required to start the engine and an easier start, and a one-push stop structure with an engine-stopping switch; Honda received the '2016 IBEX Innovation Award' in the United States and the 'Japan's Boat of the Year Award 2016' in Japan for the *BF5* and *BF6* compact four-stroke outboard engines.

Utilizing Honda's proprietary sine wave inverter technologies, the *EG25i*, *EB2800i*, and *EG2800i* generators, which can stably deliver high-quality electrical output equivalent to power supplies for homes, were launched in the United States, Japan and Canada. By adopting a lightweight, compact and high-rigidity open frame, low costs are achieved, and the generator is protected from engine vibrations and external impact. Also, it features an eco-throttle function that automatically controls the number of engine oscillations according to the electrical consumption burden of the machine in use, thereby realizing superior fuel economy and noise reduction.

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 2016, we received a Type Certificate from the European Aviation Safety Agency (EASA), marking another step forward in our aircraft engines business in Europe.

In addition, through proprietary technologies such as Over-The-Wing Engine Mount, natural laminar flow wings, and an integrally molded carbon composite fuselage, the *HondaJet* achieves top speed, flight ceiling, climbing ability, fuel economy, and cabin size that are among the best\* in its class. The *HondaJet* started to receive orders from Central and South America, and the actual machine was first showcased in a business aviation event held in Dubai.

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\*Based on the Company's research as of March 30, 2017

R&D expenditures in this segment incurred during the fiscal year 2015, 2016 and 2017 were ¥29.2 billion, ¥28.8 billion and ¥25.6 billion, respectively.

### **Patents and Licenses**

As of March 31, 2017, Honda owned more than 20,500 patents in Japan and more than 26,100 patents abroad. Honda also had applications pending for more than 6,700 patents in Japan and for more than 13,800 patents abroad. While Honda considers that, in the aggregate, Honda's patents are important, it does not consider any one of such patents, or any related group of them, to be of such importance that the expiration or termination thereof would materially affect Honda's business.



#### D. Trend Information

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

#### E. Off-Balance Sheet Arrangements

##### Loan commitments

Honda maintains unused balances on committed lines to dealers based on loan commitment contracts. The undiscounted maximum amount of this obligation as of March 31, 2017 was ¥120.5 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, 2017, we guaranteed ¥16.1 billion of employee bank loans for their housing costs. If an employee defaults on his/her loan payments, we are required to perform under the guarantee. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is ¥16.1 billion. As of March 31, 2017, 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.

#### F. Tabular Disclosure of Contractual Obligations

The following table shows our contractual obligations as of March 31, 2017:

##### Contractual Obligations

	Yen (millions)				
	Total	Payments due by period			
Within 1 year		1-3 years	3-5 years	Thereafter	
Financing liabilities	¥7,090,264	¥2,883,047	¥2,647,229	¥1,116,212	¥443,776
Other financial liabilities	202,861	78,905	71,144	21,862	30,950
Future minimum lease payments under non-cancelable operating leases	68,673	16,722	20,902	11,387	19,662
Purchase and other commitments <sup>*1</sup>	84,095	52,773	24,428	5,623	1,271
Contributions to defined benefit pension plans <sup>*2</sup>	46,213	46,213	—	—	—
Total	<u>¥7,492,106</u>	<u>¥3,077,660</u>	<u>¥2,763,703</u>	<u>¥1,155,084</u>	<u>¥495,659</u>

\*1 Honda had commitments for purchases of property, plant and equipment as of March 31, 2017.

\*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.

## ***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 company 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

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.

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

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Representative Directors</b>			
<b>Takahiro Hachigo</b> (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&amp;D Co., Ltd., appointed in September 2012</p> <p>President and Director of Honda R&amp;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, appointed in June 2015</p> <p>Chief Executive Officer of the Company, appointed in April 2017 (presently held)</p> <p>President and Representative Director of the Company, appointed in June 2017 (presently held)</p>	*3	33,400

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Seiji Kuraishi</b> (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, appointed in June 2016</p> <p>Risk Management Officer, appointed in June 2016 (presently held)</p> <p>Corporate Brand Officer, appointed in June 2016 (presently held)</p> <p>Chief Operating Officer of the Company, appointed in April 2017 (presently held)</p> <p>In Charge of Strategy, Business Operations and Regional Operations, appointed in April 2017 (presently held)</p> <p>Executive Vice President and Representative Director of the Company, appointed in June 2017 (presently held)</p>	*3	33,400

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Senior Managing Directors</b>			
<b>Yoshiyuki Matsumoto</b> (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 &amp; 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&amp;D Co., Ltd., appointed in April 2016 (presently held)</p> <p>Supervising Director of F1 Project, appointed in April 2016</p> <p>In Charge of Research &amp; Development (Research &amp; Development, Intellectual Property and Standardization), appointed in April 2017 (presently held)</p> <p>Senior Managing Director of the Company, appointed in June 2017 (presently held)</p>	*3	36,800

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Toshiaki Mikoshiba</b> (November 15, 1957)	<p>Joined Honda Motor Co., Ltd. in April 1980</p> <p>Responsible for East Europe, the Middle &amp; Near East and Africa for Regional Operations (Europe, the Middle &amp; Near East and Africa), appointed in April 2008</p> <p>Executive Vice President and Director of Honda Motor Europe Ltd., appointed in April 2008</p> <p>Operating Officer of the Company, appointed in June 2008</p> <p>Responsible for Russia and CIS for Regional Operations (Europe, the Middle &amp; Near East and Africa), appointed in June 2009</p> <p>President and Director of Honda Motor RUS LLC, appointed in August 2009</p> <p>President of Guangqi Honda Automobile Co., Ltd., appointed in April 2011</p> <p>Managing Officer of the Company, appointed in April 2014</p> <p>Chief Officer for Regional Operations (Europe Region), appointed in April 2014</p> <p>President and Director of Honda Motor Europe Ltd., appointed in April 2014</p> <p>Senior Managing Officer of the Company, appointed in April 2015</p> <p>Chief Officer for Regional Operations (North America), appointed in April 2016 (presently held)</p> <p>President and Director of Honda North America, Inc., appointed in April 2016 (presently held)</p> <p>President and Chief Executive Officer of American Honda Motor Co., Inc., appointed in April 2016 (presently held)</p> <p>In Charge of Sales and Marketing, appointed in April 2017 (presently held)</p> <p>Senior Managing Director of the Company, appointed in June 2017 (presently held)</p>	*3	32,600

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Yoshi Yamane (September 28, 1958)	Joined Honda Engineering Co., Ltd. in October 1985	*3	32,600
	Large Project Leader of Corporate Project, Automobile Production Planning Office for Production Operations, appointed in April 2008		
	Operating Officer of the Company, appointed in June 2008		
	Responsible for Production for Production Operations, appointed in June 2008		
	Responsible for Production for Regional Operations (China), appointed in April 2009		
	Vice President of Honda Motor (China) Investment Co., Ltd., appointed in September 2010		
	General Manager of Suzuka Factory for Production Operations, appointed in April 2012		
	Representative of Automobile Development, Purchasing and Production (Japan), appointed in April 2013		
	General Manager of Suzuka Factory of Automobile Production for Automobile Operations, appointed in April 2013		
	Managing Officer of the Company, appointed in April 2014		
	Head of Automobile Production for Regional Operations (Japan), appointed in April 2014		
	Head of Production Supervisory Unit of Automobile Production for Regional Operations (Japan), appointed in April 2014		
	Senior Managing Officer of the Company, appointed in April 2015		
	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)			



Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Kohei Takeuchi</b> (February 10, 1960)	<p>Joined Honda Motor Co., Ltd. in April 1982</p> <p>General Manager of Accounting Division for Business Management Operations, appointed in April 2010</p> <p>Operating Officer of the Company, appointed in April 2011</p> <p>Chief Officer for Business Management Operations, appointed in April 2013 (presently held)</p> <p>Operating Officer and Director of the Company, appointed in June 2013</p> <p>Managing Officer and Director of the Company, appointed in April 2015</p> <p>Senior Managing Officer and Director of the Company, appointed in April 2016</p> <p>Chief Officer for Driving Safety Promotion Center, appointed in April 2016 (presently held)</p> <p>Chief Financial Officer of the Company (Accounting, Finance, Human Resources, Corporate Governance and IT) appointed in April 2017 (presently held)</p> <p>Senior Managing Director of the Company, appointed in June 2017 (presently held)</p>	*3	23,200

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Directors</b>			
<b>Hideko Kunii</b> (December 13, 1947)	Associate Director of Ricoh Co., Ltd., appointed in April 2009	*3	1,100
	Chairperson of Ricoh IT Solutions Co., Ltd., appointed in July 2009		
	Outside Director of Innovation Network Corporation of Japan, appointed in July 2009 (presently held)		
	Member of Gender Equality Bureau Cabinet Office, appointed in August 2009		
	Professor, Graduate School of Engineering Management, Shibaura Institute of Technology, appointed in April 2012 (presently held)		
	Retired from Chairperson of Ricoh IT Solutions Co., Ltd. in March 2013		
	Retired from Associate Director of Ricoh Co., Ltd. in March 2013		
	Deputy President, Shibaura Institute of Technology, appointed in April 2013 (presently held)		
	General Manager of Gender Equality Promotion Office, Shibaura Institute of Technology, appointed in October 2013 (presently held)		
	Director of the Company, appointed in June 2014 (presently held)		
Outside Director of Tokyo Electric Power Company, Incorporated (currently, Tokyo Electric Power Company Holdings, Inc.), appointed in June 2014 (presently held)			
Outside Director of Mitsubishi Chemical Holdings Corporation, appointed in June 2015 (presently held)			
<b>Motoki Ozaki</b> (June 6, 1949)	Chairman of the Board of Kao Corporation, appointed in June 2012	*3	200
	President and Representative Director of The Kao Foundation for Arts and Sciences, appointed in June 2012 (presently held)		
	President of Kigyo Mecenat Kyogikai, Association for Corporate Support of the Arts, appointed in March 2014 (presently held)		
	End of tenure as Chairman of the Board of Kao Corporation in March 2014		
	President of New National Theatre Foundation, appointed in June 2014 (presently held)		
	Outside Director of Nomura Securities Co., Ltd., appointed in June 2015 (presently held)		
	Director of the Company, appointed in June 2016 (presently held)		

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Takanobu Ito</b> (August 29, 1953)	<p>Joined Honda Motor Co., Ltd. in April 1978</p> <p>Executive Vice President of Honda R&amp;D Americas, Inc., appointed in April 1998</p> <p>Director of the Company, appointed in June 2000</p> <p>Senior Managing Director of Honda R&amp;D Co., Ltd., appointed in June 2001</p> <p>Managing Director of the Company, appointed in June 2003</p> <p>Responsible for Motor Sports, appointed in June 2003</p> <p>President and Representative Director of Honda R&amp;D Co., Ltd., appointed in June 2003</p> <p>General Supervisor, Motor Sports, appointed in April 2004</p> <p>General Manager of Suzuka Factory for Production Operations, appointed in April 2005</p> <p>Managing Officer of the Company, appointed in June 2005</p> <p>Chief Officer for Automobile Operations, appointed in April 2007</p> <p>Senior Managing Director of the Company, appointed in June 2007</p> <p>President and Representative Director of Honda R&amp;D Co., Ltd., appointed in April 2009</p> <p>President and Representative Director of the Company, appointed in June 2009</p> <p>President, Chief Executive Officer and Representative Director of the Company, appointed in April 2011</p> <p>Chief Officer for Automobile Operations, appointed in April 2011</p> <p>Director and Advisor of the Company, appointed in June 2015 (presently held)</p>	*3	40,300

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Directors (Audit and Supervisory Committee Members)</b>			
<b>Masahiro Yoshida</b> (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), appointed in June 2017 (presently held)</p>	*4	35,300
<b>Masafumi Suzuki</b> (April 23, 1964)	<p>Joined Honda Motor Co., Ltd. in April 1987</p> <p>General Manager of Regional Operation Planning Office for Regional Operations (Europe, the Middle &amp; Near East and Africa), appointed in April 2010</p> <p>General Manager of Regional Operation Planning Office for Regional Operations (Europe, CIS, the Middle &amp; Near East and Africa), appointed in April 2012</p> <p>General Manager of Accounting Division for Business Management Operations, appointed in April 2013</p> <p>Director (Audit and Supervisory Committee Member) of the Company (full-time), appointed in June 2017 (presently held)</p>	*4	42,420

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Toshiaki Hiwatari</b> (August 4, 1945)	<p>Prosecutor General, appointed in July 2008</p> <p>Retired from office in June 2010</p> <p>Registered with the Daiichi Tokyo Bar Association in September 2010</p> <p>Advisor Attorney to TMI Associates, appointed in September 2010 (presently held)</p> <p>Corporate Auditor of the Company, appointed in June 2012</p> <p>Outside Auditor of TOYO KANETSU K.K. appointed in June 2012</p> <p>Outside Director of Nomura Securities Co., Ltd., appointed in October 2012 (presently held)</p> <p>Outside Director (Audit &amp; Supervisory Committee member) of TOYO KANETSU K.K., appointed in June 2015 (presently held)</p> <p>Company Auditor (Outside) of THE KAGOSHIMA BANK, LTD. appointed in October 2016 (presently held)</p> <p>Director (Audit and Supervisory Committee Member) of the Company, appointed in June 2017 (presently held)</p>	*4	1,900
<b>Hideo Takaura</b> (June 19, 1949)	<p>Registered as Japanese CPA in May 1977</p> <p>Chief Executive Officer of PricewaterhouseCoopers Aarata (currently, PricewaterhouseCoopers Aarata LLC), appointed in September 2006</p> <p>Representative Partner of PricewaterhouseCoopers Aarata, appointed in May 2009</p> <p>Retired from PricewaterhouseCoopers Aarata in June 2009</p> <p>Outside Auditor of Innovation Network Corporation of Japan, appointed in July 2009 (presently held)</p> <p>Corporate Auditor of the Company, appointed in June 2015</p> <p>Director (Audit and Supervisory Committee Member) of the Company, appointed in June 2017 (presently held)</p>	*4	700

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Mayumi Tamura</b> (May 22, 1960)	<p>Executive Officer, SVP and Chief Financial Officer of The Seiyu, Ltd. (currently, Seiyu GK), appointed in June 2007</p> <p>Executive Officer, SVP and Chief Financial Officer of Wal-Mart Japan Holdings GK (currently, Wal-Mart Japan Holdings KK), appointed in May 2010</p> <p>End of tenure as Executive Officer, SVP and Chief Financial Officer of Seiyu GK in July 2013</p> <p>End of tenure as Executive Officer, SVP and Chief Financial Officer of Wal-Mart Japan Holdings GK in July 2013</p> <p>Retired from Seiyu GK in January 2014</p> <p>Retired from Wal-Mart Japan Holdings GK in January 2014</p> <p>Corporate Auditor of the Company, appointed in June 2015</p> <p>Director (Audit and Supervisory Committee Member) of the Company, appointed in June 2017 (presently held)</p>	*4	700

- \*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, 2018 after his/her election to office at the close of the ordinary general meeting of shareholders on June 15, 2017.
- \*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**

<b>Toshihiko Nonaka</b>	President, Chief Executive Officer and Representative Director of Honda Engineering Co., Ltd.
<b>Takashi Sekiguchi</b>	<p>Chief Officer for Automobile Operations</p> <p>Executive in Charge of Sales Strategy, Automobile Operations</p> <p>Executive in Charge of Corporate Project</p>
<b>Soichiro Takizawa</b>	Senior Executive Vice President and Director of Honda North America, Inc.
<b>Michimasa Fujino</b>	President and Director of Honda Aircraft Company, LLC

## **Operating Officers**

<b>Naoto Matsui</b>	Chief Officer for Purchasing Operations
<b>Mitsugu Matsukawa</b>	Executive in charge of Strategy, New Model and Supply Chain Management for Production Operations
<b>Shinji Aoyama</b>	Chief Officer for Regional Operations (Asia & Oceania) President and Director of Asian Honda Motor Co., Ltd.
<b>Noriya Kaihara</b>	Chief Officer for Customer First Operations Chief Quality Officer
<b>Tetsuo Suzuki</b>	Representative of Motorcycle DEB for Motorcycle Operations
<b>Issao Mizoguchi</b>	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.
<b>Toshihiro Mibe</b>	Senior Managing Officer and Director of Honda R&D Co., Ltd.
<b>Yusuke Hori</b>	Head of Regional Unit (Africa & the Middle East)
<b>Tomomi Kosaka</b>	Vice President of Fuel Cell System Manufacturing LLC
<b>Noriaki Abe</b>	Chief Officer for Motorcycle Operations
<b>Toshiyuki Shimabara</b>	Executive Vice President and Director of Honda North America, Inc. President and Director of Honda of America Mfg., Inc.
<b>Yasuhide Mizuno</b>	Chief Officer for Regional Operations (China) President of Honda Motor (China) Investment Co., Ltd. President of Honda Motor Technology (China) Co., Ltd.
<b>Kazuhiro Odaka</b>	Chief Officer for Human Resources and Corporate Governance Operations Compliance Officer
<b>Masayuki Igarashi</b>	Executive Vice President and Director of Honda North America, Inc. Executive Vice President and Director of American Honda Motor Co., Inc.
<b>Hiroyuki Kachi</b>	Chief Officer for IT Operations Executive in Charge of Corporate Project
<b>Soichi Yamamoto</b>	Executive Vice President and Director of Honda Motor Europe Ltd. Managing Director of Honda of the U.K. Manufacturing Ltd.
<b>Katsushi Inoue</b>	Chief Officer for Regional Operations (Europe Region) President and Director of Honda Motor Europe Ltd.
<b>Kimiyoshi Teratani</b>	Chief Officer for Regional Operations (Japan)
<b>Asako Suzuki</b>	General Manager of Marketing and Product Planning Division for Regional Operations (Japan)
<b>Katsuhisa Okuda</b>	Chief Officer for Power Product Operations
<b>Katsuhide Moriyama</b>	Chief Officer for Brand and Communication Operations

There is no family relationship between any director or executive officer and any other director or executive 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 16.G "Corporate Governance."

The maximum total amount of compensation for Directors who are Audit and Supervisory Committee Members and that for Directors who are not such members shall be separately approved at the general meeting of shareholders.

