

**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, 2019

- 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)

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock*	HMC	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, 2019**

Common Stock

1,759,561,385***

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 transition 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 every Interactive Data File required to be submitted 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 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.

** Unless otherwise indicated in this Form 20-F, "outstanding shares" excludes the number of shares held by the BIP Trust (as defined under Item 6.B. "Compensation-The Board Incentive Plan").

*** Shares of Common Stock include 58,036,837 shares represented by American Depositary Shares.

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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 five fiscal years ended March 31, 2019 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)				
	2015	2016	2017	2018	2019
Consolidated Statement of Income Data:					
Sales revenue	¥13,328,099	¥14,601,151	¥13,999,200	¥15,361,146	¥15,888,617
Operating profit	670,603	503,376	840,711	833,558	726,370
Share of profit of investments accounted for using the equity method	96,097	126,001	164,793	247,643	228,827
Profit before income taxes	806,237	635,450	1,006,986	1,114,973	979,375
Profit for the year	561,098	406,358	679,394	1,128,639	676,286
Profit for the year attributable to owners of the parent	509,435	344,531	616,569	1,059,337	610,316
Consolidated Statement of Financial Position Data:					
Total assets	18,425,837	18,229,294	18,958,123	19,349,164	20,419,122
Financing liabilities, including current and non-current	6,759,839	6,526,248	6,809,118	6,799,010	7,331,120
Equity attributable to owners of the parent	7,108,627	6,761,433	7,295,296	7,933,538	8,267,720
Total equity	7,382,821	7,031,788	7,569,626	8,234,095	8,565,790
Common stock	86,067	86,067	86,067	86,067	86,067
Per Share Data:					
Weighted average number of common shares outstanding					
Basic and diluted (thousands of shares)	1,802,289	1,802,285	1,802,282	1,793,088	1,763,983
Earnings per share attributable to owners of the parent ^{*1}					
Basic and diluted	¥ 282.66	¥ 191.16	¥ 342.10	¥ 590.79	¥ 345.99
Dividends declared during the period per common share ^{*2}	88.00	88.00	90.00	97.00	110.00
	(US\$ 0.73)	(US\$ 0.78)	(US\$ 0.80)	(US\$ 0.91)	(US\$ 0.99)

^{*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 ¥28 (\$0.25) per common share aggregating ¥49.2 billion (\$444 million) relating to fiscal 2019 was resolved by the Company's Board of Directors in May 2019. This dividend was paid in June 2019. U.S. dollar amounts for dividends per share are translated from yen at the year-end exchange rate of each period.

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 operating results 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

Relating to Industry Market Risk

Honda conducts its operations in Japan and countries 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, increases in product prices due to increases in material costs or other factors could trigger a decline in demand for Honda's products that may adversely affect Honda's operating results.

Financial & Economic Risk

Honda conducts business operations in the countries throughout the world. Honda has manufacturing operations and sells products in various regions and countries. These business activities may be affected by economic slowdown, currency fluctuation or other factors, which could result in decreased sales due to market contraction, increases in component procurement prices and product sales prices, higher credit risk for Honda's business, and higher financing interest rates, among others. Accordingly, these changes may have an adverse effect on Honda's operating results.

Risks Relating to Honda's Business in General

Currency and Interest Rate Risks

Currency Fluctuations Risk

Honda has manufacturing operations throughout the world, including Japan, and exports products and components to various countries. Honda purchases materials and components and sells its products and components in foreign currencies. Therefore, currency fluctuations could affect Honda's pricing of materials purchased and products sold. Accordingly, currency fluctuations may have an effect on Honda's operating results, or competitiveness.

Legal and Regulatory Risks

Regulatory Risk

Honda conducts business operations in the countries throughout the world. As such, changes in regulations, agreements, laws and other factors including customs duties, import regulations and taxes in these regions and countries could adversely affect Honda's business, or operating results.

Intellectual Property Risk

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, the inability to protect this intellectual property generally, the illegal infringement of some or a large group of Honda's intellectual property rights, or the suspension of manufacturing and/or sales activities and the payment of large amounts of damages as a result of lawsuits on infringement of patent rights, could have an adverse effect on Honda's business.

Legal Risk

Honda could be subject to lawsuits, 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, or operating 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 operating results.

Purchasing and Procurement Risk

Honda aim to sustain the procurement of good products at reasonable prices in timely manner, 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 to manufacture 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.

Business Alliances and Joint Ventures Risk

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, profit or technology leakage or delays in decision-making occur among 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, or operating results.

Regional Risk

Honda conducts business operations in countries worldwide and is exposed to risks including changes in local laws and regulations, institutions and business practices, wars, terrorism, political uncertainty, change in political regime and labor strikes in those countries or neighboring regions. If such unforeseeable events occur, and operations are delayed or suspended, Honda's business, or operating results could be adversely affected.

In addition, Honda has business in the U.K., and Brexit could result in both tariffs being applied to the import and export of components and completed products and production delay due to increased complexity in customs, certification and other procedures or logistics delays.

Natural Disasters Risk

In order to minimize the impact on its business operations when events such as large-scale natural disasters or accidents 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 or accidents that exceed assumptions, Honda's business and operating results could be adversely affected.

Information Security Risk

Honda uses a range of information systems and networks relating to information services and driving support in its business activities and its products, including in areas managed by subcontractors. In recent years, IoT and other information technologies, which have evolved rapidly, have been becoming indispensable for control of vehicles, making cyber-attack countermeasures more important for Honda's business. This trend is expected to continue to accelerate in the future. Honda implements a range of security measures for this risk both in hardware and software. However, there is a risk of leakage of confidential and personal 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. When the above-mentioned event occurs, Honda's business and operating results could be adversely affected in terms of damage to its brand image or social reputation, liability to customers or parties affected, payment of financial penalties, delays to or suspension of manufacturing operations, 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 operating results.

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

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

Risks Relating to Honda's ADSs

A holder of ADSs will have fewer rights than a shareholder has and such holder will have to act through the depositary to exercise those rights

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

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

The Company's Articles of Incorporation, Regulations of the Board of Directors, Regulations of the Audit and Supervisory Committee and the Company Law of Japan (the "Company Law") govern corporate affairs of the Company. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties, and shareholders' rights may be different from those that would apply if the Company were a U.S. company. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of the United States. An ADS holder may have more difficulty in asserting his/her rights as a shareholder than such an ADS holder would as a shareholder of a U.S. corporation. In addition, Japanese courts may not be willing to enforce liabilities against the Company in actions brought in Japan that are based upon the securities laws of the United States or any U.S. state.

Because of daily price range limitations under Japanese stock exchange rules, a holder of ADSs may not be able to sell his/her shares of the Company's Common Stock at a particular price on any particular trading day, or at all

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

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

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

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

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

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

Cautionary Statement with Respect to Forward Looking Statements in This Annual Report

This Annual Report includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward looking statements included in this Annual Report are based on the current assumptions and beliefs of Honda in light of the information currently available to it, and involve known and unknown risks, uncertainties, and other factors. Such risks, uncertainties and other factors may cause Honda's actual results, performance, 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. We maintain a website at <https://global.honda/investors/> that contains information about our Company.

The United States Securities and Exchange Commission (the "SEC") maintains a website at <https://www.sec.gov/> which contains in electronic form each of the reports and other information that we have filed electronically with the SEC.

Principal Capital Investments

In the fiscal years ended March 31, 2017, 2018 and 2019, Honda's capital expenditures were ¥2,572.7 billion, ¥2,394.6 billion and ¥2,657.2 billion, respectively, on an accrual basis. Also, capital expenditures excluding those with respect to equipment on operating leases were ¥690.0 billion, ¥595.4 billion and ¥618.5 billion, respectively, on an accrual basis. For further details of Honda's capital expenditures during fiscal 2019, 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, 2017, 2018 and 2019:

	Fiscal years ended March 31,		
	2017	2018	2019
		Yen (billions)	
Motorcycle Business	¥ 1,716.1	¥ 2,038.7	¥ 2,100.1
Automobile Business	10,086.8	10,852.1	11,072.1
Financial Services Business	1,878.0	2,123.1	2,365.3
Power Product and Other Businesses	318.1	347.0	350.9
Total	<u>¥13,999.2</u>	<u>¥15,361.1</u>	<u>¥15,888.6</u>

	Fiscal years ended March 31,		
	2017	2018	2019
	Yen (billions)		
Japan	¥ 1,799.7	¥ 1,919.1	¥ 2,042.8
North America	7,618.0	8,062.2	8,519.0
Europe	639.2	690.8	660.9
Asia	3,085.6	3,771.6	3,793.7
Other Regions	856.4	917.2	872.0
Total	¥13,999.2	¥15,361.1	¥15,888.6

Motorcycle Business

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

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

The following table sets out unit sales for Honda's Motorcycle business, including motorcycles, all-terrain vehicles (ATVs) and side-by-sides (SxS) and revenue from Motorcycle business, and the breakdown by geographical markets based on the location of the customer for the fiscal years ended March 31, 2017, 2018 and 2019:

	Fiscal years ended March 31,								
	2017			2018			2019		
	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	156	156	¥ 62.7	167	167	¥ 70.9	207	207	¥ 79.2
North America	294	294	168.0	313	313	190.6	301	301	188.2
Europe	217	217	118.2	234	234	141.4	249	249	159.6
Asia	15,937	9,513	1,088.1	17,720	11,120	1,327.7	18,224	11,201	1,375.2
Other Regions	1,057	1,057	278.9	1,120	1,120	307.8	1,257	1,257	297.7
Total	17,661	11,237	¥1,716.1	19,554	12,954	¥2,038.7	20,238	13,215	¥2,100.1
Motorcycle revenue as a percentage of total sales revenue			12%			13%			13%

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

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

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

Automobile Business

Honda started Automobile business operations in 1963 with the *T360* mini truck and the *S500* small sports car models. Honda subsequently launched a series of mass-production models including the *Civic* in 1972 and the *Accord* in 1976, which established a base for its Automobile business. In 1969, production of the mini vehicles *N600* and *TN600* began in Taiwan using component parts sets. In 1982, Honda became the first Japanese automaker to begin local automobile production in the United States (with the *Accord* model) and later conducted local development and expanded production activities to include light truck models. In 1986, the Acura Brand was established and an exclusive sales network was launched in the United States.

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

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

Passenger cars:

Accord, City, Civic, Crider, Fit/Jazz

Light trucks:

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

Mini vehicles:

N-BOX

The following table sets out Honda's unit sales of automobiles and revenue from Automobile business and the breakdown by geographical markets based on the location of the customer for the fiscal years ended March 31, 2017, 2018 and 2019:

	Fiscal years ended March 31,								
	2017			2018			2019		
	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	668	603	¥ 1,453.4	696	627	¥ 1,521.8	719	643	¥ 1,590.2
North America	1,970	1,970	5,704.2	1,902	1,902	5,910.0	1,954	1,954	6,165.5
Europe	184	184	450.7	183	183	473.4	169	169	427.3
Asia	1,964	684	1,948.1	2,166	725	2,389.0	2,233	734	2,360.6
Other Regions	242	242	530.2	252	252	557.7	248	248	528.3
Total	<u>5,028</u>	<u>3,683</u>	<u>¥10,086.8</u>	<u>5,199</u>	<u>3,689</u>	<u>¥10,852.1</u>	<u>5,323</u>	<u>3,748</u>	<u>¥11,072.1</u>
Automobile revenue as a percentage of total sales revenue			73%			71%			70%

* 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, 2017, 2018 and 2019:

	Fiscal years ended March 31,		
	2017	2018	2019
	Yen (billions)		
Japan	¥ 210.9	¥ 248.5	¥ 285.8
North America	1,616.2	1,822.8	2,029.9
Europe	12.1	12.5	12.9
Asia	10.5	10.4	11.4
Other Regions	28.2	28.8	25.2
Total	<u>¥1,878.0</u>	<u>¥2,123.1</u>	<u>¥2,365.3</u>
Financial Services revenue as a percentage of total sales revenue . . .	13%	14%	15%

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

Power Product and Other Businesses*

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

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

* Power product business has been renamed Life creation business from April 1, 2019. Honda will expand the concept of our Power product business and continue pursuing it under a new concept of “Life Creation Business”. This renaming of the business represents our intention to evolve our business as a function to create new value for “mobility” and “daily lives”, which includes our existing Power product business as well as new businesses for the future, including energy business.

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, 2017, 2018 and 2019:

	Fiscal years ended March 31,					
	2017		2018		2019	
	Honda Group Unit Sales / Consolidated Unit Sales*		Honda Group Unit Sales / Consolidated Unit Sales*		Honda Group Unit Sales / Consolidated Unit Sales*	
	Units (thousands)	Yen (billions)	Units (thousands)	Yen (billions)	Units (thousands)	Yen (billions)
Japan	301	¥ 72.6	300	¥ 77.7	336	¥ 87.5
North America	2,977	129.5	3,012	138.7	3,049	135.3
Europe	1,035	58.0	1,022	63.4	984	60.9
Asia	1,430	38.9	1,512	44.3	1,559	46.4
Other Regions	378	18.9	416	22.7	373	20.7
Total	6,121	¥318.1	6,262	¥347.0	6,301	¥350.9
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 2019, approximately 90% of Honda's motorcycle units on a group basis were sold in Asia. Approximately 42% of Honda's automobile units (including sales under the Acura Brand) on a group basis were sold in Asia followed by 37% in North America and 14% in Japan. Approximately 48% of Honda's power products units on a group basis were sold in North America followed by 25% in Asia and 16% in Europe.

Sales and Service

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

In fiscal 2019, approximately 97% 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 39% 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, 2019.

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

In March 2018, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) introduced the Real Driving Emissions (RDE) examination for diesel vehicles. It will be applicable to new models of vehicles beginning in October 2022 and to existing models of vehicles beginning in October 2024.

In February 2019, the MLIT adopted the Global Technical Regulation No.19 (Evaporative emission test procedure for WLTP) for domestic regulation.

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 Zero Emission Vehicle (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 (Transitional ZEV) 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.

Canada

On July 16, 2015, the Environment Canada (current Environment and Climate Change Canada) issued the final regulation of amendment to emission regulation whose requirements refer to Tier 3 regulations in the United States.

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.

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

The Euro 6 regulation was implemented in September 2014. Emission limits for diesel vehicles were lowered even more than the Euro 5 levels for NOx and THC plus NOx. Additionally, Euro 6 requires limits on particle numbers from gasoline vehicles with direct injection engines.

The required ethanol density of test fuel was also increased, starting from September 2016.

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

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

China

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

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

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

India

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

Thailand

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

Malaysia

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

Other Regions

Brazil is scheduled to implement PROCONVE L7 from 2022 and L8 from 2025. This regulation is a unique Brazilian regulation based on U.S. regulations, which is much stricter than current regulations. Brazilian authorities will decide the test methods and the OBD requirements in 2019.

Mexico is considering introduction of stricter regulations after improving the quality of market fuel properties.

2. Fuel Economy / CO₂

Japan

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

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

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

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

The United States

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

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

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

On April 2, 2018, the EPA announced that the GHG requirement for 2022-2025 model years needs reconsideration. Together with the NHTSA, the EPA proposed a new standard for GHG and CAFE on August 24, 2018. They will finalize the standard by the summer of 2019.

Canada

The government of Quebec in Canada finalized the standard to mandate each automaker to sell a certain minimum number of ZEVs starting from the 2018 model year.

The government of British Columbia also announced their plan to mandate ZEV sales on November 20, 2018.

Europe

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

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

On November 8, 2017, the European Commission proposed a new CO₂ standard beyond 2025. The European Parliament and Council reached a provisional inter institutional agreement on the European Commission proposal during the fifth trilogue meeting on December 17, 2018.