Compensation of the Directors who are neither Outside Directors nor Audit and Supervisory Committee Members consists of a fixed monthly remuneration, which shall be paid as compensation for the performance of their duties, and an executive bonus, which is linked to the business results for the relevant fiscal year. Compensation of Outside Directors and Directors who are Audit and Supervisory Committee Members consists only of a fixed monthly remuneration, which shall be paid as compensation for the performance of their duties.

Compensation of the Directors who are not Audit and Supervisory Committee Members is paid based on the compensation standards approved by the Board of Directors. Bonuses of the Directors who are neither Outside Directors nor Audit and Supervisory Committee members shall be resolved by the Board of Directors by taking into consideration the business results of each fiscal year, dividends to shareholders, the standards of bonuses of employees and other relevant matters. Compensation of the Directors who are Audit and Supervisory Committee Members is determined and paid through discussion among such Directors.

All the Directors including Audit and Supervisory Committee Members shall acquire the Company's Common Stock by contributing a certain portion of their fixed monthly remuneration to the Officer Shareholders' Association, and such stock shall be held continuously throughout their term of office and for one year after their retirement.

The total amount of fixed monthly remuneration paid to the Company's Directors and Corporate Auditors during the fiscal year ended March 31, 2017 was ¥860 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, 2017 was ¥275 million.

The amounts of fixed monthly remuneration paid and bonuses accrued during the year ended March 31, 2017 are as follows:

	Yen (millions)									
	Directors excluding Outside Directors		Outside Directors		Corporate Auditors excluding Outside Corporate Auditors		Outside Corporate Auditors		Total	
	number	amount	number	amount	number	amount	number	amount	number	amount
Remuneration . . . . .	15	¥653	3	¥23	3	¥135	3	¥ 47	24	¥ 860
Bonus . . . . .	11	267	2	8	—	—	—	—	13	275
Total . . . . .		<u>¥920</u>		<u>¥31</u>		<u>¥135</u>		<u>¥ 47</u>		<u>¥1,135</u>



The amount of fixed monthly remuneration paid to Takahiro Hachigo during the fiscal year ended March 31, 2017 was ¥102 million. The amount of bonus for Takahiro Hachigo accrued for the fiscal year ended March 31, 2017 was ¥48 million.

#### 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, 2015, 2016 and 2017.

##### As of March 31, 2015

Total	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses
204,730	42,163	150,850	2,241	9,476

As of March 31, 2015, Honda had 204,730 full-time employees, including 138,942 local nationals employed in its overseas operations.

##### As of March 31, 2016

Total	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and 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

Total	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and 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.

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 84% of the employees of the Company and its Japanese subsidiaries were members of AHWU as of March 31, 2017.

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, 2015, 2016 and 2017 were 2.9%, 2.3% and 2.4%, 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 15, 2017 is as follows.

<u>Title of Class</u>	<u>Amount Owned</u>	<u>% of Class</u>
Common Stock	314,620 shares	0.017%

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, 2017, the Association owned 5,655,960 shares of the Company's common stock.

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

*A. Major Shareholders*

As of March 31, 2017, 1,811,428,430 shares of Honda's Common Stock were issued and 1,802,280,395 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, 2017:

<u>Name</u>	<u>Shares owned (thousands)</u>	<u>Ownership (%)</u>
Japan Trustee Services Bank, Ltd. (Trust Account) . . . . .	127,979	7.07
The Master Trust Bank of Japan, Ltd. (Trust Account) . . . . .	94,498	5.22

According to a statement on Schedule 13G (Amendment No. 13) filed by Mitsubishi UFJ Financial Group, Inc. with the SEC on February 14, 2017, Mitsubishi UFJ Financial Group, Inc. directly and indirectly held, as of December 31, 2016, 119,215,504 shares, or 6.6% of the then issued shares, of Honda's Common Stock. According to a statement on Schedule 13G (Amendment No. 2) filed by BlackRock, Inc. with the SEC on January 24, 2017, BlackRock, Inc. directly and indirectly held, as of December 31, 2016, 99,773,498 shares, or 5.5% of the then issued shares, of Honda's Common Stock. According to a statement on Schedule 13G filed by Sumitomo Mitsui Trust Holdings, Inc. with the SEC on February 10, 2017, Sumitomo Mitsui Trust Holdings, Inc. directly and indirectly held, as of December 31, 2016, 96,890,056 shares, or 5.3% 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, 2017 were 1,811,428,430 shares of Common Stock, of which 66,809,460 shares represented by ADSs and 292,733,881 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 234 at March 31, 2017.

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, 2017, Honda had sales of ¥713.3 billion and purchases of ¥1,521.7 billion with affiliates and joint ventures accounted for using the equity method. As of March 31, 2017, Honda had receivables of ¥251.8 billion from affiliates and joint ventures, and had payables of ¥205.4 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".

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 litigation.

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 uncertainty, 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 the most important management issues, the Company's basic policy for dividends is to make distributions after taking into account its long-term consolidated earnings performance.

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

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

The Company determined year-end dividends of ¥24 per share for the year ended March 31, 2017. As a result, total dividends for the year ended March 31, 2017, together with the first quarter dividends of ¥22, the second quarter dividends of ¥22 and the third quarter dividends of ¥24, were ¥92 per share an increase of ¥4 from the annual dividends paid for the year ended March 31, 2016.

Details of Distribution of Surplus (Record dates of the fiscal year ended March 31, 2017)

	Resolution of the Board of Directors	Resolution of the Board of Directors	Resolution of the Board of Directors	Resolution at General Meeting of Shareholders
	August 2, 2016	October 31, 2016	February 3, 2017	June 15, 2017
Dividend per Share of Common Stock (yen) .....	22.00	22.00	24.00	24.00
Total Amount of Dividends (millions of yen) .....	39,650	39,650	43,254	43,254

*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.

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
2013 .....	¥3,830	¥2,294	\$40.00	\$28.50
2014 .....	4,405	3,350	42.96	34.24
2015 .....	4,170	3,239	36.02	28.61
2016				
1st quarter .....	¥4,400	¥3,855	\$36.44	\$32.00
2nd quarter .....	4,499	3,452	35.99	29.00
3rd quarter .....	4,142	3,512	33.87	29.75
4th quarter .....	3,846	2,726	31.00	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
CY 2016				
December .....	¥3,579	¥3,288	\$30.66	\$29.09
CY 2017				
January .....	¥3,604	¥3,318	\$30.97	\$29.42
February .....	3,675	3,292	32.17	29.89
March .....	3,602	3,351	31.44	30.18
April .....	3,383	3,047	30.21	28.16
May .....	3,275	3,046	29.17	27.36

*B. Plan of Distribution*

Not applicable.

*C. Markets*

See Item 9.A, “Offer and Listing Details”.

*D. Selling Shareholders*

Not applicable.

*E. Dilution*

Not applicable.

*F. Expenses of the Issue*

Not applicable.

**Item 10. Additional Information**

*A. Share Capital*

Not applicable.

*B. Memorandum and Articles of Association*

Set forth below is information relating to Honda’s Common Stock, including brief summaries of the relevant provisions of Honda’s articles of incorporation and share handling regulations as currently in effect, and of the Company Law of Japan (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.

## **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.

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 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 shareholders’ meeting. In any case, the number of shares constituting one voting unit may not exceed 1,000 shares or 0.5% of the total issued shares.

Under the Book-Entry Law, shares constituting less than one 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 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 shareholders' meeting 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 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 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.

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.

### **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.

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. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

For purposes of the U.S.-Japan Tax Treaty and the Code, U.S. holders of ADRs evidencing ADSs will be treated as the owners of the shares represented by those ADRs. Exchanges of shares for ADRs and ADRs for shares generally will not be subject to U.S. federal income tax. For purposes of this discussion, a “U.S. holder” is a beneficial owner of shares or ADSs that is, for U.S. federal income tax purposes, (i) a citizen or resident individual of the United States, (ii) a domestic corporation, (iii) an estate whose income is subject to United States federal income tax regardless of its source, or (iv) a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust; and that, for purposes of the U.S.-Japan Tax Treaty, is not ineligible for benefits under the U.S.-Japan Tax Treaty with respect to income and gain from the shares or ADSs.

This section does not apply to a person who is a member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of the voting stock of Honda, a person that holds shares or ADSs as part of a straddle or a hedging or conversion transaction, 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 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 U.S.-Japan Tax 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 rates. To the extent a refund of the tax withheld is available to a U.S. holder under Japanese law or under the U.S.-Japan Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. holder's United States federal income tax liability.

Dividends will generally be income from sources outside the United States and will, depending on a U.S. holder's circumstances, be either "passive" or "general" 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.

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

If a U.S. holder owns shares or ADSs in a PFIC that are treated as marketable stock, such holder may make a mark-to-market election. If a U.S. holder makes this election, it will not be subject to the PFIC rules described above. Instead, in general, a U.S. holder will include as ordinary income each year the excess, if any, of the fair market value of its shares or ADSs at the end of the taxable year over its adjusted basis in its shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. A U.S. holder will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of its shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. holder's basis in the shares or ADSs will be adjusted to reflect any such income or loss amount.

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 holder if Honda is a PFIC (or is treated as a PFIC with respect to such U.S. holder) either in 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. U.S. holders should consult their own tax advisors regarding the PFIC rules and potential filing and other requirements.

*F. Dividends and Paying Agents*

Not applicable.

*G. Statement by Experts*

Not applicable.

*H. Documents on Display*

Honda is subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, it will file annual reports on Form 20-F within six months of its fiscal year-end and furnish other reports and information on Form 6-K with the Securities and Exchange Commission. These reports and other information can be inspected without charge at the public reference room at the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You can also obtain copies of such material by mail from the public reference room of the Securities and Exchange Commission at prescribed fees. You may obtain information on the operation of the Securities and Exchange public reference room by calling the Securities and Exchange Commission in the United States at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. Also, as a foreign private issuer, Honda is exempt from the rules under the Securities Exchange Act of 1934 prescribing the furnishing and content of proxy statements to shareholders.

*I. Subsidiary Information*

Not applicable.

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

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 depositary, collects fees for delivery and surrender of ADSs directly from investors, or from intermediaries acting for them, depositing ordinary shares or surrendering ADSs for the purpose of withdrawal. The ADR depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees.

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

<b>Category (as defined by SEC)</b>	<b>Depositary Actions</b>	<b>Associated Fee</b>
(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: <ul style="list-style-type: none"><li>• Share distributions, stock split, rights, merger</li><li>• Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the deposited securities</li></ul>	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
(b) Receiving or distributing dividends	Not applicable	
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	USD 5.00 for each 100 ADSs (or portion thereof)
(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	USD 2.50 per ADS certificate
(f) General depositary services, particularly those charged on an annual basis	Not applicable	

Category	Depository Actions	Associated Fee
(g) Expenses of the depository	Expenses incurred on behalf of holders in connection with <ul style="list-style-type: none"> <li>• Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment</li> <li>• The depository's or its custodian's compliance with applicable law, rule or regulation</li> <li>• Stock transfer or other taxes and other governmental charges</li> <li>• Cable, telex, facsimile transmission/delivery</li> <li>• Expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency)</li> <li>• Any other charge payable by the depository or its agents</li> </ul>	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

#### 4. Direct / Indirect Payment Disclosure

Honda does not receive any reimbursement from the depository 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 depository service administration, including but not limited to, dividend disbursement and proxy process. From April 1, 2016 to March 31, 2017, the Depository waived \$178,869.65 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.

### *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, 2017. 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, 2017 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, 2017.

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, 2017 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.

#### ***Item 16B. Code of Ethics***

Honda has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of Honda's code of ethics is attached as an exhibit to this Annual Report on Form 20-F.

#### ***Item 16C. Principal Accountant Fees and Services***

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, 2017, 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 2016 and 2017:

	<u>Yen (millions)</u>	
	<u>2016</u>	<u>2017</u>
Audit Fees .....	¥4,415	¥4,583
Audit-Related Fees .....	127	120
All Other Fees .....	12	8
Total .....	<u>¥4,554</u>	<u>¥4,711</u>

“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, our 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, our 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. Our Audit and Supervisory Committee reviews this list of services on an annual basis, and is informed of each such service that is actually provided. Historically, prior to the establishment of our Audit and Supervisory Committee on June 15, 2017, such general pre-approval was conducted by the predecessor to our Audit and Supervisory Committee, our former Board of Corporate Auditors, a legally separate and independent body from the Board of Directors that had been previously established under Japanese law to perform a similar corporate function.

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 our Audit and Supervisory Committee. Historically, prior to the establishment of our Audit and Supervisory Committee on June 15, 2017, such activities were required to be pre-approved by our former Board of Corporate Auditors.

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

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

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, 2017. There were no purchases of Honda's shares by its affiliated purchasers during that fiscal year.

<u>Period</u>	<u>(a) Total Number of Shares Purchased*</u>	<u>(b) Average Price Paid per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Yen Amount of Shares that May Yet Be Purchased Under the Plans or Programs</u>
April 1 to April 30, 2016 .....	449	¥2,990	—	—
May 1 to May 31, 2016 .....	12	¥3,187	—	—
June 1 to June 30, 2016 .....	379	¥2,814	—	—
July 1 to July 31, 2016 .....	161	¥2,562	—	—
August 1 to August 31, 2016 .....	144	¥2,907	—	—
September 1 to September 30, 2016 .....	192	¥3,095	—	—
October 1 to October 31, 2016 .....	110	¥2,998	—	—
November 1 to November 30, 2016 .....	370	¥3,109	—	—
December 1 to December 31, 2016 .....	520	¥3,458	—	—
January 1 to January 31, 2017 .....	540	¥3,495	—	—
February 1 to February 28, 2017 .....	40	¥3,547	—	—
March 1 to March 31, 2017 .....	465	¥3,549	—	—
Total .....	<u>3,382</u>	<u>¥3,202</u>	<u>—</u>	<u>—</u>

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

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.



**Item 16G. Corporate Governance**

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

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

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.

<b>Corporate Governance Practices Followed by NYSE-listed U.S. Companies</b>	<b>Corporate Governance Practices Followed by Honda</b>
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.	<p>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.</p> <p>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</p>

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 remuneration from the company, (c) a person who has

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.

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 the audit and supervisory committee may express its opinion at the general meeting of shareholders, and

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 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.

(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 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  
discussion among the Directors who are Audit and  
Supervisory Committee Members within the  
maximum total amount approved at the General

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

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.

***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.

**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 Depository, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (2)
- 2.3 Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (2)
- 2.4 Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (3)
- 2.5 Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006, among the parties referred to in Exhibit 2.2 above (4)
- 2.6 Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)
- 8.1 List of Significant Subsidiaries (See “Organizational Structure” in Item 4.C of this Form 20-F)
- 11.1 Code of Ethics (6)
- 12.1 Certification of the principal executive officer required by 17 C.F.R. 240. 13a-14(a)
- 12.2 Certification of the principal financial officer required by 17 C.F.R. 240. 13a-14(a)
- 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
- 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350

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

The Company has not included as exhibits certain instruments with respect to its long-term debt, the amount of debt authorized under each of which does not exceed 10% of its total assets, and it agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

**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, 2017**

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

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

**Index to Consolidated Financial Statements**

Reports of Independent Registered Public Accounting Firm .....	F-3
Consolidated Statements of Financial Position – March 31, 2016 and 2017 .....	F-5
Consolidated Statements of Income – Years ended March 31, 2015, 2016 and 2017 .....	F-6
Consolidated Statements of Comprehensive Income – Years ended March 31, 2015, 2016 and 2017 .....	F-7
Consolidated Statements of Changes in Equity – Years ended March 31, 2015, 2016 and 2017 .....	F-8
Consolidated Statements of Cash Flows – Years ended March 31, 2015, 2016 and 2017 .....	F-9
Notes to Consolidated Financial Statements .....	F-10

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



## **Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated statements of financial position of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2017 and 2016, and 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, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2017, 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), Honda Motor Co., Ltd.'s internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 22, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG AZSA LLC

Tokyo, Japan  
June 22, 2017

## Report of Independent Registered Public Accounting Firm

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

We have audited Honda Motor Co., Ltd.'s internal control over financial reporting as of March 31, 2017, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Honda Motor Co., Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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.

In our opinion, Honda Motor Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2017 and 2016, and 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, 2017, and our report dated June 22, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA LLC

Tokyo, Japan  
June 22, 2017

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

**Consolidated Statements of Financial Position**

**March 31, 2016 and 2017**

	Note	Yen (millions)	
		2016	2017
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	5	¥ 1,757,456	¥ 2,105,976
Trade receivables	6	826,714	764,026
Receivables from financial services	7	1,926,014	1,878,938
Other financial assets	8	103,035	149,427
Inventories	9	1,313,292	1,364,130
Other current assets		315,115	292,970
Total current assets		<u>6,241,626</u>	<u>6,555,467</u>
Non-current assets:			
Investments accounted for using the equity method	10	593,002	597,262
Receivables from financial services	7	3,082,054	3,070,615
Other financial assets	8	335,203	364,612
Equipment on operating leases	11	3,678,111	4,104,663
Property, plant and equipment	12	3,139,564	3,200,378
Intangible assets	13	824,939	778,192
Deferred tax assets	23	180,828	121,509
Other non-current assets		153,967	165,425
Total non-current assets		<u>11,987,668</u>	<u>12,402,656</u>
Total assets		<u>¥18,229,294</u>	<u>¥18,958,123</u>
<b>Liabilities and Equity</b>			
Current liabilities:			
Trade payables	14	¥ 1,128,041	¥ 1,183,344
Financing liabilities	15	2,789,620	2,786,928
Accrued expenses		384,614	417,736
Other financial liabilities	16	89,809	119,784
Income taxes payable		45,872	45,507
Provisions	17	513,232	348,095
Other current liabilities		519,163	527,448
Total current liabilities		<u>5,470,351</u>	<u>5,428,842</u>
Non-current liabilities:			
Financing liabilities	15	3,736,628	4,022,190
Other financial liabilities	16	47,755	47,241
Retirement benefit liabilities	18	660,279	494,131
Provisions	17	264,978	248,935
Deferred tax liabilities	23	789,830	900,450
Other non-current liabilities		227,685	246,708
Total non-current liabilities		<u>5,727,155</u>	<u>5,959,655</u>
Total liabilities		<u>11,197,506</u>	<u>11,388,497</u>
Equity:			
Common stock		86,067	86,067
Capital surplus		171,118	171,118
Treasury stock		(26,178)	(26,189)
Retained earnings		6,194,311	6,712,894
Other components of equity		336,115	351,406
Equity attributable to owners of the parent		<u>6,761,433</u>	<u>7,295,296</u>
Non-controlling interests		270,355	274,330
Total equity	19	<u>7,031,788</u>	<u>7,569,626</u>
Total liabilities and equity		<u>¥18,229,294</u>	<u>¥18,958,123</u>

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Income**

**Years ended March 31, 2015, 2016 and 2017**

	Note	Yen (millions)		
		2015	2016	2017
Sales revenue .....	20	¥ 13,328,099	¥ 14,601,151	¥ 13,999,200
Operating costs and expenses:				
Cost of sales .....		(10,330,784)	(11,332,399)	(10,865,848)
Selling, general and administrative .....		(1,720,550)	(2,108,874)	(1,601,212)
Research and development .....	21	(606,162)	(656,502)	(691,429)
Total operating costs and expenses .....		(12,657,496)	(14,097,775)	(13,158,489)
Operating profit .....		670,603	503,376	840,711
Share of profit of investments accounted for using the equity method .....	10	96,097	126,001	164,793
Finance income and finance costs:				
Interest income .....	22	27,037	28,468	32,389
Interest expense .....	22	(18,194)	(18,146)	(12,471)
Other, net .....	22	30,694	(4,249)	(18,436)
Total finance income and finance costs .....		39,537	6,073	1,482
Profit before income taxes .....		806,237	635,450	1,006,986
Income tax expense .....	23	(245,139)	(229,092)	(327,592)
Profit for the year .....		¥ 561,098	¥ 406,358	¥ 679,394
Profit for the year attributable to:				
Owners of the parent .....		509,435	344,531	616,569
Non-controlling interests .....		51,663	61,827	62,825
			Yen	
		2015	2016	2017
Earnings per share attributable to owners of the parent				
Basic and diluted .....	24	¥ 282.66	¥ 191.16	¥ 342.10

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Comprehensive Income**

**Years ended March 31, 2015, 2016 and 2017**

	Note	Yen (millions)		
		2015	2016	2017
Profit for the year . . . . .		¥ 561,098	¥ 406,358	¥679,394
Other comprehensive income, net of tax:				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit plans . . . . .		(101,286)	(70,709)	58,154
Net changes in revaluation of financial assets measured at fair value through other comprehensive income . . . . .		24,007	(15,797)	22,707
Share of other comprehensive income of investments accounted for using the equity method . . . . .	10	(714)	(1,274)	3,262
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations . . .		465,776	(430,152)	8,064
Share of other comprehensive income of investments accounted for using the equity method . . . . .	10	57,356	(36,591)	(22,644)
Total other comprehensive income, net of tax . . . . .	19	445,139	(554,523)	69,543
Comprehensive income for the year . . . . .		¥1,006,237	¥(148,165)	¥748,937
Comprehensive income for the year attributable to:				
Owners of the parent . . . . .		931,709	(188,580)	696,079
Non-controlling interests . . . . .		74,528	40,415	52,858

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended March 31, 2015, 2016 and 2017

		Yen (millions)							
		Equity attributable to owners of the parent					Total	Non-controlling interests	Total equity
Note		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity			
	Balance as of April 1, 2014	¥86,067	¥171,117	¥(26,149)	¥5,831,140	¥ 273,359	¥6,335,534	¥223,394	¥6,558,928
	Comprehensive income for the year								
	Profit for the year				509,435		509,435	51,663	561,098
	Other comprehensive income, net of tax	19				422,274	422,274	22,865	445,139
	Total comprehensive income for the year				509,435	422,274	931,709	74,528	1,006,237
	Reclassification to retained earnings	19			(98,401)	98,401	—		—
	Transactions with owners and other								
	Dividends paid	19			(158,601)		(158,601)	(21,566)	(180,167)
	Purchases of treasury stock			(17)			(17)		(17)
	Disposal of treasury stock			1			1		1
	Equity transactions and others		1				1	(2,162)	(2,161)
	Total transactions with owners and other		1	(16)	(158,601)		(158,616)	(23,728)	(182,344)
	Balance as of March 31, 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 and other			(13)	(158,601)		(158,614)	(44,254)	(202,868)
	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

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows**

**Years ended March 31, 2015, 2016 and 2017**

	Note	Yen (millions)		
		2015	2016	2017
Cash flows from operating activities:				
Profit before income taxes		¥ 806,237	¥ 635,450	¥ 1,006,986
Depreciation, amortization and impairment losses excluding equipment on operating leases		625,229	660,714	674,329
Share of profit of investments accounted for using the equity method		(96,097)	(126,001)	(164,793)
Finance income and finance costs, net		(41,941)	(982)	(55,911)
Interest income and interest costs from financial services, net		(172,275)	(151,374)	(119,953)
Changes in assets and liabilities				
Trade receivables		(45,839)	(88,173)	49,217
Inventories		(56,285)	66,405	(72,144)
Trade payables		22,246	105,189	12,999
Accrued expenses		8,865	32,151	50,339
Provisions and retirement benefit liabilities		107,324	329,391	(252,837)
Receivables from financial services		316,962	354,353	40,525
Equipment on operating leases		(535,165)	(558,826)	(435,503)
Other assets and liabilities		45,255	20,765	71,940
Other, net		(12,931)	4,851	998
Dividends received		114,501	105,477	121,770
Interest received		236,344	233,873	220,947
Interest paid		(89,804)	(92,355)	(99,607)
Income taxes paid, net of refund		(212,222)	(139,913)	(164,229)
Net cash provided by operating activities		1,020,404	1,390,995	885,073
Cash flows from investing activities:				
Payments for additions to property, plant and equipment		(648,205)	(635,176)	(494,132)
Payments for additions to and internally developed intangible assets		(234,915)	(236,783)	(143,320)
Proceeds from sales of property, plant and equipment and intangible assets		33,243	25,617	18,710
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		(1,971)	(3,238)	(547)
Proceeds from sales of investments accounted for using the equity method		—	3,237	16,208
Payments for acquisitions of other financial assets		(108,873)	(173,761)	(222,464)
Proceeds from sales and redemptions of other financial assets		119,897	145,414	177,762
Other, net		328	(387)	—
Net cash used in investing activities		(840,496)	(875,077)	(650,618)
Cash flows from financing activities:				
Proceeds from short-term financing liabilities		8,731,773	8,302,231	8,207,530
Repayments of short-term financing liabilities		(8,602,054)	(8,708,320)	(8,129,295)
Proceeds from long-term financing liabilities		1,505,732	1,826,991	1,902,448
Repayments of long-term financing liabilities		(1,389,121)	(1,267,290)	(1,622,603)
Dividends paid to owners of the parent		(158,601)	(158,601)	(162,205)
Dividends paid to non-controlling interests		(21,513)	(40,331)	(35,059)
Purchases and sales of treasury stock, net		(16)	(13)	(11)
Other, net		(53,712)	(49,966)	(45,382)
Net cash provided by (used in) financing activities		12,488	(95,299)	115,423
Effect of exchange rate changes on cash and cash equivalents		85,750	(134,893)	(1,358)
Net change in cash and cash equivalents		278,146	285,726	348,520
Cash and cash equivalents at beginning of year		1,193,584	1,471,730	1,757,456
Cash and cash equivalents at end of year	5	¥ 1,471,730	¥ 1,757,456	¥ 2,105,976

See accompanying notes to consolidated financial statements.

## 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*

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, 2017 are as follows:

IASB issued the final version of IFRS 9 “Financial Instruments” in July 2014. IFRS 9 (issued in 2014) replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model.

IFRS 9 (issued in 2014) is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Honda plans to apply this standard initially on April 1, 2018.

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. This standard may affect the amount of the allowance for credit losses on receivables from financial services, held primarily by the finance subsidiaries of the Company. Honda will continue to assess the overall impact of the adoption of IFRS 9 (issued in 2014) on the consolidated financial statements.



**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

This standard will generally be applied retrospectively to each prior reporting period presented except the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Honda plans to apply this exemption. The cumulative effect of the adoption of IFRS 9 (issued in 2014) will be recognized in retained earnings or other components of equity as at April 1, 2018, if the effects is material.

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, with early adoption permitted. Honda plans to apply this standard initially on April 1, 2018.

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 and considers the effects of variable consideration when determining the transaction price.

IFRS 15 may affect revenue recognition of those promises in the customer contract to transfer goods or services without charge to customers such as free inspection. Revenue might be recognized later than at present if those promises are treated as performance obligations. IFRS 15 also may affect recognition and measurement of dealer incentives. Honda will continue to assess the overall impact of the adoption of IFRS 15 on the consolidated financial statements.

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. The cumulative effect of the initial adoption of IFRS 15 will be recognized in retained earnings as at April 1, 2018, if the effect is material.

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”.

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, the presentation of 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.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

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.

IASB issued the Disclosure Initiative (Amendments to IAS 7) in January 2016.

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Honda plans to apply this standard initially on April 1, 2017.

To satisfy the new disclosure requirements, Honda intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

*(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)

**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.

**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.

**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 contracts, currency option contracts, currency swap agreements and interest rate swap agreements.

**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 hedges for the years ended March 31, 2015, 2016 and 2017.

*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

**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.

**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, and collateral types. Economic factors such as used vehicle prices, unemployment rates, and consumer debt service burdens are also incorporated when estimating losses.

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.



**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 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.

**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 obligation and the fair value of the plan asset 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.

**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.

**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.

**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) 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, 2015, 2016 and 2017 is as follows:

**As of and for the year ended March 31, 2015**

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers .....	¥1,846,666	¥9,603,335	¥1,555,550	¥322,548	¥13,328,099	¥ —	¥13,328,099
Intersegment .....	—	154,536	12,363	24,362	191,261	(191,261)	—
Total .....	<u>1,846,666</u>	<u>9,757,871</u>	<u>1,567,913</u>	<u>346,910</u>	<u>13,519,360</u>	<u>(191,261)</u>	<u>13,328,099</u>
Segment profit (loss) .....	<u>¥ 192,154</u>	<u>¥ 279,756</u>	<u>¥ 202,574</u>	<u>¥ (3,881)</u>	<u>¥ 670,603</u>	<u>¥ —</u>	<u>¥ 670,603</u>
Share of profit of investments accounted for using the equity method .....	¥ 29,234	¥ 66,512	¥ —	¥ 351	¥ 96,097	¥ —	¥ 96,097
Segment assets .....	1,489,703	7,653,645	9,318,545	334,858	18,796,751	(370,914)	18,425,837
Investments accounted for using the equity method .....	99,816	510,653	—	4,506	614,975	—	614,975
Depreciation and amortization .....	70,881	525,522	484,526	12,061	1,092,990	—	1,092,990
Capital expenditures .....	87,762	791,626	1,685,245	14,588	2,579,221	—	2,579,221
Impairment losses on non-financial assets ..	267	13,278	4,077	229	17,851	—	17,851
Provision for credit and lease residual losses on receivables from financial services ...	—	—	19,328	—	19,328	—	19,328

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**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	<u>1,805,429</u>	<u>10,767,685</u>	<u>1,849,700</u>	<u>352,244</u>	<u>14,775,058</u>	<u>(173,907)</u>	<u>14,601,151</u>
Segment profit (loss)	<u>¥ 181,773</u>	<u>¥ 153,366</u>	<u>¥ 199,358</u>	<u>¥ (31,121)</u>	<u>¥ 503,376</u>	<u>¥ —</u>	<u>¥ 503,376</u>
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

**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	<u>1,716,165</u>	<u>10,256,666</u>	<u>1,891,282</u>	<u>349,692</u>	<u>14,213,805</u>	<u>(214,605)</u>	<u>13,999,200</u>
Segment profit (loss)	<u>¥ 170,740</u>	<u>¥ 501,181</u>	<u>¥ 178,449</u>	<u>¥ (9,659)</u>	<u>¥ 840,711</u>	<u>¥ —</u>	<u>¥ 840,711</u>
Share of profit of investments accounted for using the equity method	¥ 31,835	¥ 132,411	¥ —	¥ 547	¥ 164,793	¥ —	¥ 164,793
Segment assets	1,505,637	7,543,388	9,437,044	312,303	18,798,372	159,751	18,958,123
Investments accounted for using the equity method	93,410	499,067	—	4,785	597,262	—	597,262
Depreciation and amortization	79,398	576,546	664,940	14,544	1,335,428	—	1,335,428
Capital expenditures	66,241	607,629	1,886,607	12,272	2,572,749	—	2,572,749
Impairment losses on non-financial assets	185	626	7,987	170	8,968	—	8,968
Provision for credit and lease residual losses on receivables from financial services	—	—	31,448	—	31,448	—	31,448

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.

## 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, 2015, 2016 and 2017 amounted to ¥345,266 million, ¥451,387 million and ¥530,809 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, 2015, 2016 and 2017 are ¥295,035 million, ¥607,646 million and ¥198,016 million, respectively. These are mainly included in Automobile business.
6. The amounts of write-down of inventories recognized as an expense for the years ended March 31, 2015 and 2016 are ¥9,041 million and ¥27,610 million, respectively. These are primarily related to aircraft and aircraft engines, which are included in Power Product and Other businesses. The amount of write-down of inventories recognized as an expense for the year ended March 31, 2017 is ¥22,707 million and this is primarily related to aircraft and aircraft engines, which are included in Power Product and Other businesses and Automobile business.

#### *(b) Product or Service Groups Information*

Sales revenue by product or service groups of Honda for the years ended March 31, 2015, 2016 and 2017 is as follows:

	Yen (millions)		
	2015	2016	2017
Motorcycles and relevant parts . . . . .	¥ 1,746,284	¥ 1,679,130	¥ 1,598,935
All-terrain vehicles (ATVs) and relevant parts . . . . .	100,382	126,299	117,230
Automobiles and relevant parts . . . . .	10,295,898	11,446,424	10,920,594
Financial services . . . . .	862,987	1,014,586	1,044,316
Power products and relevant parts . . . . .	263,232	268,486	245,881
Others . . . . .	59,316	66,226	72,244
<b>Total . . . . .</b>	<b>¥13,328,099</b>	<b>¥14,601,151</b>	<b>¥13,999,200</b>

#### *(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, 2015, 2016 and 2017 are as follows:

#### **As of and for the year ended March 31, 2015**

	Yen (millions)			
	Japan	United States	Other Countries	Total
Sales revenue . . . . .	¥2,137,844	¥6,102,633	¥5,087,622	¥13,328,099
Non-current assets other than financial instruments and deferred tax assets . . . . .	¥2,279,156	¥3,640,230	¥1,522,034	¥ 7,441,420

#### **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

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**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

*(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, 2015**

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers . . . . .	¥2,137,844	¥ 6,870,388	¥656,195	¥2,716,529	¥947,143	¥13,328,099	¥ —	¥13,328,099
Inter-geographic areas . . . . .	1,793,123	330,475	67,729	612,015	3,199	2,806,541	(2,806,541)	—
Total . . . . .	3,930,967	7,200,863	723,924	3,328,544	950,342	16,134,640	(2,806,541)	13,328,099
Operating profit (loss) . . . . .	¥ 210,171	¥ 181,525	¥(22,615)	¥ 278,855	¥ 40,167	¥ 688,103	¥ (17,500)	¥ 670,603
Assets . . . . .	¥4,231,472	¥10,454,542	¥667,945	¥2,526,914	¥677,831	¥18,558,704	¥ (132,867)	¥18,425,837
Non-current assets other than financial instruments and deferred tax assets . . . . .	¥2,279,156	¥ 4,084,678	¥120,217	¥ 760,642	¥196,727	¥ 7,441,420	¥ —	¥ 7,441,420

**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



**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

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 . . . . .	<u>4,113,409</u>	<u>8,098,068</u>	<u>789,393</u>	<u>3,456,033</u>	<u>733,495</u>	<u>17,190,398</u>	<u>(3,191,198)</u>	<u>13,999,200</u>
Operating profit (loss) . . . . .	<u>¥ 104,560</u>	<u>¥ 398,725</u>	<u>¥ 12,112</u>	<u>¥ 331,466</u>	<u>¥ 29,016</u>	<u>¥ 875,879</u>	<u>¥ (35,168)</u>	<u>¥ 840,711</u>
Assets . . . . .	¥4,236,574	¥10,743,185	¥675,983	¥2,694,622	¥670,332	¥19,020,696	¥ (62,573)	¥18,958,123
Non-current assets other than financial instruments and deferred tax assets . . . . .	<u>¥2,492,467</u>	<u>¥ 4,766,609</u>	<u>¥107,443</u>	<u>¥ 694,919</u>	<u>¥187,220</u>	<u>¥ 8,248,658</u>	<u>¥ —</u>	<u>¥ 8,248,658</u>

Explanatory notes:

1. Major countries or regions in each geographic area:

North America	United States, Canada, Mexico
Europe	United Kingdom, Germany, France, Belgium, Turkey
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, 2015, 2016 and 2017 amounted to ¥345,266 million, ¥451,387 million and ¥530,809 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, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Cash and deposits . . . . .	¥1,157,781	¥1,528,861
Cash equivalents . . . . .	<u>599,675</u>	<u>577,115</u>
Total . . . . .	<u>¥1,757,456</u>	<u>¥2,105,976</u>

Cash equivalents held by Honda mainly consist of money market funds and certificates of deposit.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**(6) Trade Receivables**

Trade receivables are classified as financial assets measured at amortized cost.