The agreed target beyond 2025 is negative 15%. The agreed target beyond 2030 is negative 37.5% for new passenger cars and negative 31% for light commercial vehicles, respectively, compared to the 2021 average of all manufacturers' EU fleet-wide target.

The agreement also provide that, for zero- and low-emission vehicles, a benchmark equal to 15% share of the respective fleets of newly registered passenger cars and light commercial vehicles shall apply from January 1, 2025, and a benchmark equal to 35% share of the fleet of newly registered passenger cars and a benchmark equal to 30% share of the fleet of newly registered light commercial vehicles shall apply from January 1, 2030.

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. Based on the latest draft of the regulation, Step 5 will be implemented in 2021.

India

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

Other Regions

Brazil is scheduled to implement new fuel economy / CO₂ regulations from 2022.

Mexico is considering introducing new fuel economy / CO₂ regulations for 2017-2025.

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.

China

On June 23, 2017, China implemented automobile recycling laws partially following the regulations established by the European Union.

India

India has a plan to implement automobile recycling laws in the near future.

4. Safety

Japan

Japan Automobile Standards Internationalization Center (JASIC), which is organized by the MLIT and Japan Automobile Manufacturers Association (JAMA), among others, has started to review a proposal for the unification of Safety/Environment Standards, vehicle categories and certification in order to promote further internationalization of standards and certifications. JASIC made the proposal to other contracting parties of the 58 / 98 Agreement in 2009 and reached an agreement among the contracting parties by 2017.

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

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

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

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

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

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

In 2019, the Cabinet decided on a bill to develop a system to secure the safety of automated driving.

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

The United States

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

In September 2016, the NHTSA issued the Federal Automated Vehicles Policy for safety testing and deployment of automated vehicles. This policy comprises four sections: vehicle performance guidance for automated vehicles, model state policy, current regulatory tools, and modern regulatory tools. The vehicle performance guidance section outlines a 15 point “safety assessment” for the safe design, development, testing and deployment of automated vehicles.

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

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

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

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

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

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

Europe

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

In August 2018, the EU commission issued a regulation to significantly revise the legal framework for the EU type-approval. This regulation introduces a market surveillance system for managing the conformity of motor vehicles available on the market and adds a requirement of an expiration date for vehicle type approval. This EU type-approval will be entered into force on September 1, 2020.

In March 2019, the Committee of the Permanent Representatives of the Governments of the Member States to the European Union approved amendments to the “General safety regulation”. Road traffic safety in the EU has improved during the last decade, but recently the decrease in the number of road fatalities has stagnated. For this reason, the European Commission is seriously considering the introduction of 19 specific vehicle safety measures, which will be entered into force in early 2020 and become applicable after 30 months from their entry into force.

In January 10, 2019, the EU Commission issued a regulation complementing Union type-approval legislation with regard to the withdrawal of the United Kingdom from the EU (i.e. Brexit).

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 2018 include:

- + Electromagnetic compatibility requirements and test methods of drive motor system for electric vehicles;
- + Acoustic vehicle alerting system of electric vehicles running at low speed; and
- + Technical Specifications of High Duty Cables and Connectors for Electric Vehicles.

Newly established GB standards (not yet published) include:

- + Amendment to Photometric characteristics of daytime running lamps for power driven vehicles (TBT notification);
- + Amendment to DC/DC Converter for Electric Vehicles;
- + Amendment to Fuel cell electric vehicles – Safety requirements;
- + Establishment of Electric vehicles safety requirements;
- + Establishment of Requirement of Event Data Recorder (EDR);
- + Establishment of Technical requirements and testing methods for lane keeping assistance system (LKA);
- + Establishment of Performance requirements and test method of intelligent assisted parking system;
- + Establishment of Technical requirements and testing methods for blind spot detection system (BSD); and
- + Establishment of Electric vehicles traction battery safety requirements.

India

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

United Nations

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

- Introduction of the International Whole Vehicle Type Approval (IWVTA) (The current agreement covers only components and systems),
- Issuance of UN Regulation (UN R)'s certificate of former series (Acceptance is optional in each country),
- Review of the majoritarian provisions (Ratio of the adoption is changed from two-thirds and more to four-fifths and more).

IWVTA is a system that develops mutual recognition of automobile certification from “unit of equipment” to “vehicle unit”. This system was introduced via Japan’s proposal, and Japan has served as the chairman and led the discussion since then. This system was adopted at the 173rd WP29, as UN R No.0 and entered into force on July 19, 2018.

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 published the next phase (Euro 5) level emission regulation to be implemented from December 2020.

The United States

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

Europe

Euro 5 requirements other than catalyst monitoring of OBD (Onboard Diagnostics Regulation) will apply to new type approved vehicles from January 2020 and will apply to all vehicles registered from January 2021. Catalyst monitoring will apply to new type approved vehicles from January 2024 and will apply to all vehicles registered from January 2025.

India

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

China

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

Other Asian Countries

Indonesia, Vietnam and Thailand have implemented emissions regulations based on European regulations.

Other Regions

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

2. Recycling / REACH

Europe

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

India

India has announced a plan to implement motorcycle recycling laws in the near future.

Vietnam

Vietnam implemented motorcycle recycling laws on January 1, 2018.

3. Safety

Japan

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

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

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

Japan newly adopted “Hydrogen and Fuel Cell Vehicles of category L” (UN R146), which became applicable to all motorcycles from January 2, 2019.

The United States

There is no new regulation information for motorcycle safety.

Europe

On January 10, 2019, the EU Commission issued a regulation complementing Union type-approval legislation with regard to Brexit.

India

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

China

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

Other Asian Countries

Indonesia, Vietnam and Thailand have been introducing various regulations regarding lighting and braking based on UN Regulations.

Other Regions

The Brazil transport authority (CONTRAN) issued a standard concerning motorcycle braking based on the UNECE Brake regulation (R78.03) as well as a new regulation mandating ABS/CBS installation. The Brazilian standardization authority (INMETRO) currently mandates parts certification for tires and batteries, but added drive/driven sprocket, drive chain and muffler to the scope of application from March 24, 2019 at customs clearance. Brazilian government issued lighting regulation based on previous UNECE regulations; these regulations were implemented from January 1, 2019.

Outline of Environmental and Safety Regulation for Power Products

1. Emissions

The United States

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

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

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

Canada

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

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 certifications and January 1, 2019 for the engines newly placed in the market.

India

The Ministry of Environment is studying the next stage of exhaust emission regulations.

China

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

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.

China

On July 1, 2016, a regulation similar to European RoHS has entered into force. The first list of target products was published on March 12, 2018.

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.

Agricultural Technology Innovation Engineering Research Center of National Agriculture and Food Research Organization has decided to conduct safety inspection of agricultural machinery that has replaced agricultural machinery safety appraisal from July 31, 2018.

The United States

In 2016, an American National Standard Institute (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 generator rated 19kW and below. This regulation was proposed to address the carbon monoxide poisoning injuries occurring from portable generators.

Europe

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

On January 10, 2018, the European Commission issued a notice with regard to Brexit and EU rules in the field of industrial products.

In the United Kingdom, on September 13, 2018, the Department for Business, Energy and Industrial Strategy (BEIS) issued a guidance in the form of a technical notice to explain the future arrangement on the regulations for most products subject to the new EU rules.

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

China

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

Preparing for the Future

Management Challenges and Preparing for the Future

The business environment surrounding Honda has come to a major turning point. Values are diversifying, the population is aging, urbanization is accelerating, climate change is worsening, and the industrial structure is changing due to progress in technologies such as the use of electric-powered motors, autonomous driving and IoT, all on a global basis.

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

1. Product Quality

To strengthen customer trust by offering products founded in safety and achieve a new level of outstanding quality of products, Honda has created a system that continuously enhances and improves quality at every stage: design, development, production, sales and service including suppliers. Honda will work to improve product quality by implementing a shared global quality management system and by providing training and education aimed at improving the skills of employees involved in quality assurance.