Trade receivables as of March 31, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Trade accounts and notes receivable . . . . .	¥ 705,629	¥ 675,032
Other . . . . .	136,973	103,504
Allowance for doubtful accounts . . . . .	(15,888)	(14,510)
Total . . . . .	<u>¥ 826,714</u>	<u>¥ 764,026</u>

The changes in the allowance for doubtful trade receivables for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Balance at beginning of year . . . . .	¥ 7,260	¥ 5,367	¥15,888
Provision . . . . .	¥ 58	¥11,786	¥ 5,046
Charge-offs . . . . .	(1,589)	(593)	(6,389)
Exchange differences on translating foreign operations . . . . .	(362)	(672)	(35)
Balance at end of year . . . . .	<u>¥ 5,367</u>	<u>¥15,888</u>	<u>¥14,510</u>

**(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 our 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.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

Receivables from financial services as of March 31, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Consumer finance receivables:		
Retail .....	¥4,227,816	¥4,199,715
Finance lease .....	227,502	184,339
Dealer finance receivables:		
Wholesale .....	589,889	608,549
Subtotal .....	¥5,045,207	¥4,992,603
Allowance for credit losses .....	¥ (25,565)	¥ (31,499)
Allowance for losses on lease residual values .....	(1,615)	(1,663)
Unearned interest income and fees .....	(9,959)	(9,888)
Total .....	¥5,008,068	¥4,949,553
Current assets .....	¥1,926,014	¥1,878,938
Non-current assets .....	3,082,054	3,070,615
Total .....	¥5,008,068	¥4,949,553

*Finance lease receivables*

The gross investment in the lease and the present value of minimum lease payments receivable as of March 31, 2016 and 2017 are as follows:

	Yen (millions)			
As of March 31, 2016	Within 1 year	Between 1 and 5 years	Later than 5 years	Total
Gross investment in the lease .....	¥ 83,099	¥144,363	¥ 40	¥227,502
Unearned interest income and fees .....	(4,136)	(5,823)	—	(9,959)
Unguaranteed residual values .....	(15,895)	(48,133)	(2)	(64,030)
Present value of minimum lease payments receivable .....	¥ 63,068	¥ 90,407	¥ 38	¥153,513
	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

**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, 2015, 2016 and 2017 are as follows:

	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
Balance as of April 1, 2014	¥ 21,970	¥ 636	¥2,594	¥ 25,200
Provision	¥ 18,213	¥ 349	¥ (202)	¥ 18,360
Charge-offs	(26,673)	(620)	(385)	(27,678)
Recoveries	9,101	131	27	9,259
Exchange differences on translating foreign operations	38	3	(144)	(103)
Balance as of March 31, 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

For more information on allowance for credit losses, see note 25.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**(8) Other Financial Assets**

Other financial assets as of March 31, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Financial assets measured at amortized cost:		
Receivables other than trade receivables and receivables from financial services . . .	¥ 86,602	¥ 95,552
Debt securities . . . . .	40,670	68,263
Guaranty deposits . . . . .	15,268	16,944
Restricted cash . . . . .	37,456	44,555
Other . . . . .	9,643	6,825
Allowance for doubtful accounts . . . . .	(11,731)	(10,964)
Financial assets measured at fair value through other comprehensive income:		
Equity securities . . . . .	153,313	188,657
Financial assets measured at fair value through profit or loss:		
Derivatives . . . . .	50,022	35,513
Debt securities . . . . .	56,995	68,694
Total . . . . .	<u>¥438,238</u>	<u>¥514,039</u>
Current assets . . . . .	¥103,035	¥149,427
Non-current assets . . . . .	<u>335,203</u>	<u>364,612</u>
Total . . . . .	<u>¥438,238</u>	<u>¥514,039</u>

The changes in the allowance for doubtful accounts for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Balance at beginning of year . . . . .	¥ 21,932	¥12,061	¥11,731
Provision . . . . .	¥ 773	¥ 1,382	¥ 219
Charge-offs . . . . .	(10,713)	(1,528)	(936)
Exchange differences on translating foreign operations . . . . .	69	(184)	(50)
Balance at end of year . . . . .	<u>¥ 12,061</u>	<u>¥11,731</u>	<u>¥10,964</u>

**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, 2016 and 2017 are as follows:

**As of March 31, 2016**

	<u>Yen (millions)</u>
	<u>Fair value</u>
Sirius XM Holdings Inc. ....	¥41,764
Stanley Electric Co., Ltd. ....	23,504
NIPPON SEIKI CO., LTD. ....	8,167
Mitsubishi UFJ Financial Group, Inc. ....	7,563
Shindengen Electric Manufacturing Co., Ltd. ....	5,091
Daido Steel Co., Ltd. ....	5,090

**As of March 31, 2017**

	<u>Yen (millions)</u>
	<u>Fair value</u>
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

**(9) Inventories**

Inventories as of March 31, 2016 and 2017 consist of the following:

	<u>Yen (millions)</u>	
	<u>2016</u>	<u>2017</u>
Finished goods .....	¥ 760,512	¥ 810,885
Work in process .....	74,328	77,151
Raw materials .....	478,452	476,094
Total .....	<u>¥1,313,292</u>	<u>¥1,364,130</u>

The amounts of write-down of inventories recognized as an expense for the years ended March 31, 2015, 2016 and 2017 are ¥9,041 million, ¥27,610 million and ¥22,707 million, respectively.

**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, 2016 and 2017 is as follows:

	Yen (millions)	
	2016	2017
Investments accounted for using the equity method:		
Affiliates .....	¥343,405	¥320,786
Joint ventures .....	249,597	276,476
Total .....	<u>¥593,002</u>	<u>¥597,262</u>
Honda's equity of undistributed earnings:		
Affiliates .....	¥234,434	¥223,749
Joint ventures .....	152,331	193,046
Total .....	<u>¥386,765</u>	<u>¥416,795</u>

For the years ended March 31, 2015, 2016 and 2017, the Company recognized impairment losses of ¥22,244 million, ¥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.

Honda's share of comprehensive income of affiliates and joint ventures for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Profit for the year:			
Affiliates .....	¥ 8,650	¥ 8,538	¥ 9,626
Joint ventures .....	87,447	117,463	155,167
Total .....	<u>¥ 96,097</u>	<u>¥126,001</u>	<u>¥164,793</u>
Other comprehensive income:			
Affiliates .....	¥ 21,597	¥(12,096)	¥ (6,560)
Joint ventures .....	35,045	(25,769)	(12,822)
Total .....	<u>¥ 56,642</u>	<u>¥(37,865)</u>	<u>¥(19,382)</u>
Comprehensive income for the year:			
Affiliates .....	¥ 30,247	¥ (3,558)	¥ 3,066
Joint ventures .....	122,492	91,694	142,345
Total .....	<u>¥152,739</u>	<u>¥ 88,136</u>	<u>¥145,411</u>

**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, 2016 and 2017, and for the years ended March 31, 2015, 2016 and 2017 is as follows:

*(Affiliates)*

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
<b>For the year ended March 31, 2015</b>				
Sales revenue . . . . .	¥220,578	¥2,626,191	¥ 6,198	¥2,852,967
Profit for the year . . . . .	12,886	108,717	929	122,532
<b>As of and for the year ended March 31, 2016</b>				
Current assets . . . . .	¥ 88,052	¥1,022,990	¥ 7,003	¥1,118,045
Non-current assets . . . . .	50,129	1,137,554	24,827	1,212,510
Total assets . . . . .	<u>138,181</u>	<u>2,160,544</u>	<u>31,830</u>	<u>2,330,555</u>
Current liabilities . . . . .	41,582	648,206	2,448	692,236
Non-current liabilities . . . . .	7,181	245,863	1,448	254,492
Total liabilities . . . . .	<u>48,763</u>	<u>894,069</u>	<u>3,896</u>	<u>946,728</u>
Total equity . . . . .	<u>¥ 89,418</u>	<u>¥1,266,475</u>	<u>¥27,934</u>	<u>¥1,383,827</u>
Sales revenue . . . . .	¥219,265	¥2,708,831	¥ 6,818	¥2,934,914
Profit for the year . . . . .	13,780	91,316	1,147	106,243
<b>As of and for the year ended March 31, 2017</b>				
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 . . . . .	<u>97,486</u>	<u>2,187,046</u>	<u>32,040</u>	<u>2,316,572</u>
Current liabilities . . . . .	30,556	665,251	2,653	698,460
Non-current liabilities . . . . .	5,922	273,264	1,355	280,541
Total liabilities . . . . .	<u>36,478</u>	<u>938,515</u>	<u>4,008</u>	<u>979,001</u>
Total equity . . . . .	<u>¥ 61,008</u>	<u>¥1,248,531</u>	<u>¥28,032</u>	<u>¥1,337,571</u>
Sales revenue . . . . .	¥158,174	¥2,515,601	¥ 6,724	¥2,680,499
Profit for the year . . . . .	10,112	60,145	973	71,230



**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

*(Joint ventures)*

	Yen (millions)			
<b>For the year ended March 31, 2015</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Power Product and Other Businesses</b>	<b>Total</b>
Sales revenue . . . . .	¥732,433	¥2,210,540	¥1,986	¥2,944,959
Profit for the year . . . . .	49,861	126,420	(55)	176,226

	Yen (millions)			
<b>As of and for the year ended March 31, 2016</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Power Product and Other Businesses</b>	<b>Total</b>
Current assets . . . . .	¥194,278	¥ 849,553	¥2,311	¥1,046,142
Non-current assets . . . . .	115,588	298,357	577	414,522
Total assets . . . . .	309,866	1,147,910	2,888	1,460,664
Current liabilities . . . . .	174,749	734,783	1,088	910,620
Non-current liabilities . . . . .	8,371	42,651	1,063	52,085
Total liabilities . . . . .	183,120	777,434	2,151	962,705
Total equity . . . . .	¥126,746	¥ 370,476	¥ 737	¥ 497,959
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)			
<b>As of and for the year ended March 31, 2017</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Power Product and Other Businesses</b>	<b>Total</b>
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

**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, 2016 and 2017 are as follows:

*(Cost)*

	<b>Yen (millions)</b>
Balance as of April 1, 2015 .....	¥ 4,058,381
Additions .....	¥ 1,967,538
Sales or disposal .....	(1,238,597)
Exchange differences on translating foreign operations .....	(261,250)
Other .....	—
Balance as of March 31, 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

*(Accumulated depreciation and impairment losses)*

	<b>Yen (millions)</b>
Balance as of April 1, 2015 .....	¥ (723,014)
Depreciation .....	¥ (620,016)
Sales or disposal .....	456,371
Exchange differences on translating foreign operations .....	45,168
Other .....	(6,470)
Balance as of March 31, 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)

*(Carrying amount)*

	<b>Yen (millions)</b>
Balance as of March 31, 2016 .....	¥3,678,111
Balance as of March 31, 2017 .....	4,104,663

**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, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Within 1 year . . . . .	¥ 630,480	¥ 677,119
Between 1 and 5 years . . . . .	768,925	800,473
Later than 5 years . . . . .	—	—
Total . . . . .	¥1,399,405	¥1,477,592

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, 2016 and 2017 are as follows:

*(Cost)*

	Yen (millions)				
	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
Balance as of April 1, 2015 . . . . .	¥550,410	¥ 2,134,619	¥ 5,011,902	¥ 364,430	¥ 8,061,361
Additions . . . . .	¥ 666	¥ 22,014	¥ 164,563	¥ 500,063	¥ 687,306
Reclassification . . . . .	14,029	123,541	407,832	(545,402)	—
Sales or disposal . . . . .	(3,622)	(21,998)	(250,901)	—	(276,521)
Exchange differences on translating foreign operations . . . . .	(13,962)	(88,021)	(300,932)	(34,563)	(437,478)
Other . . . . .	(902)	(1,387)	7,837	(9,296)	(3,748)
Balance as of March 31, 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
Balance as of March 31, 2017 . . . . .	¥546,855	¥ 2,231,274	¥ 5,305,139	¥ 277,086	¥ 8,360,354

**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, 2015 . . . . .	¥ (3,512)	¥(1,149,661)	¥(3,716,151)	¥ (2,526)	¥(4,871,850)
Depreciation . . . . .	¥ —	¥ (71,453)	¥ (414,957)	¥ —	¥ (486,410)
Sales or disposal . . . . .	608	15,187	215,592	—	231,387
Exchange differences on translating foreign operations . . . . .	137	38,475	205,063	177	243,852
Other . . . . .	(917)	817	(8,250)	15	(8,335)
Balance as of March 31, 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)

*(Carrying amount)*

	Yen (millions)				
	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
Balance as of March 31, 2016 . . . . .	¥542,935	¥ 1,002,133	¥ 1,321,598	¥ 272,898	¥ 3,139,564
Balance as of March 31, 2017 . . . . .	542,989	1,006,935	1,375,538	274,916	3,200,378

For commitments for purchases of property, plant and equipment, see note 28.

**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, 2016 and 2017 are as follows:

*(Cost)*

	Yen (millions)			
	Capitalized development costs	Software	Other	Total
Balance as of April 1, 2015	¥ 864,602	¥318,894	¥39,247	¥1,222,743
Additions	¥ —	¥ 25,368	¥ 4,062	¥ 29,430
Internally developed	190,992	25,174	—	216,166
Sales or disposal	(67,377)	(3,145)	(2,227)	(72,749)
Exchange differences on translating foreign operations	(621)	(13,840)	(4,180)	(18,641)
Other	58	1,102	33	1,193
Balance as of March 31, 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

*(Accumulated amortization and impairment losses)*

	Yen (millions)			
	Capitalized development costs	Software	Other	Total
Balance as of April 1, 2015	¥(276,810)	¥(173,484)	¥(12,914)	¥(463,208)
Amortization	¥(127,684)	¥ (40,363)	¥ (3,069)	¥(171,116)
Sales or disposal	67,377	1,696	1,375	70,448
Exchange differences on translating foreign operations	5	8,991	2,153	11,149
Other	—	(339)	(137)	(476)
Balance as of March 31, 2016	¥(337,112)	¥(203,499)	¥(12,592)	¥(553,203)
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)

**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, 2016 .....	¥650,542	¥150,054	¥24,343	¥824,939
Balance as of March 31, 2017 .....	619,004	135,133	24,055	778,192

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, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Trade accounts and notes payable .....	¥ 961,606	¥1,013,307
Other .....	166,435	170,037
Total .....	¥1,128,041	¥1,183,344

**(15) Financing Liabilities**

Financing liabilities are classified as financial liabilities measured at amortized cost.

Financing liabilities presented in current liabilities as of March 31, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Current:		
Commercial paper .....	¥ 766,603	¥ 791,630
Loans .....	314,943	310,123
Medium-term notes .....	—	36,411
Asset-backed securities .....	26,136	23,947
Subtotal .....	¥1,107,682	¥1,162,111
Reclassification from non-current liabilities (Current portion) .....	¥1,681,938	¥1,624,817
Total .....	¥2,789,620	¥2,786,928

The weighted average interest rates for financing liabilities presented in current liabilities (excluding reclassification from non-current liabilities) as of March 31, 2016 and 2017 are as follows:

	2016	2017
Weighted average interest rate .....	1.16%	1.09%

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

Financing liabilities presented in non-current liabilities as of March 31, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Non-current:		
Loans	¥ 1,478,968	¥ 1,290,579
Medium-term notes	2,588,906	2,909,568
Corporate bonds	459,469	459,510
Asset-backed securities	891,223	987,350
Subtotal	¥ 5,418,566	¥ 5,647,007
Reclassification to current liabilities (Current portion)	¥(1,681,938)	¥(1,624,817)
Total	¥ 3,736,628	¥ 4,022,190

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, 2016 and 2017 are as follows:

	2016	2017
Loans	Interest rate: 0.18% - 29.99% Due: 2016 - 2046	Interest rate: 0.09% - 17.00 % Due: 2017 - 2046
Medium-term notes	Interest rate: 0.18% - 7.63% Due: 2016 - 2023	Interest rate: 0.07% - 7.63% Due: 2017 - 2027
Corporate bonds	Interest rate: 0.21% - 0.59% Due: 2016 - 2021	Interest rate: 0.01% - 0.59% Due: 2017 - 2021
Asset-backed securities	Interest rate: 0.13% - 1.56% Due: 2016 - 2021	Interest rate: 0.13% - 2.05% Due: 2017 - 2022

*(Pledged assets)*

Pledged assets for financing liabilities as of March 31, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Trade receivables	¥ 21,757	¥ 18,229
Receivables from financial services	945,761	1,038,177
Inventories	21,364	—
Property, plant and equipment	67,706	61,644
Total	¥1,056,588	¥1,118,050

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.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**(16) Other Financial Liabilities**

Other financial liabilities as of March 31, 2016 and 2017 consist of the following:

	Yen (millions)	
	2016	2017
Financial liabilities measured at amortized cost:		
Lease obligations	¥ 69,206	¥ 69,364
Other	36,020	42,585
Financial liabilities measured at fair value through profit or loss:		
Derivatives	32,338	55,076
Total	<u>¥137,564</u>	<u>¥167,025</u>
Current liabilities	¥ 89,809	¥119,784
Non-current liabilities	47,755	47,241
Total	<u>¥137,564</u>	<u>¥167,025</u>

**(17) Provisions**

The components of and changes in provisions for the year ended March 31, 2017 are as follows:

	Yen (millions)		
	Product warranties*	Other	Total
Balance as of April 1, 2016	¥ 727,441	¥ 50,769	¥ 778,210
Provision	¥ 198,016	¥ 45,519	¥ 243,535
Charge-offs	(341,416)	(16,793)	(358,209)
Reversal	(54,324)	(4,234)	(58,558)
Exchange differences on translating foreign operations	(9,587)	1,639	(7,948)
Balance as of March 31, 2017	<u>¥ 520,130</u>	<u>¥ 76,900</u>	<u>¥ 597,030</u>

Current liabilities and non-current liabilities of provisions as of March 31, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Current liabilities	¥513,232	¥348,095
Non-current liabilities	264,978	248,935
Total	<u>¥778,210</u>	<u>¥597,030</u>

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



**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

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.

**(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, to make a lump-sum benefit payment at the retirement age between 60 years old and 65 years old under the new plan consistent with that at the mandatory retirement age, 60 years old, under the existing plan. In addition, one of the defined benefit pension plans will be 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.

Footnote information on foreign plans presented in Note 18 reflects health care and life insurance benefits provided to retired employees of certain consolidated subsidiaries in North America due to the increase in the relative proportion of such benefits for the year ended March 31, 2017. Corresponding information presented for the year ended March 31, 2016 also reflects the inclusion.

**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, 2016 and 2017 are as follows:

	Yen (millions)			
	2016		2017	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Present value of defined benefit obligations:				
Balance at beginning of year . . . . .	¥1,375,455	¥1,163,577	¥1,454,421	¥1,050,938
Current service cost . . . . .	35,426	31,635	36,937	27,009
Past service cost . . . . .	—	66	(84,024)	1,258
Interest cost . . . . .	13,611	43,916	7,177	37,974
Plan participants' contributions . . . . .	—	1,162	—	1,276
Remeasurements:				
Changes in demographic assumptions . . . . .	(11,410)	655	59,491	(3,895)
Changes in financial assumptions . . . . .	101,566	(61,163)	(67,125)	18,807
Other . . . . .	(1,892)	866	(6,707)	(10,681)
Benefits paid . . . . .	(58,335)	(51,338)	(37,978)	(37,733)
Exchange differences on translating foreign operations . . . . .	—	(78,438)	—	(27,602)
Balance at end of year . . . . .	¥1,454,421	¥1,050,938	¥1,362,192	¥1,057,351
Fair value of plan assets:				
Balance at beginning of year . . . . .	¥1,142,515	¥ 845,188	¥1,130,443	¥ 758,700
Interest income . . . . .	11,444	31,743	5,693	27,891
Actual return on plan assets, excluding interest income . . . . .	(19,182)	(44,530)	29,778	44,522
Employer contributions . . . . .	54,001	34,257	52,655	22,683
Plan participants' contributions . . . . .	—	1,162	—	1,276
Benefits paid . . . . .	(58,335)	(51,338)	(36,429)	(37,733)
Exchange differences on translating foreign operations . . . . .	—	(57,782)	—	(21,778)
Balance at end of year . . . . .	¥1,130,443	¥ 758,700	¥1,182,140	¥ 795,561
Net defined benefit liabilities . . . . .	¥ 323,978	¥ 292,238	¥ 180,052	¥ 261,790

*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.