2. Research and Development

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

3. Production Efficiency

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

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

4. Sales Efficiency

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

5. Safety Technologies

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

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

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

6. The Environment

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

Responses to Climate Change and Energy Issues

Honda will seek to reduce total CO₂ emissions by 50% compared to year 2000 levels by 2050. To achieve this, Honda will promote the reduction of CO₂ emitted from products mainly by expanding lineup of products

with exceptional environmental performance and actively promoting the use of electric-powered motors, along with building an organizational structure for developing technologies for electric-powered motor products in line with trends in fuel economy regulations and market needs around the world.

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

Efficient Utilization of Resources

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

Preservation of Clean Air

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

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

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

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

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

C. Organizational Structure

As of March 31, 2019, the Company had 91 Japanese subsidiaries and 273 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 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	100.0
		Operation	
Honda of America Mfg., Inc.	U.S.A.	Manufacturing	100.0
American Honda Finance Corporation	U.S.A.	Finance	100.0

<u>Company</u>	<u>Country of Incorporation</u>	<u>Function</u>	<u>Percentage Ownership and Voting Interest</u>
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 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, 2019, 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	5,272	Automobiles
Naka-ku, Hamamatsu, Shizuoka, Japan	2,098	Power products and transmissions
Suzuka, Mie, Japan	6,083	Automobiles
Ozu-machi, Kikuchi-gun, Kumamoto, Japan	2,256	Motorcycles, all-terrain vehicles, power products and engines
Greensboro, North Carolina, U.S.A	994	Aircraft
Burlington, North Carolina, U.S.A.	107	Aircraft engines
Marysville, Ohio, U.S.A.	6,034	Automobiles
Anna, Ohio, U.S.A.	2,690	Engines
East Liberty, Ohio, U.S.A.	2,174	Automobiles
Lincoln, Alabama, U.S.A.	4,882	Automobiles and engines
Greensburg, Indiana, U.S.A.	2,521	Automobiles
Alliston, Canada	4,306	Automobiles and engines
El Salto, Mexico	2,492	Motorcycles and automobiles
Celaya, Mexico	4,981	Automobiles
Swindon, U.K.	3,101	Automobiles and engines
Gebze, Turkey	1,110	Motorcycles and automobiles
Gurugram, India	2,641	Motorcycles
Greater Noida, India	2,385	Automobiles
Alwar, India	2,531	Motorcycles and automobiles
Narasapura, India	1,857	Motorcycles
Ahemdabad, India	789	Motorcycles
Karawang, Indonesia	2,770	Automobiles and engines
Melaka, Malaysia	2,759	Automobiles
Ayutthaya, Thailand	2,641	Automobiles
Prachinburi, Thailand	1,204	Automobiles
Bangkok, Thailand	3,518	Motorcycles and power products
Phuc Yen, Vietnam	4,473	Motorcycles and automobiles
Duy Tien, Vietnam	417	Motorcycles
Buenos Aires, Argentina	1,119	Motorcycles and automobiles
Sumare, Brazil	2,858	Automobiles
Ichirapina, Brazil	436	Automobiles
Manaus, Brazil	5,744	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, 2019, the Company's property, with a net book value of approximately ¥55.1 billion, was subject to specific mortgages securing indebtedness.

Capital Expenditures

Capital expenditures in the fiscal year ended March 31, 2019 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 ¥2,465.2 billion, increased by ¥232.2 billion from the previous year. Also, total capital expenditures, excluding equipment on operating leases, for the year amounted to ¥426.5 billion, decreased by ¥7.3 billion from the previous year. Spending by business segment is shown below.

	Fiscal years ended March 31,		
	2018	2019	Increase (Decrease)
	Yen (millions)		
Motorcycle Business	¥ 51,681	¥ 59,288	¥ 7,607
Automobile Business	370,723	354,388	(16,335)
Financial Services Business	1,799,493	2,039,126	239,633
Financial Services Business (Excluding Equipment on Operating Leases)	338	392	54
Power Product and Other Businesses	11,150	12,451	1,301
Total	¥2,233,047	¥2,465,253	¥232,206
Total (Excluding Equipment on Operating Leases)	¥ 433,892	¥ 426,519	¥ (7,373)

Intangible assets are not included in the table above.

In Motorcycle business, we made capital expenditures of ¥59,288 million in the fiscal year ended March 31, 2019. 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 ¥354,388 million in the fiscal year ended March 31, 2019. 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 ¥392 million in the fiscal year ended March 31, 2019, while capital expenditures for equipment on operating leases were ¥2,038,734 million.

In Power product and other businesses, capital expenditures of ¥12,451 million in the fiscal year ended March 31, 2019, were deployed to upgrade, streamline, and modernize manufacturing facilities, and to improve R&D facilities.

Plans after fiscal year 2019

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, 2020 are shown below.

	Fiscal year ending March 31, 2020
	Yen (millions)
Motorcycle Business	¥ 79,800
Automobile Business	393,200
Financial Services Business	500
Life Creation and Other Businesses	16,500
Total	<u>¥490,000</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 in the fiscal year ended March 31, 2019, the United States economy continued a steady recovery, mainly due to improvement in employment conditions and growing personal consumption. Europe saw a gradual economic recovery, mainly due to improvement in employment conditions and gradually growing personal consumption. In the Asian economies, India, Thailand and Indonesia experienced a moderate recovery. China's economy continued an upward trend in the first half, but experienced a moderate slowdown in the second half. The Japanese economy saw a gradual recovery, mainly due to steady improvement in employment conditions and an upturn in personal consumption, in addition to growth in capital investment.

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

Overview of Fiscal Year 2019 Operating Performance

Honda's consolidated sales revenue for the fiscal year ended March 31, 2019, increased from the fiscal year ended March 31, 2018, due mainly to increased sales revenue in all business operations. Operating profit decreased from the previous fiscal year, due mainly to the impact to Europe related to changes of the global automobile production network and capability as well as negative foreign currency effects, which was partially offset by continuing cost reduction and the loss related to the settlement of multidistrict class action litigation in the previous fiscal year.

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.

Motorcycle Business

Honda's consolidated unit sales of motorcycles, all-terrain vehicles (ATVs) and side-by-sides (SxS) in fiscal year 2019 totaled 13,215 thousand units, an increase of 2.0% from the previous fiscal year, due mainly to increases primarily in Vietnam and Brazil, which offset a decrease in sales in India.

Automobile Business

Honda's consolidated unit sales of automobiles totaled 3,748 thousand units in fiscal year 2019, an increase of 1.6% from the previous fiscal year, due mainly to increases in sales units primarily in North America and Japan mainly driven by the launch of new models.

Power Product and Other Businesses

Honda's consolidated unit sales of power products in fiscal year 2019 totaled 6,301 thousand units, an increase of 0.6% from the previous fiscal year, due to an increase in sales units primarily in Asia, which offset a decrease in Other Regions.

Fiscal Year 2019 Compared with Fiscal Year 2018

Sales Revenue

Honda's consolidated sales revenue for the fiscal year ended March 31, 2019, increased by ¥527.4 billion, or 3.4%, to ¥15,888.6 billion from the fiscal year ended March 31, 2018, due mainly to increased sales revenue in all 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 ¥787.0 billion, or 5.1%, compared to the increase as reported of ¥527.4 billion, which includes negative foreign currency translation effects.

Operating Costs and Expenses

Operating costs and expenses increased by ¥634.6 billion, or 4.4%, to ¥15,162.2 billion from the previous fiscal year. Cost of sales increased by ¥580.3 billion, or 4.8%, to ¥12,580.9 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased consolidated sales revenue in all business operations, the impact to Europe related to changes of the global automobile production network and capability. Selling, general and administrative expenses totaled to ¥1,774.3 billion basically unchanged from the previous fiscal year, due mainly to the impact to Europe related to changes of the global automobile production network and capability, which was partially offset by the loss related to the settlement of multidistrict class action litigation in the previous fiscal year. Research and development expenses increased by ¥55.0 billion, or 7.3%, to ¥806.9 billion from the previous fiscal year.