**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, 2016 and 2017 is as follows:

**As of March 31, 2016**

	Yen (millions)					
	Japanese plans			Foreign plans		
	Market price in active market			Market price in active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents . . . . .	¥ 16,393	¥ —	¥ 16,393	¥ 11,027	¥ —	¥ 11,027
Equity securities:						
Japan . . . . .	29,017	—	29,017	12,801	—	12,801
United States . . . . .	187,566	—	187,566	101,315	—	101,315
Other . . . . .	191,042	167	191,209	94,918	3,560	98,478
Debt securities:						
Japan . . . . .	78,329	—	78,329	—	—	—
United States . . . . .	3,319	115,544	118,863	—	104,793	104,793
Other . . . . .	211,575	15,036	226,611	—	49,387	49,387
Group annuity insurance:						
General accounts . . . . .	—	27,784	27,784	—	—	—
Separate accounts . . . . .	—	13,470	13,470	—	—	—
Pooled funds:						
Real estate funds . . . . .	—	—	—	—	47,022	47,022
Private equity funds . . . . .	—	—	—	—	65,623	65,623
Hedge funds . . . . .	—	108,666	108,666	—	40,200	40,200
Commingled and other mutual funds . . . . .	2,819	133,012	135,831	5,907	204,383	210,290
Other . . . . .	(4)	(3,292)	(3,296)	711	17,053	17,764
Total . . . . .	<u>¥720,056</u>	<u>¥410,387</u>	<u>¥1,130,443</u>	<u>¥226,679</u>	<u>¥532,021</u>	<u>¥758,700</u>

**As of March 31, 2017**

	Yen (millions)					
	Japanese plans			Foreign plans		
	Market price in active market			Market price in active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
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 . . . . .	<u>¥701,546</u>	<u>¥480,594</u>	<u>¥1,182,140</u>	<u>¥199,103</u>	<u>¥596,458</u>	<u>¥795,561</u>

**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, 2016 and 2017 are as follows:

	2016		2017	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Discount rate .....	0.5%	3.6 - 4.4%	0.8%	2.8 - 4.4%
Rate of salary increase .....	2.1%	2.5 - 3.6%	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, 2016 and 2017 are as follows:

	Yen (millions)			
	2016		2017	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
0.5% decrease .....	¥114,488 increase	¥100,751 increase	¥108,795 increase	¥98,171 increase
0.5% increase .....	¥101,566 decrease	¥87,483 decrease	¥96,670 decrease	¥86,324 decrease

This sensitivity analysis shows changes in defined benefit obligations as of March 31, 2016 and 2017, 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 ¥22,033 million to its Japanese pension plans and ¥24,180 million to its foreign pension plans in the year ending March 31, 2018.

The weighted average duration of defined benefit obligations as of March 31, 2016 and 2017 are as follows:

	2016		2017	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Weighted average duration of defined benefit obligations .....	15 years	17 years	15 years	16 years

**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, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Personnel expenses .....	¥1,451,506	¥1,497,127	¥1,373,578

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, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Financing liabilities .....	¥6,526,248	¥6,809,118
Equity .....	7,031,788	7,569,626

*(b) Common Stock*

The Company's total number of shares authorized and issued for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Shares		
	2015	2016	2017
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, 2015, 2016 and 2017 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.

## 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, 2015, 2016 and 2017 is as follows:

	Shares		
	2015	2016	2017
Common shares . . . . .	9,141,504	9,144,911	9,148,035

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, 2015, 2016 and 2017 are as follows:

	Yen (millions)			
	Remeasurements of defined benefit plans	Net changes in revaluation of financial assets measured at fair value through other comprehensive income	Exchange differences on translating foreign operations	Total
Balance as of April 1, 2014 . . . . .	¥ —	¥ 57,405	¥ 215,954	¥ 273,359
Adjustment during the year . . . . .	¥(101,467)	¥ 24,906	¥ 498,835	¥ 422,274
Reclassification to retained earnings . . . . .	101,467	(3,066)	—	98,401
Balance as of March 31, 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
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

**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, 2015, 2016 and 2017 are as follows:

**For the year ended March 31, 2015**

	Yen (millions)		
	<u>Before-tax</u>	<u>Tax benefit (expense)</u>	<u>Net-of-tax</u>
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans:			
Amount incurred during the year	¥(130,187)	¥28,901	¥(101,286)
Net changes	<u>(130,187)</u>	<u>28,901</u>	<u>(101,286)</u>
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	32,369	(8,362)	24,007
Net changes	<u>32,369</u>	<u>(8,362)</u>	<u>24,007</u>
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	(428)	(286)	(714)
Net changes	<u>(428)</u>	<u>(286)</u>	<u>(714)</u>
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations:			
Amount incurred during the year	465,719	(1)	465,718
Reclassification to profit or loss	57	1	58
Net changes	<u>465,776</u>	<u>—</u>	<u>465,776</u>
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	59,859	(2,503)	57,356
Reclassification to profit or loss	—	—	—
Net changes	<u>59,859</u>	<u>(2,503)</u>	<u>57,356</u>
Total other comprehensive income	<u>¥ 427,389</u>	<u>¥17,750</u>	<u>¥ 445,139</u>

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**For the year ended March 31, 2016**

	<u>Yen (millions)</u>		
	<u>Before-tax</u>	<u>Tax benefit (expense)</u>	<u>Net-of-tax</u>
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 . . . . .	<u>(93,561)</u>	<u>22,852</u>	<u>(70,709)</u>
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 . . . . .	<u>(24,308)</u>	<u>8,511</u>	<u>(15,797)</u>
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 . . . . .	<u>(1,554)</u>	<u>280</u>	<u>(1,274)</u>
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 . . . . .	<u>(430,152)</u>	<u>—</u>	<u>(430,152)</u>
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 . . . . .	<u>(37,519)</u>	<u>928</u>	<u>(36,591)</u>
Total other comprehensive income . . . . .	<u>¥(587,094)</u>	<u>¥ 32,571</u>	<u>¥(554,523)</u>



**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**For the year ended March 31, 2017**

	Yen (millions)		
	Before-tax	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

The components of other comprehensive income included in non-controlling interests for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Remeasurements of defined benefit plans	¥ (1,485)	¥ 5,073	¥ (4,413)
Net changes in revaluation of financial assets measured at fair value through other comprehensive income	53	(55)	9
Exchange differences on translating foreign operations	24,297	(26,430)	(5,563)
Total	¥ 22,865	¥(21,412)	¥ (9,967)

**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, 2015, 2016 and 2017 are as follows:

*1) Dividend payout*

**For the year ended March 31, 2015**

Resolution	The Ordinary General Meeting of Shareholders on June 13, 2014
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	March 31, 2014
Effective date	June 16, 2014
Resolution	The Board of Directors Meeting on July 29, 2014
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	June 30, 2014
Effective date	August 25, 2014
Resolution	The Board of Directors Meeting on October 28, 2014
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	September 30, 2014
Effective date	November 28, 2014
Resolution	The Board of Directors Meeting on January 30, 2015
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	December 31, 2014
Effective date	February 26, 2015

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**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

**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

*2) Dividends payable of which record date was in the year ended March 31, 2017, effective after the period*

Resolution	The Ordinary General Meeting of Shareholders on June 15, 2017
Type of shares	Common shares
Resource for dividend	Retained earnings
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

**(20) Sales Revenue**

Sales revenue for the years ended March 31, 2015, 2016 and 2017 consists of the following:

	Yen (millions)		
	2015	2016	2017
Sales of products .....	¥12,465,112	¥13,586,565	¥12,954,884
Revenue from financial services .....	862,987	1,014,586	1,044,316
Total .....	<u>¥13,328,099</u>	<u>¥14,601,151</u>	<u>¥13,999,200</u>

**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, 2015, 2016 and 2017 consist of the following:

	Yen (millions)		
	2015	2016	2017
Research and development expenditures incurred during the reporting period . . . . .	¥ 670,331	¥ 719,810	¥ 659,918
Amount capitalized . . . . .	(188,107)	(190,992)	(121,037)
Amortization of capitalized development costs . . . . .	123,938	127,684	152,548
<b>Total . . . . .</b>	<b>¥ 606,162</b>	<b>¥ 656,502</b>	<b>¥ 691,429</b>

**(22) Finance Income and Finance Costs**

Finance income and finance costs for the years ended March 31, 2015, 2016 and 2017 consist of the following:

	Yen (millions)		
	2015	2016	2017
Interest income:			
Financial assets measured at amortized cost . . . . .	¥ 26,024	¥ 27,348	¥ 31,331
Financial assets measured at fair value through profit or loss . .	1,013	1,120	1,058
<b>Total . . . . .</b>	<b>27,037</b>	<b>28,468</b>	<b>32,389</b>
Interest expense:			
Financial liabilities measured at amortized cost . . . . .	(18,194)	(18,146)	(12,471)
Other, net:			
Dividends received:			
Financial assets measured at fair value through other comprehensive income . . . . .	3,417	3,955	4,922
Financial assets measured at fair value through profit or loss . . . . .	86	3	11
Gains (losses) on derivatives:			
Financial assets and financial liabilities measured at fair value through profit or loss . . . . .	(48,323)	35,675	(51,416)
Gains (losses) on foreign exchange . . . . .	75,413	(42,509)	21,902
Other . . . . .	101	(1,373)	6,145
<b>Total . . . . .</b>	<b>30,694</b>	<b>(4,249)</b>	<b>(18,436)</b>
<b>Total . . . . .</b>	<b>¥ 39,537</b>	<b>¥ 6,073</b>	<b>¥ 1,482</b>

**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, 2015, 2016 and 2017 consist of the following:

	Yen (millions)								
	2015			2016			2017		
	Japan	Foreign	Total	Japan	Foreign	Total	Japan	Foreign	Total
Profit (loss) before income taxes	¥216,757	¥589,480	¥806,237	¥(88,987)	¥724,437	¥635,450	¥88,336	¥918,650	¥1,006,986
Income tax expense (benefit):									
Current taxes	13,022	173,702	186,724	(7,085)	155,031	147,946	9,072	187,077	196,149
Deferred taxes	30,490	27,925	58,415	(767)	81,913	81,146	21,425	110,018	131,443
Total	¥ 43,512	¥201,627	¥245,139	¥ (7,852)	¥236,944	¥229,092	¥30,497	¥297,095	¥ 327,592

The statutory income tax rate in Japan for the years ended March 31, 2015, 2016 and 2017 was 35.1%, 32.5% and 30.4%, respectively. The foreign subsidiaries are subject to taxes based on income at rates ranging from 16.0% to 38.0%.

The Japanese statutory income tax rate for the years ended March 31, 2015, 2016 and 2017 differs from the average effective tax rate for the following reasons:

	2015	2016	2017
Statutory income tax rate*1	35.1%	32.5%	30.4%
Difference in statutory income tax rates of foreign subsidiaries	(2.6)	(0.2)	0.0
Effects of investments accounted for using the equity method	(4.2)	(6.4)	(4.9)
Effects of undistributed earnings and withholding taxes on royalty	3.1	8.9	6.1
Changes in unrecognized deferred tax assets	3.0	2.5	2.7
Effects of income and expense not taxable and deductible for tax purpose	0.8	0.7	0.2
Effects of tax credit	(5.6)	(3.4)	(1.3)
Other adjustments relating to prior years	(0.4)	1.9	(0.2)
Adjustments for the uncertain tax positions on income taxes	0.2	0.2	0.3
Transfer pricing tax refund*2	—	(3.0)	—
Adjustments for the changes in income tax laws	(0.1)	0.5	(0.1)
Other	1.1	1.9	(0.7)
Average effective tax rate	<u>30.4%</u>	<u>36.1%</u>	<u>32.5%</u>

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%.

\*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.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

*(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, 2016 and 2017 are as follows:

	<u>Yen (millions)</u>	
	<u>2016</u>	<u>2017</u>
Deferred tax assets:		
Inventories .....	¥ 80,615	¥ 72,577
Accrued expenses .....	72,125	85,353
Provisions .....	230,661	171,172
Property, plant and equipment .....	33,912	30,031
Intangible assets .....	21,705	24,285
Retirement benefit liabilities .....	193,412	144,924
Carryforward of unused tax losses .....	33,013	46,951
Carryforward of unused tax credit .....	18,748	25,223
Other .....	131,399	127,764
Total .....	<u>¥ 815,590</u>	<u>¥ 728,280</u>
Deferred tax liabilities:		
Property, plant and equipment .....	¥ 104,687	¥ 120,191
Intangible assets .....	200,391	188,245
Other financial assets .....	33,157	44,536
Finance leases .....	29,070	31,066
Operating leases .....	921,697	1,004,017
Undistributed earnings .....	50,839	45,723
Other .....	84,751	73,443
Total .....	<u>¥1,424,592</u>	<u>¥1,507,221</u>
Net deferred tax assets (liabilities) .....	<u>¥ (609,002)</u>	<u>¥ (778,941)</u>

**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, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Inventories . . . . .	¥(17,791)	¥ (1,737)	¥ 7,886
Provisions . . . . .	(35,054)	(95,477)	49,864
Property, plant and equipment . . . . .	13,800	23,520	19,551
Retirement benefit liabilities . . . . .	8,075	1,752	16,212
Operating leases . . . . .	50,899	115,217	83,414
Undistributed earnings . . . . .	9,632	6,796	(3,704)
Carryforward of unused tax losses . . . . .	22,150	6,339	(13,346)
Carryforward of unused tax credit . . . . .	(3,311)	13,341	(6,394)
Other . . . . .	10,015	11,395	(22,040)
<b>Total . . . . .</b>	<b>¥ 58,415</b>	<b>¥ 81,146</b>	<b>¥131,443</b>

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, 2016 and 2017. 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 ¥82,593 million and ¥32,111 million as of March 31, 2016 and 2017, 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, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Deductible temporary differences . . . . .	¥279,347	¥298,933
Carryforward of unused tax losses . . . . .	206,472	226,977
Carryforward of unused tax credit . . . . .	17,833	20,211

The components by expiry of the carryforward of unused tax losses for which deferred tax assets are not recognized as of March 31, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Within 1 year . . . . .	¥ 1,083	¥ 25
Between 1 and 5 years . . . . .	56,603	83,751
Between 5 and 20 years . . . . .	46,979	73,431
Indefinite periods . . . . .	101,807	69,770
<b>Total . . . . .</b>	<b>¥206,472</b>	<b>¥226,977</b>



**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, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Within 1 year . . . . .	¥ —	¥ —
Between 1 and 5 years . . . . .	2,217	2,304
Between 5 and 20 years . . . . .	15,616	17,907
Indefinite periods . . . . .	—	—
<b>Total . . . . .</b>	<b>¥17,833</b>	<b>¥20,211</b>

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, 2016 and 2017 are ¥4,142,632 million and ¥4,417,892 million, respectively.

**(24) Earnings Per Share**

Earnings per share attributable to owners of the parent for the years ended March 31, 2015, 2016 and 2017 are calculated based on the following information. There were no dilutive potential common shares outstanding for the years ended March 31, 2015, 2016 and 2017.

	2015	2016	2017
Profit for the year attributable to owners of the parent (millions of yen) . . . . .	¥ 509,435	¥ 344,531	¥ 616,569
Weighted average number of common shares outstanding, basic (shares) . . . . .	1,802,289,321	1,802,285,138	1,802,282,093
Basic earnings per share attributable to owners of the parent (yen) . . . . .	¥ 282.66	¥ 191.16	¥ 342.10

**(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.

**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, 2016 and 2017 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)	
	2016	2017
Impact on profit before income taxes .....	¥ (736)	¥ (915)

*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, 2016 and 2017 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)	
	2016	2017
Impact on profit before income taxes .....	¥(4,879)	¥(16,611)

*3) Equity price risk*

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.

**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 rates 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, 2016 and 2017 is as follows:

<u>As of March 31, 2016</u>	<u>Yen (millions)</u>				<u>Total</u>
	<u>Less than 30 days past due</u>	<u>30-59 days past due</u>	<u>60-89 days past due</u>	<u>90 days and greater past due</u>	
Consumer finance receivables:					
Retail .....	¥187,568	¥30,246	¥5,269	¥4,428	¥227,511
Finance lease .....	2,657	713	148	144	3,662
Dealer finance receivables:					
Wholesale .....	16,437	170	42	475	17,124
Total .....	<u>¥206,662</u>	<u>¥31,129</u>	<u>¥5,459</u>	<u>¥5,047</u>	<u>¥248,297</u>

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

<u>As of March 31, 2017</u>	Yen (millions)				<u>Total</u>
	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

*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.