Operating Profit

Operating profit decreased by ¥107.1 billion, or 12.9%, to ¥726.3 billion from the previous fiscal year, due mainly to the impact to Europe related to changes of the global automobile production network and capability as well as negative foreign currency effects, which was partially offset by continuing cost reduction and the loss related to the settlement of multidistrict class action litigation in the previous fiscal year. Honda estimates that by excluding negative foreign currency effects of approximately ¥160.3 billion, operating profit would have increased by approximately ¥53.1 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 decreased by ¥135.5 billion, or 12.2%, to ¥979.3 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 negative impact of ¥18.8 billion, due mainly to a decrease in profit at affiliates and joint ventures in Asia.

Finance income and finance costs had a negative impact of ¥9.5 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 ¥316.7 billion to ¥303.0 billion from the previous fiscal year, due mainly to the impacts of the enactment of the Tax Cuts and Jobs Act in the United States in the previous fiscal year. The average effective tax rate increased by 32.1 percentage points to 30.9% 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 ¥452.3 billion, or 40.1%, to ¥676.2 billion from the previous fiscal year, due mainly to the impacts of the enactment of the Tax Cuts and Jobs Act in the United States in 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 ¥449.0 billion, or 42.4%, to ¥610.3 billion from the previous fiscal year.

Profit for the Year Attributable to Non-controlling Interests

Profit for the year attributable to non-controlling interests decreased by ¥3.3 billion, or 4.8%, to ¥65.9 billion from the previous fiscal year.

Business Segments

Motorcycle Business

Honda's consolidated unit sales of motorcycles, all-terrain vehicles (ATVs) and side-by-sides (SxS) totaled 13,215 thousand units, increased by 2.0% from the previous fiscal year, due mainly to an increase in consolidated unit sales in Asia and Other regions.

Sales revenue from external customers increased by ¥61.4 billion, or 3.0%, to ¥2,100.1 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 ¥160.1 billion, or 7.9%, compared to the increase as reported of ¥61.4 billion, which includes negative foreign currency translation effects.

Operating costs and expenses increased by ¥36.8 billion, or 2.1%, to ¥1,808.5 billion from the previous fiscal year. Cost of sales increased by ¥39.5 billion, or 2.7%, to ¥1,506.3 billion, due mainly to an increase in costs attributable to increased consolidated unit sales. Selling, general and administrative expenses decreased by ¥3.8 billion, or 1.7%, to ¥215.6 billion. Research and development expenses increased by ¥1.1 billion, or 1.3%, to ¥86.5 billion.

Operating profit increased by ¥24.6 billion, or 9.2%, to ¥291.6 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales volume and model mix.

Japan

Total industry demand for motorcycles in Japan* was approximately 370 thousand units in fiscal year 2019, a decrease of approximately 1% from the previous fiscal year.

Honda's consolidated unit sales in Japan increased 24.0% to 207 thousand units in fiscal year 2019, a substantial increase from the previous fiscal year, mainly due to increases in sales of the *PCX* and *Cross Cub 110*.

* 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 660 thousand units in calendar year 2018.

Honda's consolidated unit sales in North America decreased 3.8% from the previous fiscal year to 301 thousand units in fiscal year 2019. This was mainly due to a decrease in sales of ATVs, despite the effect of launching new models such as the *Monkey*, primarily in the United States.

* Source: MIC (Motorcycle Industry Council) The total includes motorcycles and ATVs, but does not include side-by-sides (SxS).

Europe

Total demand for motorcycles in Europe* increased around 1% from the previous year to approximately 920 thousand units in calendar year 2018.

Honda's consolidated unit sales in Europe increased 6.4% from the previous fiscal year to 249 thousand units in fiscal year 2019, mainly reflecting the effect of launching the new model *Monkey* and a full model change of the *Forza*.

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

Asia

Total demand for motorcycles in Asia* increased around 6% from the previous year to approximately 44,270 thousand units in calendar year 2018.

Looking at market conditions by country, in calendar year 2018, demand in India increased about 13% from the previous year to approximately 21,620 thousand units. Demand in China decreased around 11% from the previous year to approximately 7,040 thousand units. Demand in Indonesia increased around 7% from the

previous year to approximately 6,300 thousand units. Demand in Vietnam increased around 2% from the previous year to approximately 3,340 thousand units. Demand in Pakistan increased around 7% from the previous year to approximately 2,100 thousand units. Demand in Thailand decreased around 1% from the previous year to approximately 1,790 thousand units.

Honda's consolidated unit sales in Asia increased 0.7% from the previous fiscal year to 11,201 thousand units in fiscal year 2019. This was mainly due to an increase in sales of scooter models such as the *Vision* in Vietnam, among other factors, despite a decrease in India due to the impact of revisions to the mandatory vehicle liability insurance requirement.

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 2019 increased around 13.3% from the previous fiscal year to approximately 4,970 thousand units due mainly to increases in sales of the *PCX* and *Scoopy* 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, increased about 18% from the previous year to approximately 950 thousand units in calendar year 2018.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales increased 12.2% from the previous fiscal year to 1,257 thousand units in fiscal year 2019 due mainly to an increase in sales of the *CG160* in Brazil.

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

Automobile Business

Honda's consolidated unit sales of automobiles totaled 3,748 thousand units, increased by 1.6% from the previous fiscal year, due mainly to an increase in consolidated unit sales in North America.

Sales revenue from external customers increased by ¥219.9 billion, or 2.0%, to ¥11,072.1 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 ¥373.3 billion, or 3.4%, compared to the increase as reported of ¥219.9 billion, which includes negative foreign currency translation effects. Sales revenue including intersegment sales increased by ¥242.5 billion, or 2.2%, to ¥11,287.7 billion from the previous fiscal year.

Operating costs and expenses increased by ¥406.7 billion, or 3.8%, to ¥11,078.0 billion from the previous fiscal year. Cost of sales increased by ¥352.2 billion, or 4.1%, to ¥9,003.6 billion, due mainly to an increase in costs attributable to increased consolidated unit sales. Selling, general and administrative expenses totaled to ¥1,384.6 billion basically unchanged from the previous fiscal year. Research and development expenses increased by ¥49.3 billion, or 7.7%, to ¥689.8 billion.

Operating profit decreased by ¥164.1 billion, or 43.9%, to ¥209.6 billion from the previous fiscal year, due mainly to the impact to Europe related to changes of the global automobile production network and capability, which was partially offset by continuing cost reduction and the loss related to the settlement of multidistrict class action litigation in the previous fiscal year.

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

	Fiscal year ended March 31,	
	2018	2019
Passenger cars: <i>Accord, City, Civic, Crider, Fit/Jazz</i>	50%	50%
Light trucks: <i>CR-V, Freed, Odyssey, Pilot, Vezel/HR-V, XR-V</i>	44%	43%
Mini vehicles: <i>N-BOX</i>	6%	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 20% lower and our mini vehicles category was approximately 50% lower than total weighted average contribution margin for the fiscal year ended March 31, 2019. It should be noted that we define contribution margin as an amount per unit of net sales minus material cost, which is thought to increase in almost direct proportion to net sales volume.

Japan

Total demand for automobiles in Japan*1 increased around 1% from the previous fiscal year to approximately 5,260 thousand units in fiscal year 2019.

Honda's consolidated unit sales in Japan increased 2.6% from the previous fiscal year to 643 thousand units*2 in fiscal year 2019. This was mainly due to the effect of launching the new model *N-VAN* and an increase in sales of the *N-BOX*.

Honda's unit production of automobiles in Japan increased 10.0% from the previous fiscal year to 912 thousand units in fiscal year 2019. This was mainly due to increases in export volume and domestic sales volume.