The unused portions of the credit facility of Honda's commercial paper and medium-term note programs as of March 31, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Commercial paper . . . . .	¥ 801,487	¥ 767,516
Medium-term notes . . . . .	1,692,548	2,979,309
Total . . . . .	¥2,494,035	¥3,746,825

**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, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Commercial paper programs . . . . .	¥1,100,840	¥1,090,406
Other . . . . .	61,703	58,924
Total . . . . .	¥1,162,543	¥1,149,330

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, 2016 and 2017 are as follows:

<u>As of March 31, 2016</u>	Yen (millions)				<u>Total contractual cash flows</u>
	<u>Carrying amount</u>	<u>Within 1 year</u>	<u>Between 1 and 5 years</u>	<u>Later than 5 years</u>	
Trade payables . . . . .	¥1,128,041	¥1,128,041	¥ —	¥ —	¥1,128,041
Financing liabilities . . . . .	6,526,248	2,873,706	3,620,478	261,980	6,756,164
Accrued expenses . . . . .	384,614	384,614	—	—	384,614
Other financial liabilities . . . . .	105,226	57,828	35,619	12,317	105,764
Total . . . . .	¥8,144,129	¥4,444,189	¥3,656,097	¥274,297	¥8,374,583

<u>As of March 31, 2017</u>	Yen (millions)				<u>Total contractual cash flows</u>
	<u>Carrying amount</u>	<u>Within 1 year</u>	<u>Between 1 and 5 years</u>	<u>Later than 5 years</u>	
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

**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, 2016 and 2017 are as follows:

<u>As of March 31, 2016</u>	<u>Yen (millions)</u>			<u>Total contractual cash flows</u>
	<u>Within 1 year</u>	<u>Between 1 and 5 years</u>	<u>Later than 5 years</u>	
Derivative financial liabilities . . . . .	¥16,664	¥21,895	¥ 2,252	¥40,811

  

<u>As of March 31, 2017</u>	<u>Yen (millions)</u>			<u>Total contractual cash flows</u>
	<u>Within 1 year</u>	<u>Between 1 and 5 years</u>	<u>Later than 5 years</u>	
Derivative financial liabilities . . . . .	¥11,576	¥59,810	¥19,063	¥90,449

**(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.

**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.

**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, 2016 and 2017 consist of the following:

<b>As of March 31, 2016</b>	<b>Yen (millions)</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments . . . . .	¥ —	¥19,390	¥ —	¥ 19,390
Interest rate instruments . . . . .	—	30,632	—	30,632
Total . . . . .	—	50,022	—	50,022
Debt securities . . . . .	17,790	33,684	5,521	56,995
Financial assets measured at fair value through other comprehensive income:				
Equity securities . . . . .	142,943	—	10,370	153,313
Total . . . . .	¥160,733	¥83,706	¥15,891	¥260,330
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments . . . . .	¥ —	¥19,102	¥ —	¥ 19,102
Interest rate instruments . . . . .	—	13,236	—	13,236
Total . . . . .	—	32,338	—	32,338
Total . . . . .	¥ —	¥32,338	¥ —	¥ 32,338

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2016.



**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

As of March 31, 2017	Yen (millions)			
	Level 1	Level 2	Level 3	Total
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.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended March 31, 2016 and 2017 are as follows:

For the year ended March 31, 2016	Yen (millions)	
	Debt securities	Equity securities
Balance as of April 1, 2015 . . . . .	¥ 8,172	¥14,242
Total gains or losses:		
Profit or loss . . . . .	(120)	—
Other comprehensive income . . . . .	—	(1,957)
Purchases . . . . .	—	—
Sales . . . . .	(2,163)	(1,530)
Exchange differences on translating foreign operations . . . . .	(368)	(385)
Balance as of March 31, 2016 . . . . .	¥ 5,521	¥10,370
Unrealized gains or losses included in profit or loss on assets held at March 31, 2016 . . . . .	¥ (120)	¥ —

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

<u>For the year ended March 31, 2017</u>	Yen (millions)	
	Debt securities	Equity securities
Balance as of April 1, 2016 .....	¥5,521	¥10,370
Total gains or losses:		
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	¥ —

Explanatory notes:

1. Gains or losses included in profit or loss for the years ended March 31, 2016 and 2017 are included in other, net in finance income and finance costs in the consolidated statements of income.
2. Gains or losses included in other comprehensive income for the years ended March 31, 2016 and 2017 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, 2016 and 2017 are as follows:

	Yen (millions)			
	2016		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from financial services .....	¥5,008,068	¥5,007,065	¥4,949,553	¥4,952,670
Debt securities .....	40,670	40,670	68,263	68,264
Financing liabilities .....	6,526,248	6,579,620	6,809,118	6,841,558

The table does not include financial assets and financial liabilities measured at amortized cost whose fair values approximate their carrying amounts.

*(e) Assets and Liabilities Measured at Fair Value on a non-recurring basis*

For the year ended March 31, 2016, the Company measured certain investments accounted for using the equity method at fair value on a nonrecurring basis due to the recognition of impairment losses (note 10). As of March 31, 2016, the carrying amounts of investments accounted for using the equity method measured at fair value on a nonrecurring basis are ¥62,706 million and are measured by using quoted market prices. Fair value measurements for the investments are classified as Level 1. Honda does not have significant assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2017.

**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, 2016 and 2017 is as follows:

As of March 31, 2016	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 . . . . .	¥50,022	¥—	¥50,022	¥(14,423)	¥35,599
Other financial liabilities					
Derivatives . . . . .	32,338	—	32,338	(14,423)	17,915
	Yen (millions)				
As of March 31, 2017	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	Net Amounts
Other financial assets					
Derivatives . . . . .	¥35,513	¥—	¥35,513	¥(20,082)	¥15,431
Other financial liabilities					
Derivatives . . . . .	55,076	—	55,076	(20,082)	34,994

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, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Commitments for purchases of property, plant and equipment and other commitments . . . . .	¥98,584	¥84,095

*2) Non-cancellable lease commitments*

Honda is the lessee under several operating leases, primarily for office and other facilities, and certain office equipment.

**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, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Within 1 year . . . . .	¥ 18,263	¥ 16,722
Between 1 and 5 years . . . . .	31,715	32,289
Later than 5 years . . . . .	24,485	19,662
Total . . . . .	<u>¥ 74,463</u>	<u>¥ 68,673</u>

Lease payments under operating leases recognized as expenses for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Lease payments under operating leases recognized as expenses . . . . .	¥37,163	¥32,934	¥32,030

*(b) Guarantees*

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 payment for Honda's major guarantee obligations as of March 31, 2016 and 2017 is as follows:

	Yen (millions)	
	2016	2017
Loan commitments . . . . .	¥125,621	¥120,554
Guarantee of employee loans . . . . .	¥ 19,125	¥ 16,146

*1) Loan commitments*

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, 2017, 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.

**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 litigation.

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 uncertainty, such as the period when these lawsuits will be concluded.

**(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, 2016 and 2017.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**(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, 2016 and 2017 are as follows:

	Yen (millions)	
	2016	2017
Receivables:		
Affiliates .....	¥ 26,178	¥ 21,877
Joint ventures .....	<u>220,429</u>	<u>230,004</u>
Total .....	<u>¥246,607</u>	<u>¥251,881</u>
Payables:		
Affiliates .....	¥129,788	¥151,878
Joint ventures .....	<u>28,801</u>	<u>53,601</u>
Total .....	<u>¥158,589</u>	<u>¥205,479</u>

The amount of the transactions with affiliates and joint ventures for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Sales revenue:			
Affiliates .....	¥ 142,029	¥ 140,274	¥ 115,188
Joint ventures .....	<u>474,313</u>	<u>557,867</u>	<u>598,177</u>
Total .....	<u>¥ 616,342</u>	<u>¥ 698,141</u>	<u>¥ 713,365</u>
Purchase:			
Affiliates .....	¥1,155,908	¥1,349,971	¥1,376,581
Joint ventures .....	<u>133,774</u>	<u>122,529</u>	<u>145,161</u>
Total .....	<u>¥1,289,682</u>	<u>¥1,472,500</u>	<u>¥1,521,742</u>

*(b) Compensation to Key Management*

Compensation paid to the directors of the Company for the years ended March 31, 2015, 2016 and 2017 are as follows:

	Yen (millions)		
	2015	2016	2017
Remuneration .....	¥653	¥724	¥677
Bonus .....	<u>252</u>	<u>251</u>	<u>275</u>
Total .....	<u>¥905</u>	<u>¥975</u>	<u>¥952</u>

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

*(c) Major Consolidated Subsidiaries*

Major consolidated subsidiaries as of March 31, 2017 are as follows:

<u>Company</u>	<u>Country of Incorporation</u>	<u>Function</u>	<u>Percentage Ownership and Voting Interest</u>
Honda R&D Co., Ltd. . . . .	Japan	Research & Development	100.0
Honda Engineering Co., Ltd. . . . .	Japan	Manufacturing and Sales of machine tools, equipment and production techniques	100.0
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
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

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements—(Continued)**

**(31) 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 22, 2017.



## 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 22, 2017  
Tokyo, Japan

## 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 Depository, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (2)
- 2.3 Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (2)
- 2.4 Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (3)
- 2.5 Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006, among the parties referred to in Exhibit 2.2 above (4)
- 2.6 Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)
- 8.1 List of Significant Subsidiaries (See “Organizational Structure” in Item 4.C of this Form 20-F)
- 11.1 Code of Ethics (6)
- 12.1 Certification of the principal executive officer required by 17 C.F.R. 240. 13a-14(a)
- 12.2 Certification of the principal financial officer required by 17 C.F.R. 240. 13a-14(a)
- 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
- 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350

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

The Company has not included as exhibits certain instruments with respect to its long-term debt, the amount of debt authorized under each of which does not exceed 10% of its total assets, and it agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

[Translation]

**ARTICLES OF INCORPORATION**

**June 15, 2017**

**HONDA MOTOR CO., LTD.**

## Record of Resolutions of the General Meetings of Shareholders

1. September 8, 1948 (drafting for Incorporation)
2. September 24, 1948 (establishment)
3. November 14, 1949 (amendment)
4. July 1, 1951 (amendment)
5. October 25, 1951 (amendment)
6. April 10, 1952 (amendment)
7. August 2, 1952 (amendment)
8. September 20, 1952 (amendment)
9. December 1, 1952 (amendment)
10. May 20, 1953 (amendment)
11. August 16, 1953 (amendment)
12. September 27, 1953 (amendment)
13. December 30, 1953 (amendment)
14. April 17, 1955 (amendment)
15. October 29, 1955 (amendment)
16. October 29, 1956 (amendment)
17. April 27, 1957 (amendment)
18. October 29, 1957 (amendment)
19. April 28, 1959 (amendment)
20. April 28, 1960 (amendment)
21. October 28, 1960 (amendment)
22. October 30, 1961 (amendment)
23. April 26, 1962 (amendment)
24. October 26, 1962 (amendment)
25. December 18, 1962 (amendment)
26. April 28, 1964 (amendment)
27. October 30, 1970 (amendment)
28. October 29, 1973 (amendment)
29. April 26, 1974 (amendment)
30. April 24, 1975 (amendment)
31. May 25, 1978 (amendment)
32. May 22, 1980 (amendment)
33. May 27, 1982 (amendment)
34. October 1, 1982 (amendment)
35. August 19, 1985 (amendment)
36. May 28, 1987 (amendment)
37. June 27, 1991 (amendment)
38. June 29, 1994 (amendment)
39. June 29, 1999 (amendment)
40. June 28, 2001 (amendment)
41. June 25, 2002 (amendment)
42. June 24, 2003 (amendment)
43. June 23, 2004 (amendment)
44. June 23, 2005 (amendment)
45. June 23, 2006 (amendment)
46. July 1, 2006 (amendment)
47. June 22, 2007 (amendment)
48. June 24, 2008 (amendment)
49. June 23, 2009 (amendment)
50. June 23, 2011 (amendment)
51. June 21, 2012 (amendment)
52. June 19, 2013 (amendment)
53. June 15, 2017 (amendment)

## Chapter I. General Provisions

### Article 1. (Corporate name)

The Company is called Honda Giken Kogyo Kabushiki Kaisha, which is written in English as HONDA MOTOR CO., LTD.

### Article 2. (Objects)

The object of the Company shall be to carry on the following business:

1. Manufacture, sale, lease and repair of motor vehicles, ships and vessels, aircraft and other transportation machinery and equipment.
2. 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.
3. Manufacture and sale of fiber products, paper products, leather products, lumber products, rubber products, chemical industry products, ceramic products, metal products and other products.
4. Overland transportation business, marine transportation business, air transportation business, warehousing business, travel business and other transport business and communication business.
5. Sale of sporting goods, articles of clothing, stationery, daily sundries, pharmaceuticals, drink and foodstuffs and other goods.
6. Financial business, nonlife insurance agency business, life insurance agency business, construction business including building construction work and real estate business including real estate brokerage.
7. 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.
8. Management of parking garages, driving schools, training and education facilities, racecourses, recreation grounds, sporting facilities, marina facilities, hotels, restaurants and other facilities.
9. Electricity generation and supply and sale of electricity.
10. Manufacture, sale and licensing of equipment, parts and supplies and all other relevant business activities and investments relating to each of the foregoing items.

### Article 3. (Location of head office)

The Company shall have its head office in Minato-ku, Tokyo.

**Article 4. (Governance components)**

The Company shall have the following governance components as well as General Meetings of Shareholders and Directors, respectively.

1. Board of Directors
2. Audit and Supervisory Committee
3. Accounting Auditors

**Article 5. (Method of giving public notices)**

The public notices of the Company shall be given by way of electronic public notice; provided, however, that, if any public notice is unable to be given by electronic public notice due to an accident or for any other unavoidable reason, public notice of the Company shall be made by publishing such notice in the Nihon Keizai Shimbun (newspaper) published in Tokyo.

**Chapter II. Shares**

**Article 6. (Total number of shares authorized to be issued by the Company)**

The total number of shares authorized to be issued by the Company shall be 7,086,000,000 shares.

**Article 7. (Number of shares constituting one voting unit)**

The number of shares constituting one voting unit in the Company consists of one hundred (100) shares.

**Article 8. (Request for sale of Shares Less Than One Voting Unit)**

A shareholder of the Company may, in accordance with the provisions of the Share Handling Regulations, 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 of shares.

**Article 9. (Procedures relating to shares, etc.)**

Entries in the shareholders' register, purchase and request for sale of Shares Less Than One Voting Unit and other procedures and fees relating to shares shall be governed by the Share Handling Regulations established by the Board of Directors.

**Article 10. (Shareholders' Register Manager)**

The Company shall have a Shareholders' Register Manager.

The Shareholders' Register Manager and its place of business shall be decided by resolution of the Board of Directors, and a public notice thereof shall be given.

Preparation and storage of the shareholders' register of the Company, the register of stock acquisition rights and any other business relating to shares and stock acquisition rights shall be delegated to the Shareholders' Register Manager and not conducted by the Company.

**Article 11. (Record date)**

The shareholders appearing or recorded on the shareholders' register as of the end of each business year shall be the shareholders entitled to exercise the rights of shareholders at the ordinary general meeting of shareholders for such business year.

If it is necessary in addition to the preceding paragraph, the shareholders or registered pledgees appearing or recorded on the shareholders' register as of a specific date of which advance public notice is given in accordance with the resolution of the Board of Directors may be deemed the shareholders or registered pledgees entitled to exercise the rights of shareholders or registered pledgees.

**Chapter III. General Meeting of Shareholders**

**Article 12. (Time of convocation)**

The ordinary general meeting of shareholders shall be convened within three months from the day following the end of each business year.

In addition to the above, an extraordinary general meeting of shareholders shall be convened whenever necessary.

**Article 13. (Persons to convene meeting)**

Except as otherwise provided by laws or ordinances, a general meeting of shareholders shall be convened by the President and Director, based upon the resolution of the Board of Directors. If the President and Director is prevented from so doing, one of the other Directors in the order fixed in advance by the Board of Directors shall convene the meeting.

**Article 14. (Chairman)**

Chairmanship of a general meeting of shareholders shall be assumed by the Chairman of the Board of Directors or the President and Director pursuant to a resolution made in advance by the Board of Directors. If both the Chairman of the Board of Directors and the President and Director are prevented from so doing, one of the other Directors shall do so in the order fixed in advance by the Board of Directors.

**Article 15. (Disclosure via Internet and Deemed Delivery of Reference Documents, etc. for General Meetings of Shareholders)**

Upon convening a general meeting of shareholders, the Company 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.

**Article 16. (Resolutions)**

Except as otherwise provided by laws or ordinances or by the Articles of Incorporation, resolutions at a general meeting of shareholders shall be adopted by a majority vote of the shareholders present who are entitled to exercise their voting rights thereat.

The special resolution provided for in Article 309, Paragraph 2 of the Company Law shall be adopted by two-thirds or more of the votes of the shareholders present at a meeting, who must hold one-third or more of the voting rights of shareholders who are entitled to exercise their voting rights.

**Article 17. (Exercise of voting rights by proxy)**

Any shareholder or the legal representative may delegate the power to exercise the voting rights to proxy, provided that such proxy shall be one shareholder of the Company who is entitled to voting rights. Such shareholder or proxy shall present to the Company a document evidencing the proxy's power of representation for each general meeting of shareholders.

**Article 18. (Minutes)**

The minutes of general meetings of shareholders shall record the substance of the proceedings at the meetings, the results thereof and other matters as prescribed by laws or ordinances, and such minutes shall be kept on file for ten years at the head office of the Company and the certified copies thereof shall be kept on file for five years at each of the branches of the Company.

**Chapter IV. Directors and Board of Directors**

**Article 19. (Number of Directors)**

Directors of the Company shall be not more than twenty in number, of which the Directors who are Audit and Supervisory Committee Members shall be not more than seven in number.

**Article 20. (Election of Directors)**

Directors shall be elected by the resolution of a general meeting of shareholders. Resolution of such elections shall be adopted by a majority of the votes of the shareholders present, who must hold one-third or more of the votes of all shareholders who are entitled to exercise their voting rights. A resolution for the election of Directors shall not be made by cumulative voting.

The election of Directors pursuant to the provisions of the preceding Paragraph shall be implemented, while making a distinction between Directors who are Audit and Supervisory Committee Members and other Directors.

**Article 21. (Term of Office)**

The term of office of Directors who are not Audit and Supervisory Committee Members shall expire at the close of the ordinary general meeting of shareholders relating to the business year ending within one year after their election to office.

The term of office of Directors who are Audit and Supervisory Committee Members shall expire at the close of the ordinary general meeting of shareholders relating to the business year ending within two years after their election to office.

The term of office of a Director who is an Audit and Supervisory Committee Member elected to fill the vacancy caused by the resignation of a Director who is an Audit and Supervisory Committee Member prior to the expiry of such Director's term of office shall expire at the time of expiration of the term of office of his or her predecessor.

**Article 22. (Directors with executive powers)**

The Board of Directors shall appoint, pursuant to its resolutions, from among the Directors (excluding Directors who are Audit and Supervisory Committee Members) one President and Director and may appoint one Chairman of the Board of Directors, several Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors.



**Article 23. (Representative Directors)**

The President and Director shall represent the Company.

In addition to the preceding paragraph, the Board of Directors shall appoint, pursuant to its resolutions, from among the Directors (excluding Directors who are Audit and Supervisory Committee Members) Directors who shall each represent the Company.