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

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

North America

Total industry demand for automobiles in the United States*, the principal market within North America, remained basically unchanged from the previous year at approximately 17,270 thousand units in calendar year 2018. This result reflected a continued increase for light trucks, which offset decreased demand for passenger cars.

Honda's consolidated unit sales in North America increased 2.7% from the previous fiscal year to 1,954 thousand units in fiscal year 2019. This increase was mainly attributable to the effect of a full model change of the *Insight* model and an increase in sales of the *CR-V* model, despite the restrictions on supply caused by the impact of flooding in Mexico.

Honda manufactured 1,802 thousand units in fiscal year 2019, a decrease of 3.4% from the previous fiscal year, mainly reflecting the impact of flooding in Mexico.

* Source: Autodata

Europe

Total demand for automobiles in Europe* remained basically unchanged from the previous year at approximately 15,620 thousand units in calendar year 2018, mainly due to the slowdown in the diesel market, despite growth in the SUV market and other factors.

Honda's consolidated unit sales in Europe decreased 7.7% from the previous fiscal year to 169 thousand units in fiscal year 2019. This was mainly due to decreased sales of diesel vehicles.

Unit production at Honda's U.K. plant in fiscal year 2019 decreased 8.1% from the previous fiscal year to 151 thousand units, mainly due to the termination of production of the *CR-V* model.

* 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 China, the largest market within Asia, decreased around 3% from the previous year to approximately 28,030 thousand units*¹ in calendar year 2018. Total demand for automobiles in other countries in Asia increased about 8% from the previous calendar year to approximately 8,560 thousand units*². This was mainly due to increases in demand in India and Thailand.

Honda's consolidated unit sales in Asia increased 1.2% from the previous fiscal year to 734 thousand units in fiscal year 2019. This increase was mainly attributable to the effect of a full model change of the *Amaze* model in India and an increase in sales of the *Jazz* model in Thailand, despite a decline in sales in Indonesia among other factors.

Honda's consolidated unit sales do not include unit sales of Dongfeng Honda Automobile Co., Ltd. and GAC Honda Automobile Co., Ltd., both of which are joint ventures accounted for using the equity method in China. Unit sales in China increased 3.9% from the previous fiscal year to 1,499 thousand units in fiscal year 2019. The increase was mainly attributable to an increase in sales of the *Civic* model and the effect of a full model change of the *Crider* model.

Honda's unit production by consolidated subsidiaries in Asia increased 0.5% from the previous fiscal year to 802 thousand units*³ in fiscal year 2019.

Meanwhile, unit production by Chinese joint ventures Dongfeng Honda Automobile Co., Ltd. and GAC Honda Automobile Co., Ltd. increased 2.8% from the previous fiscal year to 1,491 thousand units in fiscal year 2019.

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

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

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

Other Regions

Total industry demand for automobiles in Brazil, the principal market within Other Regions, increased around 14% from the previous year to approximately 2,470 thousand units* in calendar year 2018. The increase was supported by the gradual economic recovery among other factors.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales decreased 1.6% from the previous fiscal year to 248 thousand units in fiscal year 2019 mainly due to a decrease in sales of the *WR-V* model, despite an increase in sales of the *Civic* model in Brazil.

Unit production at Honda's plant in Brazil increased 1.1% from the previous fiscal year to 139 thousand units in fiscal year 2019.

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

Financial Services Business

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

Total amount of receivables from financial services and equipment on operating leases of finance subsidiaries on March 31, 2019, increased by ¥807.9 billion, or 8.9%, to ¥9,854.0 billion from March 31, 2018. 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, 2019 would have increased by approximately ¥513.7 billion, or 5.7%, compared to the previous fiscal year.

Sales revenue from external customers increased by ¥242.1 billion, or 11.4%, to ¥2,365.3 billion from the previous fiscal year, due mainly to increased revenues on disposition of lease vehicles and operating lease revenues. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, sales revenue for the year would have increased by approximately ¥245.6 billion, or 11.6%, compared to the increase as reported of ¥242.1 billion, which includes negative foreign currency translation effects. Sales revenue including intersegment sales increased by ¥242.7 billion, or 11.4%, to ¥2,380.0 billion from the previous fiscal year.

Operating costs and expenses increased by ¥202.8 billion, or 10.5%, to ¥2,144.0 billion from the previous fiscal year. Cost of sales increased by ¥200.1 billion, or 11.0%, to ¥2,026.5 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased revenues on disposition of lease vehicles and operating lease revenues. Selling, general and administrative expenses increased by ¥2.7 billion, or 2.4%, to ¥117.5 billion.

Operating profit increased by ¥39.8 billion, or 20.3%, to ¥235.9 billion from the previous fiscal year, due mainly to an increase in profit attributable to increased sales revenue.

Power Product and Other Businesses

Honda's consolidated unit sales of power products totaled 6,301 thousand units, increased by 0.6 % from the previous fiscal year, due mainly to increased consolidated unit sales in Asia.

Sales revenue from external customers increased by ¥3.9 billion, or 1.1%, to ¥350.9 billion from the previous fiscal year, due mainly to increased consolidated unit sales in power products. 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 ¥7.8 billion, or 2.3%, compared to the increase as reported of ¥3.9 billion, which includes negative foreign currency translation effects. Sales revenue including intersegment sales increased by ¥6.0 billion, or 1.6%, to ¥377.2 billion from the previous fiscal year.

Operating costs and expenses increased by ¥13.6 billion, or 3.6%, to ¥388.1 billion from the previous fiscal year. Cost of sales increased by ¥13.8 billion, or 4.8%, to ¥301.1 billion, due mainly to an increase in costs attributable to increased consolidated unit sales in Power product business. Selling, general and administrative expenses decreased by ¥4.8 billion, or 7.8%, to ¥56.5 billion. Research and development expenses increased by ¥4.6 billion, or 17.8%, to ¥30.5 billion from the previous fiscal year.

Operating loss was ¥10.9 billion, an increase of ¥7.5 billion from the previous fiscal year, due mainly to an increase in research and development expenses as well as negative foreign currency effects. In addition, operating loss of aircraft and aircraft engines included in the Power product and other businesses segment was ¥40.2 billion, an improvement of ¥1.6 billion from the previous fiscal year.

Japan

Honda's consolidated unit sales in power product business operations in Japan increased 12.0 % from the previous fiscal year to 336 thousand units in fiscal year 2019 mainly due to an increase in sales of OEM engines* and other factors.

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

North America

Honda's consolidated unit sales in North America increased 1.2% from the previous fiscal year to 3,049 thousand units in fiscal year 2019 mainly attributable to an increase in sales of OEM engines, despite a decline in sales of generators.

Europe

Honda's consolidated unit sales in Europe decreased 3.7% from the previous fiscal year to 984 thousand units in fiscal year 2019 mainly due to decreases in sales of lawnmowers and trimmers.

Asia

Honda's consolidated unit sales in Asia increased 3.1% from the previous fiscal year to 1,559 thousand units in fiscal year 2019. This was mainly due to an increase in sales of OEM engines.

Other Regions

Honda's consolidated unit sales in Other Regions (including South America, the Middle East, Africa, Oceania and other areas) decreased 10.3% from the previous fiscal year to 373 thousand units in fiscal year 2019 mainly due to a decline in sales of lawnmowers.

Geographical Information

Japan

In Japan, sales revenue from domestic and export sales increased by ¥367.6 billion, or 8.2%, to ¥4,848.3 billion from the previous fiscal year, due mainly to increased sales revenue in all business operations. Operating profit decreased ¥86.9 billion, or 100.0%, from the previous fiscal year, due mainly to the impact to Europe related to changes of the global automobile production network and capability as well as an increase in research and development expenses, which was partially offset by decreased selling, general and administrative expenses.

North America

In North America, where the United States is the principal market, sales revenue increased by ¥439.3 billion, or 5.1%, to ¥9,023.9 billion from the previous fiscal year, due mainly to increased sales revenue in the Automobile business and Financial services business. Operating profit increased by ¥21.2 billion, or 7.6%, to ¥299.7 billion from the previous fiscal year, due mainly to the loss related to the settlement of multidistrict class action litigation in the previous fiscal year and continuing cost reduction, which was partially offset by increased selling, general and administrative expenses.

Europe

In Europe, sales revenue increased by ¥10.2 billion, or 1.1%, to ¥927.4 billion from the previous fiscal year, due mainly to increased sales revenue in the Motorcycle business. Operating loss was ¥6.6 billion, a decrease of 22.4 billion from the previous fiscal year, due mainly to the impact to Europe related to changes of the global automobile production network and capability, which was partially offset by continuing cost reduction.

Asia

In Asia, sales revenue increased by ¥51.2 billion, or 1.2%, to ¥4,272.2 billion from the previous fiscal year, due mainly to increased sales revenue in Motorcycle business, which was partially offset by negative foreign currency effects. Operating profit totaled to ¥404.2 billion basically unchanged from the previous fiscal year, due mainly to continuing cost reduction as well as an increase in profit attributable to increased sales revenue and model mix, which was partially offset by increased selling, general and administrative expenses.

Other Regions

In Other Regions, sales revenue decreased by ¥73.0 billion, or 8.7%, to ¥764.4 billion from the previous fiscal year, due mainly to negative foreign currency effects, which was partially offset by increased sales revenue in the Motorcycle business and Automobile business. Operating profit decreased by ¥21.2 billion, or 48.4%, to ¥22.6 billion from the previous fiscal year, due mainly to negative foreign currency effects, which was partially offset by continuing cost reduction.

Fiscal Year 2018 Compared with Fiscal Year 2017

Sales Revenue

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

Operating Costs and Expenses

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

Operating Profit

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

With respect to the discussion above of the changes, management identified factors and used what it believes to be a reasonable method to analyze the respective changes in such factors. Management analyzed changes in these factors at the levels of the Company and its material consolidated subsidiaries. "Foreign currency effects" consist of "translation adjustments", which come from the translation of the currency of foreign subsidiaries' financial statements into Japanese yen, and "foreign currency adjustments", which result from foreign-currency-denominated transaction. With respect to "foreign currency adjustments", management analyzed foreign currency adjustments primarily related to the following currencies: U.S. dollar, Japanese yen and others at the level of the Company and its material consolidated subsidiaries. The estimates excluding the foreign currency effects are not on the same base as Honda's consolidated financial statements, and do not conform to IFRS. Furthermore, Honda does not believe that these measures are substitute for the disclosure required by IFRS. However, Honda believes that such estimates excluding the foreign currency effects provide financial statements users with additional useful information for understanding Honda's results.

Profit before Income Taxes

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

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

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

Income Tax Expense

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

Profit for the Year

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

Profit for the Year Attributable to Owners of the Parent

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

Profit for the Year Attributable to Non-controlling Interests

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

Business Segments

Motorcycle Business

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

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

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

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

Japan

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

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

* Source: JAMA (Japan Automobile Manufacturers Association)

North America

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

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

* Source: MIC (Motorcycle Industry Council)
The total includes motorcycles and ATVs, but does not include side-by-sides (SxS).

Europe

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

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

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

Asia

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

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

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

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

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

Other Regions

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

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

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

Automobile Business

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

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

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

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

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

	Fiscal year ended March 31,	
	2017	2018
Passenger cars: <i>Accord, City, Civic, Crider, Fit/Jazz</i>	51%	50%
Light trucks: <i>CR-V, Freed, Odyssey, Pilot, Vezel/HR-V, XR-V</i>	43%	44%
Mini vehicles: <i>N-BOX</i>	6%	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 35% higher, our passenger cars category was approximately 20% lower and our mini vehicles category was approximately 55% lower than total weighted average contribution margin for the fiscal year ended March 31, 2018. It should be noted that we define contribution margin as an amount per unit of net sales minus material cost, which is thought to increase in almost direct proportion to net sales volume.

Japan

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

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

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

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

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

North America

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

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

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

* Source: Autodata

Europe

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

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

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

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

Asia

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

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

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

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

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

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

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

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

Other Regions

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

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

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

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

Financial Services Business

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

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

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

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

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

Power Product and Other Businesses

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

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

Operating costs and expenses increased by ¥15.1 billion, or 4.2%, to ¥374.5 billion from the previous fiscal year. Cost of sales increased by ¥11.7 billion, or 4.3%, to ¥287.2 billion, due mainly to an increase in costs attributable to increased consolidated unit sales in Power product business, one-time gain from pension plan amendments recognized in the previous fiscal year as well as negative foreign currency effects. Selling, general and administrative expenses increased by ¥3.9 billion, or 6.8%, to ¥61.3 billion, due mainly to one-time gain from pension plan amendments recognized in the previous fiscal year. Research and development expenses decreased by ¥0.5 billion, or 2.0%, to ¥25.9 billion from the previous fiscal year, despite one-time gain from pension plan amendments recognized in the previous fiscal year.

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

Japan

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

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

North America

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

Europe

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

Asia

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

Other Regions

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

Geographical Information

Japan

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

North America

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

Europe

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

Asia

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

Other Regions

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

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, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Provisions for product warranties			
Balance at beginning of year	¥ 727,441	¥ 520,130	¥ 457,596
Effect of changes in accounting policy	¥ —	¥ —	¥ (4,536)
Adjusted balance at beginning of year	¥ 727,441	¥ 520,130	¥ 453,060
Provision*	¥ 198,016	¥ 219,575	¥ 247,194
Write-offs	(341,416)	(239,903)	(231,230)
Reversal	(54,324)	(30,022)	(17,596)
Exchange differences on translating foreign operations	(9,587)	(12,184)	7,054
Balance at end of year	¥ 520,130	¥ 457,596	¥ 458,482
Sales revenue	¥13,999,200	¥15,361,146	¥15,888,617

* Provisions for product warranties accrued during the period for the years ended March 31, 2017, 2018 and 2019 are ¥198.0 billion, ¥219.5 billion and ¥247.1 billion, respectively, due mainly to the future warranty costs for product recalls in the Automobile business.

Credit Losses

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

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

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 expected credit loss on receivables from financial services. Our finance subsidiaries evaluate these estimates, at minimum, on a quarterly basis.

The allowance for credit losses is measured at amounts according to the three-stage expected credit loss (ECL) model:

- Stage 1 12-month ECL for financial assets without a significant increase in credit risk since initial recognition
- Stage 2 Lifetime ECL for financial assets with a significant increase in credit risk since initial recognition but that are not credit-impaired
- Stage 3 Lifetime ECL for credit-impaired financial assets

Lifetime ECL represents ECL that results from all possible default events over the expected life of a financial asset. 12-month ECL is the portion of lifetime ECL that results from default events that are possible within 12 months after the reporting date. ECL is a probability-weighted estimate of the difference between the contractual cash flows and the cash flows that the entity expects to receive, discounted at the original effective interest rates.

To determine whether credit risk has increased significantly, consumer finance receivables are assessed both individually and collectively. Individual assessments are based on delinquencies. Consumer finance receivables 30 days or greater past due have historically experienced increased default rates and therefore are considered to have a significant increase in credit risk. Collective assessments are performed for groups of consumer finance receivables with shared risk characteristics such as the period of initial recognition, collateral type, original term,

and credit score considering relative changes in expected default rates since initial recognition. Dealer finance receivables are assessed at the individual dealership level to determine whether credit risk has increased significantly considering payment performance and other factors such as changes in the financial condition of the dealership and compliance with debt covenants.

Our definition of default on receivables from financial services varies depending on internal risk management practices of each of our finance subsidiaries. Our most significant finance subsidiary located in the United States considers delinquencies of 60 days past due to be in default. Collection efforts on consumer finance receivables are escalated after becoming 60 days past due including repossession of the underlying vehicles if it has been determined that the borrower is unable to perform on their obligations. Defaulted consumer finance receivables are considered to be credit-impaired. Dealer finance receivables are considered to be credit-impaired when there is evidence we will be unable to collect all amounts due in accordance with the original contractual terms including significant financial difficulty of the dealership, a breach of contract, such as a default or delinquency, or bankruptcy.