**Article 24. (Board of Directors)**

Except as provided by laws or ordinances or by the Articles of Incorporation, matters relating to the Board of Directors shall be governed by the Regulations of the Board of Directors established by the Board of Directors.

**Article 25. (Notice of meetings of the Board of Directors)**

Notice of convocation of a meeting of the Board of Directors shall be sent to each Director three days prior to the date of the meeting, provided, however, that such period may be shortened in case of urgent necessity.

If the consent of all Directors is obtained in advance, a meeting may be held without following the procedures for convening a meeting.

**Article 26. (Omission of the resolution of the Board of Directors)**

The Company shall deem that there was a resolution of the Board of Directors, if the conditions of Article 370 of the Company Law are satisfied.

**Article 27. (Remuneration of Directors, etc.)**

Remuneration, bonus and other proprietary benefits provided by the Company as compensation for the duties of Directors shall be determined by resolution of a general meeting of shareholders, while making a distinction between Directors who are Audit and Supervisory Committee Members and other Directors.

**Article 28. (Delegation of decisions on execution of important operations)**

The Board of Directors of the Company may delegate to a Director all or part of decisions on execution of important operations (excluding matters stipulated in the items of Article 399-13, Paragraph 5 of the Company Law) by its resolution.

**Article 29. (Exemption of Directors' Liabilities, etc.)**

Pursuant to the provisions of Article 426, Paragraph 1 of the Company Law, the Company can, by a resolution of the Board of Directors, exempt Directors (including former Directors) that are set forth in Article 423, Paragraph 1 of the Company Law, from liability for damages to the extent permitted by laws and regulations.

Pursuant to the provisions of Article 427, Paragraph 1 of the Company Law, the Company may execute agreements with Outside Directors which limit the liability for damages of such Outside Directors that is set forth in Article 423, Paragraph 1 of the Company Law; provided, however, that the maximum amount of the liability under such agreements shall be the minimum liability amount prescribed by the relevant laws or regulations.

## **Chapter V. Audit and Supervisory Committee**

### **Article 30. (Audit and Supervisory Committee)**

Except as provided by laws or ordinances or by the Articles of Incorporation, matters relating to the Audit and Supervisory Committee shall be governed by the Regulations of the Audit and Supervisory Committee established by the Audit and Supervisory Committee.

### **Article 31. (Notice of meetings of Audit and Supervisory Committee)**

Notice of convocation of a meeting of the Audit and Supervisory Committee shall be sent to each Audit and Supervisory Committee Member three days prior to the date of the meeting, provided, however, that such period may be shortened in case of urgent necessity.

If the consent of all Audit and Supervisory Committee Members is obtained in advance, a meeting may be held without following the procedures for convening a meeting.

## **Chapter VI. Accounts**

### **Article 32. (Business year)**

The business year of the Company shall commence on the first day of April each year and end on the last day of March the following year.

### **Article 33. (Governance Component deciding dividends from surplus, etc.)**

The Company may determine such matters which are described in each item in Paragraph 1, Article 459 of the Company Law by a resolution of the Board of Directors.

### **Article 34. (Record date for dividend from surplus)**

The record date for the dividends shall be June 30, September 30, December 31 and March 31 of each year.

In addition to the above, the Company may distribute dividends from surplus by determining any record date.

### **Article 35. (Limitation period for dividend)**

The Company shall be relieved of the obligation to pay dividend upon expiration of three full years from the day they became due and payable.

## **Supplementary Provisions**

### **Article 1. (Transitional measures for exemption from liability of Corporate Auditors prior to transition to a company with an Audit and Supervisory Committee)**

The exemption from liability for the acts of Corporate Auditors (including former Corporate Auditors) provided in Article 423, Paragraph 1 of the Company Law and liability limitation agreements executed with Outside Corporate Auditors prior to the close of the ordinary general meeting of shareholders relating to the business year ending on March 31, 2017 shall continue to be governed by Article 35 of the Articles of Incorporation as before its amendment effective from the close of the aforementioned ordinary general meeting of shareholders.

-End-

[Translation]

**SHARE HANDLING REGULATIONS**

**April 1, 2012**

**HONDA MOTOR CO., LTD.**

## Record of Resolutions of the Meeting of the Board of Directors

April 27, 1953	Amended
December 30, 1953	Amended
April 27, 1957	Amended
April 28, 1960	Amended
December 1, 1962	Amended
March 31, 1967	Amended
August 19, 1968	Amended
February 28, 1972	Amended
December 19, 1977	Amended
May 28, 1981	Amended
October 1, 1982	Amended
November 14, 1991	Amended
October 1, 1999	Amended
April 1, 2000	Amended
May 12, 2000	Amended
December 4, 2000	Amended
October 4, 2001	Amended
June 25, 2002	Amended
April 1, 2003	Amended
June 24, 2003	Amended
June 23, 2004	Amended
January 31, 2006	Amended
May 16, 2006	Amended
June 23, 2006	Amended
January 5, 2009	Amended
June 23, 2009	Amended
April 1, 2012	Amended

**SHARE HANDLING REGULATIONS**  
**CHAPTER I. GENERAL PROVISIONS**

**Article 1. (Purpose)**

The procedures related to exercising the rights of shareholders and other matters concerning the handling of shares of the Company shall be governed by the provisions set forth by the Japan Securities Depository Center, Inc., which is a Book-Entry Transfer Institution (hereinafter referred to as the “Transfer Institution”), and by the securities companies and other entities, which are Account Management Institutions (hereinafter referred to as the “Securities Companies and Others”), as well as by these regulations in accordance with the provisions of Articles 8 and 9 of the Articles of Incorporation of the Company.

**Article 2. (Shareholders’ Register Manager)**

The shareholders’ register manager of the Company and its place of operations are as follows:

Shareholders’ register manager:

Sumitomo Mitsui Trust Bank, Limited  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Place of operations of the shareholders’ register manager:

Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Business Planning Agency Department  
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo

**CHAPTER II. ENTRIES IN THE SHAREHOLDERS’ REGISTER, ETC.**

**Article 3. (Entries in the Shareholders’ Register)**

1. Changes in items contained in the shareholders’ register shall be made pursuant to notices concerning all shareholders given by the Transfer Institution (excluding the notices (hereinafter referred to as the “Notices concerning Specific Shareholders”) provided by Article 154, paragraph 3 of the Law Concerning Transfer of Bonds, Shares, Etc. (hereinafter referred to as the “Transfer Law”).

2. In addition to the provisions of the previous paragraph, in the case of issuing new shares or in other cases provided by laws and regulations, entries and changes are made in the shareholders’ register without notice from the Transfer Institution.

3. Entries will be made in the shareholders’ register using the letters and symbols specified by the Transfer Institution.

**CHAPTER III. NOTIFICATIONS**

**Article 4. (Notification of the Names and Addresses of Shareholders)**

Shareholders shall notify the Company of their names and addresses through the Securities Companies and Others and/or the Transfer Institution in accordance with the provisions set forth by the Transfer Institution. In case of any change in the names and addresses of shareholders, the same procedures shall apply.

**Article 5. (Notification of the Place Where Shareholders Residing Abroad Will Receive Notices)**

Each of the shareholders and registered pledgees of shares residing abroad or their statutory agents shall appoint a standing proxy in Japan, or specify an address in Japan where they will receive notices, and notify the name and address of their standing proxy or the place where notices are to be received through the Securities Companies and Others and/or the Transfer Institution in accordance with the provisions set forth by the Transfer Institution. In case of any change in such matters or removal of such proxy, the same procedures shall apply.

**Article 6. (Representative of a Corporation)**

If a shareholder is a corporation, notification of one (1) representative shall be made through the Securities Companies and Others and/or the Transfer Institution in accordance with the provisions set forth by the Transfer Institution. In case of any change of such representative, the same procedures shall apply.

**Article 7. (Representative of Joint Shareholders)**

Shareholders who jointly own shares shall appoint one (1) representative and submit a notification through the Securities Companies and Others and/or the Transfer Institution in accordance with the provisions set forth by the Transfer Institution. In case of any change of such representative, the same procedures shall apply.

**Article 8. (Statutory Agents)**

Parental authorities, guardians or other statutory agents of shareholders shall submit a notification of the name and address of such agents through the Securities Companies and Others and/or the Transfer Institution in accordance with the provisions set forth by the Transfer Institution. In case of any change or cancellation of such agent, the same procedures shall apply.

**Article 9. (Method for Confirmation through the Transfer Institution)**

When a notification of a shareholder to the Company was submitted through the Securities Companies and Others and/or the Transfer Institution, such notification shall be deemed to have been made by the relevant shareholder.

**CHAPTER IV. CONFIRMATION OF SHAREHOLDERS**

**Article 10. (Confirmation of Shareholders)**

1. When shareholders (including those with respect to whom the Notices concerning Specific Shareholders are given) make requests or otherwise exercise their rights as shareholders (hereinafter referred to as "Requests"), the shareholders shall attach or provide evidence that the shareholder in question has made the Request himself or herself (hereinafter referred to as the "Documentary Evidence"). However, if the Company is able to confirm that the Request has been submitted by the relevant shareholder, such Documentary Evidence will not be necessary.

2. If a Request is made by a shareholder to the Company through the Securities Companies and Others and/or the Transfer Institution, it will be deemed to be a Request from the relevant shareholder and Documentary Evidence will not be necessary.

3. If an agent makes a Request, such agent shall attach a power of attorney either signed by the shareholder or with his/her name and seal affixed in addition to implementing the procedures set out in paragraphs 1 and 2 above. The power of attorney must state the name and address of the person who is granted authority.

4. The provisions of paragraphs 1 and 2 above also apply to an agent, *mutatis mutandis*.

## **CHAPTER V. PROCEDURES FOR EXERCISE OF MINORITY SHAREHOLDERS' RIGHTS, ETC.**

### **Article 11. (Procedures for Exercise of Minority Shareholders' Rights, Etc.)**

When minority shareholders' rights as stipulated in Article 147, paragraph 4 of the Transfer Law are exercised directly to the Company, the exercising shareholder shall submit the request in writing bearing the signature or the name and seal of the shareholder with an acceptance form of a Notice concerning Specific Shareholders attached.

## **CHAPTER VI. PURCHASE OF SHARES LESS THAN ONE UNIT**

### **Article 12. (Method for Requesting Purchase of Shares Less than One Unit)**

When any shareholder requests the Company to purchase shares of less than one unit, the shareholder shall submit the request through the Securities Companies and Others and/or the Transfer Institution in accordance with the provisions set forth by the Transfer Institution.

### **Article 13. (Determination of Purchase Price)**

When a request set out in the preceding Article is made, the purchase price shall be obtained by multiplying the number of shares to be purchased by the last price per share of the shares of the Company in trading on the Tokyo Stock Exchange on the day on which the request reached the place of operations of the shareholders' register manager provided in Article 2. If there is no trading on that day, or if that day is a holiday of the Stock Exchange, the price per share to be used shall be the first trading price effected thereafter.

### **Article 14. (Payment of Proceeds for Purchase)**

1. The proceeds for purchase shall be paid by the Company on the fourth (4th) business day from and including the day immediately following the day on which the purchase price was determined, unless the Company provides otherwise. However, if the proceeds for purchase involve a price cum rights, such as one relating to distribution of surplus, stock split and allotment of shares without consideration, the proceeds for the purchase shall be paid by the relevant record date or allotment date.

2. At the time of making payment of the proceeds for purchase stated in the preceding paragraph, the fees prescribed in Article 23 will be deducted.

### **Article 15. (Transfer of Shares Purchased)**

1. The shares less than one unit requested for purchase will be transferred to the transfer account of the Company on the day on which payment procedures for the proceeds for purchase have been completed pursuant to the preceding Article. However, in the case of delay in receiving the proceeds by the shareholder who has requested the purchase of shares, the shares less than one unit concerned shall be transferred to the transfer account of the Company on the day on which the Company makes a verbal presentation (or, in the case of delivering a reminder by mail, on the day when such mail is dispatched).

2. Notwithstanding the provisions of the preceding paragraph, if the purchase price of shares less than one unit in respect of which the Company has received a request for purchase is a price cum rights, such as one relating to distribution of surplus, stock split and allotment of shares without consideration, and the date for determining the shareholders entitled to exercise such rights passes without the purchase proceeds being received by the shareholder who requested purchase of the shares, such shares shall be transferred to the transfer account of the Company at the close of business on that day.

## **CHAPTER VII. REQUESTS FOR SALE OF SHARES LESS THAN ONE UNIT**

### **Article 16. (Method for Making Requests for Sale of Shares Less than One Unit)**

When any shareholder of shares less than one unit requests the Company a sale of a number of shares less than one unit that will, when added to the shares less than one unit already held by that shareholder, constitute one unit of shares (hereinafter referred to as the “Additional Purchase Request”), the shareholder shall submit the request through the Securities Companies and Others and/or the Transfer Institution in accordance with the provisions set forth by the Transfer Institution.

### **Article 17. (Additional Purchase Requests Exceeding the Balance of Treasury Shares)**

If the total number of shares for which Additional Purchase Requests are made on the same day exceeds the number of the transferable treasury shares held by the Company (excluding those treasury shares held for specific purposes), and the order in which such requests were made is not able to be determined, all Additional Purchase Requests made on such day shall not be effective.

### **Article 18. (Effective Date of Additional Purchase Requests)**

An Additional Purchase Request shall become effective on the day on which such request arrives at the place of operations of the shareholders’ register manager provided in Article 2 in accordance with the provisions of Article 16.

### **Article 19. (Periods during which Additional Purchase Requests Are Not Accepted)**

1. The Company will suspend the acceptance of any Additional Purchase Request during the periods commencing on the 10th business day prior to the dates listed below and ending on such dates, respectively:

- (1) June 30
- (2) September 30
- (3) December 31
- (4) March 31
- (5) Other dates for determination of shareholders that may be provided by the Transfer Institution

2. Notwithstanding the provisions of the preceding paragraph, the Company may set other periods during which the acceptance of Additional Purchase Requests is suspended if the Company deems it necessary.

### **Article 20. (Determination of the Price of Shares to Be Additionally Purchased)**

1. The price per share of shares to be additionally purchased shall be the last price per share of the shares of the Company in trading on the Tokyo Stock Exchange on the day on which the relevant Additional Purchase Request becomes effective. If there is no trading on that day, or if such day is a holiday of the Stock Exchange, the price per share to be used shall be the first trading price effected thereafter.

2. The price of shares to be additionally purchased shall be the price per share determined in accordance with the preceding paragraph multiplied by the number of shares for which the Additional Purchase Request has been made.



**Article 21. (Transfer of Shares Additionally Purchased)**

An application for the transfer of the treasury shares for which an Additional Purchase Request has been made to the transfer account of the shareholder making the Additional Purchase Request will be made on the day of confirmation of the transfer of proceeds to the bank account specified by the Company for the additional purchase of shares, together with the fees prescribed in Article 23, in accordance with the provisions set forth by the Transfer Institution.

**CHAPTER VIII. SPECIAL PROCEDURES FOR SPECIAL ACCOUNTS**

**Article 22. (Special Procedures for Special Accounts)**

Confirmation of the identity of shareholders for whom special accounts have been opened, related fees, and other matters relating to special accounts shall be handled in accordance with the provisions set forth by the Transfer Institution as well as those set forth by the Account Management Institution at which such special accounts have been opened.

**CHAPTER IX. FEES**

**Article 23. (Fees)**

1. When a shareholder requests a purchase by the Company of shares of less than one unit in accordance with the provisions set out in Article 12, or makes an Additional Purchase Request in accordance with the provisions set out in Article 16, the shareholder shall pay the fees which are provided separately.

2. The fees payable by shareholders to the Securities Companies and Others and/or the Transfer Institution will be borne by the shareholders.

[Translation]

**REGULATIONS OF THE BOARD OF DIRECTORS**

**HONDA MOTOR CO., LTD.**

## **REGULATIONS OF THE BOARD OF DIRECTORS**

### **Article 1. (Purpose)**

These regulations set out matters concerning the Board of Directors of the Company in accordance with Article 24 of the Articles of Incorporation of the Company.

### **Article 2. (Composition)**

The Board of Directors shall consist of all the Directors of the Company.

### **Article 3. (Convocation)**

Meetings of the Board of Directors shall be convened at least once every three (3) months and at least seven (7) times a year, and whenever necessary.

### **Article 4. (Authority to Convene Meetings of the Board of Directors and the Chairman)**

The Chairman of the Board of Directors or the President and Director shall convene meetings of the Board of Directors in accordance with arrangements which have been agreed in advance at a meeting of the Board of Directors, and shall act as the chairman thereat. If both the Chairman of the Board of Directors and the President and Director are prevented from so doing, one of the other Directors shall assume their role in the order which has been determined in advance by the Board of Directors. Notwithstanding the foregoing, in the case where any laws and regulations provide otherwise, one of the other Directors shall convene the meeting of the Board of Directors.

### **Article 5. (Notice of Convocation)**

1. A notice of convocation of a meeting of the Board of Directors shall be sent to each Director three (3) days prior to the date of the meeting.

2. If all the Directors consent in advance, a meeting of the Board of Directors may be held without following the procedures for convening a meeting.

### **Article 6. (Method of Resolutions)**

1. Resolutions of a meeting of the Board of Directors shall be adopted by a vote of a majority of the Directors present thereat who constitute a majority of the Directors.

2. Any Director who has any special interests in any matter which is put to a vote may not participate in the voting on any resolution that is described in the preceding paragraph.

3. Any Director who cannot participate in the voting on a resolution due to the provision of the preceding paragraph will not be counted in the number of Directors mentioned in Paragraph 1 of this article.

4. If the requirements set out in Article 370 of the Company Law are satisfied, those matters that are the object of the resolution of the Board of Directors shall be deemed to have been resolved by the Board of Directors.

**Article 7. (Matters to be Resolved)**

The matters to be resolved by the Board of Directors are as follows:

(1) Matters with respect to the Company Group (meaning the corporate group consisting of the Company and its subsidiaries):

- (i) basic management policies of the Company Group and other equivalent matters; and
- (ii) other important matters with respect to the Company Group.

(2) Matters with respect to the Company:

- (i) the convocation of a general meeting of the Shareholders and the determination of the objectives thereof and the matters to be submitted thereto;
- (ii) the election and discharge of Representative Directors and Directors with Executive Powers;
- (iii) the approval of any transactions between the Company and a Director, conflict of interest transactions and transactions by a Director competing with the Company's business;
- (iv) the issue of new shares and bonds;
- (v) the approval for deliberation of financial reports and business reports, and schedules attached thereto;
- (vi) the determination of the payment of dividends from surplus;
- (vii) the appointment and dismissal of managers and other important employees;
- (viii) the approval of a basic policy for the establishment of internal governance systems; and
- (ix) other matters prescribed by laws and regulations or in the Articles of Incorporation.

**Article 8. (Matters to be Reported)**

1. Directors shall report to the Board of Directors without delay if any of the matters set forth below occurs:

- (1) a transaction between the Company and a Director, a conflict of interest transaction or a transaction by a Director competing with the Company's business is undertaken;
- (2) a Director becomes an unlimited-liability partner, director, corporate auditor or manager of another company; or
- (3) Article 331, Paragraph 1 of the Company Law is applicable.

2. The Representative Director and Executive Directors shall report to the Board of Directors on the state of the performance of the business at least once every three (3) months.

3. If a Director notifies all of the Directors of any matter that should be reported to the Board of Directors, that matter shall not be required to be reported to the Board of Directors.

4. The provision of the preceding paragraph does not apply to any reporting that is set out in Paragraph 2 of this article.

**Article 9. (Minutes)**

The substance of the proceedings of the meeting of the Board of Directors, the results thereof, and any matter prescribed by laws and regulations shall be recorded in minutes, to which the Directors present thereat shall affix their names and seals.

**Article 10. (Consultation)**

The Executive Adviser and the Special Adviser shall respond to any inquiries made by the Board of Directors or the Representative Directors.

**Article 11. (Amendment)**

Any amendment of these regulations shall be subject to a resolution of the Board of Directors.

Supplementary Provision

Came into effect on October 1, 1982  
Partly amended on April 18, 1983  
Partly amended on May 28, 1987  
Partly amended on April 27, 2001  
Partly amended on June 25, 2002  
Partly amended on April 21, 2003  
Partly amended on June 24, 2003  
Partly amended on June 23, 2004  
Partly amended on February 25, 2005  
Partly amended on June 23, 2005  
Partly amended on June 23, 2006  
Partly amended on February 1, 2008  
Partly amended on June 23, 2009  
Partly amended on June 23, 2011  
Partly amended on April 1, 2014  
Partly amended on June 15, 2017

-End-

[Translation]

**REGULATIONS OF THE AUDIT AND SUPERVISORY COMMITTEE**

Established: June 15, 2017

**HONDA MOTOR CO., LTD.**

## **REGULATIONS OF THE AUDIT AND SUPERVISORY COMMITTEE**

### **Article 1. (Purpose)**

These Regulations shall govern the matters concerning the Audit and Supervisory Committee of the Company under laws and ordinances and the Articles of Incorporation.

### **Article 2. (Composition)**

1. The Audit and Supervisory Committee shall be composed of all of Directors who are Audit and Supervisory Committee Members (the “Audit and Supervisory Committee Members” hereafter in these Regulations) of the Company.

2. The Audit and Supervisory Committee shall have a chairman of the Audit and Supervisory Committee.

3. The Audit and Supervisory Committee shall have one or more Full-time Audit and Supervisory Committee Members.

### **Article 3. (Duties of the Audit and Supervisory Committee)**

The Audit and Supervisory Committee shall perform the duties set out below:

- (1) Audit of the performance of duties by Directors and prepare audit reports;
- (2) Determination of contents of an agenda concerning appointment and dismissal and non-reappointment of the Accounting Auditor;
- (3) Determination of opinions of the Audit and Supervisory Committee on election, dismissal or resignation of the Directors (excluding those who are Audit and Supervisory Committee Members; the same shall apply in this Article);
- (4) Determination of opinions of the Audit and Supervisory Committee on compensation (which shall mean remuneration, bonus and other property benefits to be received as a consideration for performance of duties; the same shall apply hereafter in these Regulations) of the Directors; and
- (5) Other duties prescribed by laws and ordinances and the Articles of Incorporation.

### **Article 4. (Meetings)**

Meetings of the Audit and Supervisory Committee shall be held regularly. However, meetings may be held from time to time whenever necessary.

### **Article 5. (Convener)**

1. The chairman of the Audit and Supervisory Committee shall convene and operate the meetings of the Audit and Supervisory Committee.

2. Each Audit and Supervisory Committee Member is entitled to request the chairman of the Audit and Supervisory Committee to convene a meeting of the Audit and Supervisory Committee.

3. If the chairman of the Audit and Supervisory Committee does not convene a meeting of the Audit and Supervisory Committee despite a request made under the preceding paragraph, the Audit and Supervisory Committee Member who made the request will be entitled to convene and operate the meeting himself or herself.

**Article 6. (Convocation Procedures)**

1. To convene a meeting of the Audit and Supervisory Committee, a notice of convocation shall be dispatched to each Audit and Supervisory Committee Member at least three (3) days before the date of the meeting.

2. If there is a unanimous consent of the Audit and Supervisory Committee Members, a meeting of the Audit and Supervisory Committee may be held without following the procedures for convocation.

**Article 7. (Method of Resolutions)**

1. A resolution of a meeting of the Audit and Supervisory Committee shall be adopted by a majority of the Audit and Supervisory Committee Members, where a majority of the Audit and Supervisory Committee Members who are entitled to vote on such resolution attend such meeting.

2. With respect to a resolution mentioned in the preceding paragraph, any Audit and Supervisory Committee Member who has special interest with the resolution may not vote thereon.

3. Before adopting any resolution, Audit and Supervisory Committee Members shall deliberate based on sufficient materials.

**Article 8. (Matters to be Resolved at the Audit and Supervisory Committee)**

1. The Audit and Supervisory Committee shall resolve resolutions set out below unless otherwise stipulated by laws and ordinances or the Articles of Incorporation:

- (1) Election or dismissal of the chairman of the Audit and Supervisory Committee;
- (2) Election or dismissal of any Full-time Audit and Supervisory Committee Member;
- (3) Election of an Audit and Supervisory Committee Member who handles the matters set out in Article 9 hereof (the "Selected Audit and Supervisory Committee Members" hereafter in these Regulations);
- (4) Election of an Audit and Supervisory Committee Member who handle the matters set out in Article 10 hereof (the "Specified Audit and Supervisory Committee Member" hereafter in these Regulations);
- (5) Establishment of the Code of the Audit and Supervisory Committee Auditing Standards;
- (6) Matters concerning the audit policy, the audit plan, the audit method and the allocation of audit duties;
- (7) Matters that Audit and Supervisory Committee Member deem necessary to perform their duties, such as the audit budget and matters concerning the performance of their duties;
- (8) Preparation of audit reports;
- (9) Policies for determination of dismissal or non-reappointment of the Accounting Auditor;
- (10) Determination of whether reappointment of the Accounting Auditor is appropriate;
- (11) Determination of contents of an agenda concerning dismissal or non-reappointment of the Accounting Auditor to be submitted to a General Meeting of Shareholders;
- (12) Determination of contents of an agenda concerning appointment of the Accounting Auditor to be submitted to a General Meeting of Shareholders;



- (13) Appointment of a person who temporarily performs the duties of an accounting auditor (the "Temporary Accounting Auditor") in the case there is a vacancy in the Accounting Auditor;
- (14) Approval for transactions with conflict of interest carried out by Directors;
- (15) Determination of opinions of the Audit and Supervisory Committee on election, dismissal or resignation of Directors (excluding those who are Audit and Supervisory Committee Members);
- (16) Determination of opinions of the Audit and Supervisory Committee on compensation of Directors (excluding those who are Audit and Supervisory Committee Members);
- (17) Determination of request that election of Audit and Supervisory Committee Members be the subject of a General Meeting of Shareholders;
- (18) Determination of request to submit an agenda concerning election of Audit and Supervisory Committee Members to a General Meeting of Shareholders;
- (19) Expression of opinions of the Audit and Supervisory Committee which shall be notified to shareholders on the relevant occasions including the issuance of shares which causes a change of control of the Company; and
- (20) Other matters that the Audit and Supervisory Committee deems necessary with respect to its performance of duties.

**Article 9. (Selected Audit and Supervisory Committee Member)**

1. The Audit and Supervisory Committee shall determine a member who handles the matters set out below as Selected Audit and Supervisory Committee Member:

- (1) Request to Directors, Operating Officers (*shikko yakuin* in general) and other employees to report with respect to matters concerning the performance of duties of the Audit and Supervisory Committee, or investigate the status of operations and assets of the Company;
- (2) Request to the Company's subsidiaries to report with respect to their business or investigate the status of operations and assets of the subsidiaries;
- (3) Request to the Accounting Auditor to report with respect to its audit;
- (4) Report of the dismissal of the Accounting Auditor in accordance with the procedure set out in Item 1, Paragraph 1 of Article 12 hereof and the reason thereof at a General Meeting of Shareholders which is held for the first time after that dismissal;
- (5) Convocation of the Board of Directors;
- (6) Statement of opinions of the Audit and Supervisory Committee concerning the election or dismissal or resignation of the Directors (excluding those who are Audit and Supervisory Committee Members; the same shall apply in this Article) at a General Meeting of Shareholders;
- (7) Statement of opinions of the Audit and Supervisory Committee concerning compensation of the Directors at a General Meeting of Shareholders;
- (8) Representation of the Company in lawsuits between the Company and any Director; and
- (9) Representation of the Company in other matters such as filing lawsuits.

2. The Selected Audit and Supervisory Committee Member who handles the matters set out in Item 1 or Item 2 of preceding paragraph shall follow resolutions of the Audit and Supervisory Committee, if any, with respect to matters concerning collection of the report or investigations prescribed in those Items.

**Article 10. (Specified Audit and Supervisory Committee Member)**

1. The Audit and Supervisory Committee shall, by its resolution, determine a member who performs the duties set out below (the “Specified Audit and Supervisory Committee Member” in this Article):

- (1) To receive a business report and its supplementary schedules and statements of accounts from the Directors which the Audit and Supervisory Committee shall receive, and send them to other Audit and Supervisory Committee Members;
- (2) To provide a notice of the contents of the audit report of the Audit and Supervisory Committee concerning a business report and its supplementary schedules to the relevant Director specified to receive that notice (the “Specified Director” in this Article);
- (3) To agree with the Specified Director on the date on which the Specified Audit and Supervisory Committee Member shall provide the notice set out in the preceding Item;
- (4) To receive a notice of the contents of the accounting audit report from the Accounting Auditor and to notify the contents to the other Audit and Supervisory Committee Members;
- (5) To agree with the Specified Director and the Accounting Auditor on the date on which the Specified Audit and Supervisory Committee Member shall receive the notice set out in the preceding Item;
- (6) To provide a notice of the contents of the audit report of the Audit and Supervisory Committee concerning statements of accounts to the Specified Director and the Accounting Auditor; and
- (7) To agree with the Specified Director on the date on which the Specified Audit and Supervisory Committee Member shall provide the notice set out in the preceding Item.

2. The Specified Audit and Supervisory Committee Member shall be a Full-time Audit and Supervisory Committee Member.

**Article 11. (Matters to be Consented by the Audit and Supervisory Committee)**

The consent required by the Audit and Supervisory Committee to the matters set out below shall be made by a resolution at a meeting of the Audit and Supervisory Committee unless otherwise stipulated by laws and ordinances or the Articles of Incorporation:

- (1) To Submit an agenda concerning appointment of Audit and Supervisory Committee Members by the Directors to a General Meeting of Shareholders; and
- (2) Compensation of the Accounting Auditor or the Temporary Accounting Auditor.

**Article 12. (Matters to be Unanimously Consented by the Audit and Supervisory Committee Members)**

1. The unanimous consent required by the Audit and Supervisory Committee Members to the matters set out below may be obtained upon deliberation at a meeting of the Audit and Supervisory Committee:

- (1) To dismiss the Accounting Auditor based on any of the dismissal reasons stipulated by laws and ordinances;

- (2) To submit an agenda to a General Meeting of Shareholders concerning partial exemption from liability of Directors;
- (3) To submit an agenda to a General Meeting of Shareholders concerning an amendment to the Articles of Incorporation which enables the Company to partially exempt the Directors from their liability by a resolution of the Board of Directors;
- (4) To submit an agenda to a meeting of the Board of Directors concerning partial exemption from liability of Directors in accordance with the provisions of the Articles of Incorporation;
- (5) To submit an agenda to a General Meeting of Shareholders concerning an amendment to the Articles of Incorporation which enables the Company to execute an agreement with non-executive Directors to exempt them from their liability; and
- (6) Intervention by the Company in an auxiliary capacity on the side of a Director party to a shareholder class action as a defendant.

2. The consent set out in the preceding paragraph may be obtained in writing or by electromagnetic record in case of urgent necessity.

**Article 13. (Deliberation on Exercise of Powers by Audit and Supervisory Committee Members)**

Audit and Supervisory Committee Members may deliberate in advance at a meeting of the Audit and Supervisory Committee when the Members exercise their powers or perform their obligations with respect to the matters set out below:

- (1) Explanation on the questions which were notified to any Audit and Supervisory Committee Member by a shareholder prior to a General Meeting of Shareholders;
- (2) Report and other matters to the Board of Directors;
- (3) Report on the matters concerning agendas or documents or other things to be submitted to a General Meeting of Shareholders;
- (4) Request injunctive relief against acts of any Director or Operating Officer which are beyond the scope of the purpose of the Company or any other acts which violate laws and ordinances or the Articles of Incorporation; and
- (5) Statement of opinions concerning election, dismissal, resignation and compensation of Audit and Supervisory Committee Members at a General Meeting of Shareholders.

**Article 14. (Deliberation on Compensation)**

If there is a unanimous consent of the Audit and Supervisory Committee Members, the Audit and Supervisory Committee may deliberate on compensation of the Audit and Supervisory Committee Members at a meeting of the Audit and Supervisory Committee.

**Article 15. (Reports to the Audit and Supervisory Committee)**

1. Audit and Supervisory Committee Members shall, regularly and from time to time, report to the Audit and Supervisory Committee on the status of the performance of their duties and shall report whenever they are requested to do so by the Audit and Supervisory Committee.

2. An Audit and Supervisory Committee Member who has been reported by the Accounting Auditor, any of the Directors, Operating Officers, employees of the Internal Audit Division, etc., or any other persons shall report thereon to the Audit and Supervisory Committee.

3. The Audit and Supervisory Committee shall request the Accounting Auditor, any of the Directors, Operating Officers, employees of the Internal Audit Division, etc., and any other persons to report as necessary.

4. In relation to the preceding three (3) paragraphs, if the Audit and Supervisory Committee Member, Accounting Auditor, Director, Operating Officer, employee of the Internal Audit Division, etc., or the other person notifies the matters that should be reported to the Audit and Supervisory Committee to all of the Audit and Supervisory Committee Members, those matters are not required to be reported to the Audit and Supervisory Committee.

#### **Article 16. (Preparation of Audit Reports)**

1. The Audit and Supervisory Committee shall prepare an audit report by its resolution.

2. The Audit and Supervisory Committee shall append an opinion of each of the Audit and Supervisory Committee Members to the audit report in the case that the contents of the audit report differ from the opinion of the Audit and Supervisory Committee Member and that the Member requests to do so.

3. Each Audit and Supervisory Committee Member shall sign or affix his or her name and seal (including electronic signature) to audit reports of the Audit and Supervisory Committee. The Full-time Audit and Supervisory Committee Members and the Audit and Supervisory Committee Members who are outside directors shall describe or record in the audit report to that effect.

4. If the Company prepares extraordinary statements of accounts or consolidated statements of accounts, the preceding three (3) paragraphs shall apply *mutatis mutandis* to the preparation of those documents.

#### **Article 17. (Minutes)**

1. The Audit and Supervisory Committee Members shall prepare minutes for meetings of the Audit and Supervisory Committee, the contents of which should be the matters set out below, and each Audit and Supervisory Committee Member who is present at the meeting shall sign or affix his or her name and seal (including electronic signature) to the minutes.

- (1) Place, date, and time of the meeting (including the method of attendance of any Audit and Supervisory Committee Member, Director, Operating Officer or Accounting Auditor who was not at the location of the meeting but who attended the meeting of the Audit and Supervisory Committee);
- (2) Outline of the proceedings of the meeting and the results thereof;
- (3) The name of any Audit and Supervisory Committee Member who has special interests with a matter which should be resolved, if any;
- (4) Outline of the opinion or statement of any Audit and Supervisory Committee Member who stated his or her opinion or made a statement at the meeting of the Audit and Supervisory Committee concerning any of the matters set out below, if any:
  - (A) A report from a Director or Operating Officer that he or she discovered a fact that might cause significant damage to the Company; or
  - (B) A report from the Accounting Auditor that it discovered any unlawful act or material fact which violates laws and ordinances or the Articles of Incorporation with respect to the performance of the duties of Directors or Operating Officers;

- (5) The name or trade name of the Directors, Operating Officers and Accounting Auditor who were present at the meeting; and
- (6) The name of the chairman of the meeting of the Audit and Supervisory Committee.

2. In the case the report to the Audit and Supervisory Committee is not required pursuant to Paragraph 4 of Article 15 hereof, minutes containing the matters set out below shall be prepared:

- (1) The contents of the matters which are not required to be reported to the Audit and Supervisory Committee;
- (2) The date on which the report to the Audit and Supervisory Committee was no longer required to be reported to the Audit and Supervisory Committee; and
- (3) The name of the Audit and Supervisory Committee Member who performed his or her duties in connection with preparing the minutes.

3. The Company shall retain the minutes set out in the preceding two (2) paragraphs at its head office for ten (10) years.

**Article 18. (Secretariat of the Audit and Supervisory Committee)**

The Audit and Supervisory Committee Staff who supports duties of Audit and Supervisory Committee Members shall take charge of affairs concerning the convocation of the meetings of the Audit and Supervisory Committee, preparation of the minutes and any other matters concerning operation of the Audit and Supervisory Committee.

**Article 19. (Code of Audit and Supervisory Committee Auditing Standards)**

Matters concerning the Audit and Supervisory Committee and audit, etc. of Audit and Supervisory Committee Members shall be governed by the Code of Audit and Supervisory Committee Auditing Standards in addition to laws and ordinances, the Articles of Incorporation and these Regulations.

**Article 20. (Amendment to and Abolition of the Regulations)**

Any amendment to or abolition of these Regulations shall be made by the Audit and Supervisory Committee.

**(Supplementary Provision)**

These Regulations come into force as of June 15, 2017.

—End—