At the finance subsidiary in the United States, the estimated uncollectible portion of consumer finance receivables are written-off at 120 days past due or upon repossession of the underlying vehicle. Although various statutory regulations limit the length of time and circumstances when enforcement activities can be taken, in general, the outstanding contractual balances continue to be subject to enforcement activities for several years after write-offs. The portion of outstanding contractual balances that is estimated to be uncollectible reflects our expectations of collections from enforcement activities. Dealer finance receivables are written-off when there is no reasonable expectation of recovery.

At the finance subsidiary in the United States, ECL of consumer finance receivables is measured for groups of financial assets with shared risk characteristics by reflecting historical results, current conditions, and forward-looking factors such as unemployment rates, used vehicles prices, and consumer debt service burdens. Estimated losses on operating leases due to early terminations are also measured collectively, using estimation techniques similar to those applied for consumer finance receivables.

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 remeasurement and allowance for credit losses. If we had experienced a 10% increase in write-offs during fiscal year 2019, the remeasurement for fiscal year 2019 and the allowance balance at the end of fiscal year 2019 would have increased by approximately ¥7.4 billion and ¥4.3 billion, respectively. Note that this sensitivity analysis may be asymmetric and is specific to the base conditions in fiscal year 2019.

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
For the year ended March 31, 2017				
Allowance for credit losses				
Balance at beginning of year	¥ 22,300	¥ 762	¥ 2,503	¥ 25,565
Provision	¥ 29,870	¥ 338	¥ (278)	¥ 29,930
Write-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 write-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%
Yen (millions)				
For the year ended March 31, 2018				
Allowance for credit losses				
Balance at beginning of year	¥ 28,867	¥ 809	¥ 1,823	¥ 31,499
Provision	¥ 36,037	¥ 214	¥ 336	¥ 36,587
Write-offs	(39,478)	(299)	(271)	(40,048)
Recoveries	8,368	50	13	8,431
Exchange differences on translating foreign operations	(1,718)	47	5	(1,666)
Balance at end of year	¥ 32,076	¥ 821	¥ 1,906	¥ 34,803
Ending balance of receivables from financial services	¥4,187,420	¥165,156	¥651,141	¥5,003,717
Average balance of receivables from financial services . . .	¥4,283,938	¥178,083	¥608,199	¥5,070,220
Net write-offs as a % of average balance of receivables from financial services	0.73%	0.14%	0.04%	0.62%
Allowance as a % of ending balance of receivables from financial services	0.77%	0.50%	0.29%	0.70%

	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
For the year ended March 31, 2019				
Allowance for credit losses				
Balance at beginning of year	¥ 32,076	¥ 821	¥ 1,906	¥ 34,803
Effect of changes in accounting policy	¥ 4,599	¥ —	¥ —	¥ 4,599
Adjusted balance at beginning of year	¥ 36,675	¥ 821	¥ 1,906	¥ 39,402
Remeasurement	¥ 33,873	¥ 92	¥ 755	¥ 34,720
Write-offs	(30,986)	(125)	153	(30,958)
Exchange differences on translating foreign operations	198	(58)	(101)	39
Balance at end of year	¥ 39,760	¥ 730	¥ 2,713	¥ 43,203
Ending balance of receivables from financial services	¥4,602,848	¥142,855	¥712,214	¥5,457,917
Average balance of receivables from financial services . . .	¥4,462,772	¥150,766	¥661,846	¥5,275,384
Write-offs as a % of average balance of receivables from financial services	0.69%	0.08%	(0.02)%	0.59%
Allowance as a % of ending balance of receivables from financial services	0.86%	0.51%	0.38%	0.79%

Honda has adopted IFRS 9 issued in July 2014 with a date of initial application of April 1, 2018. Comparative amounts for the years ended March 31, 2017 and 2018 represent the allowance for credit losses under previous accounting policies. Details of changes in accounting policies are described in “(d) Changes in Accounting Policies” of note “(2) Basis of Preparation” to the accompanying consolidated financial statements.

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

	Yen (millions)		
	2017	2018	2019
Remeasurement for credit losses on past due lease payments under operating leases	¥2,493	¥ 3,437	¥ 4,436
Impairment losses on operating leases due to early termination	¥7,987	¥11,911	¥11,217

Fiscal Year 2019 Compared with Fiscal Year 2018

The remeasurement for credit losses on receivables from financial services for the fiscal year ended March 31, 2019 decreased by ¥1.8 billion, or 5.1%, from the provision for fiscal year ended March 31, 2018. Net write-offs of receivables from financial services for the fiscal year ended March 31, 2019 decreased by ¥0.6 billion, or 2.1%, from the fiscal year ended March 31, 2018. The decrease in the remeasurement for credit losses and net write-offs was attributable to foreign currency translation effects in our finance subsidiary in Other Regions.

Although the actual impairment losses on operating leases due to early termination we realized during the fiscal year ended March 31, 2019 continued to increase compared to prior years, the rate of increase has slowed. As a result, impairment losses on operating leases due to early termination for the fiscal year ended March 31, 2019 decreased by ¥0.6 billion, or 5.8%, from the fiscal year ended March 31, 2018.

Fiscal Year 2018 Compared with Fiscal Year 2017

The provision for credit losses on receivables from financial services for the fiscal year ended March 31, 2018 increased by ¥6.6 billion, or 22.2%, from the fiscal year ended March 31, 2017. Net write-offs of

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

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, 2019 were to decrease by approximately ¥10,000 per unit from our present estimates, holding all other assumptions constant, the total impact would be an increase in depreciation expense by approximately ¥7.0 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 2019. 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, 2019 were 0.6% and 1.6%, respectively. Our assumed discount rate and rate of salary increase for foreign plans as of March 31, 2019 were 2.5 - 3.9% 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, 2018 and 2019. 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 ¥437.9 billion as of March 31, 2019. 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 ¥ 6,995.6 billion as of March 31, 2019.

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

Cash Flows

Fiscal Year 2019 Compared with Fiscal Year 2018

Consolidated cash and cash equivalents on March 31, 2019 increased by ¥237.6 billion from March 31, 2018, to ¥2,494.1 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 ¥775.9 billion of cash inflows. Cash inflows from operating activities decreased by ¥211.6 billion compared with the previous fiscal year, due mainly to an increase in payments for parts and raw materials, which was partially offset by an increase in cash received from customers.

Net cash used in investing activities amounted to ¥577.5 billion of cash outflows. Cash outflows from investing activities decreased by ¥37.5 billion compared with the previous fiscal year, due mainly to an increase in proceeds from sales and redemptions of other financial assets.

Net cash provided by financing activities amounted to ¥22.9 billion of cash inflows. Cash inflows from financing activities increased by ¥197.2 billion compared with the previous fiscal year, due mainly to an increase in proceeds from financing liabilities, which was partially offset by an increase in repayments of financing liabilities.

Fiscal Year 2018 Compared with Fiscal Year 2017

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

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

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

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

Liquidity

The ¥2,494.1 billion in cash and cash equivalents as of March 31, 2019 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, 2019 corresponds to approximately 1.9 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 ¥1,295.0 billion have committed lines of credit equivalent to ¥1,080.5 billion that serve as alternative liquidity for the commercial paper issued regularly to replace debt. Honda believes it currently has sufficient credit limits, extended by prominent international banks, as of the date of the filing of Honda's Form 20-F.

Honda's financing liabilities as of March 31, 2019 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, 2019.

	Credit ratings for	
	Short-term unsecured debt securities	Long-term unsecured debt securities
Moody's Investors Service	P-1	A2
Standard & Poor's Rating Services	A-1	A
Rating and Investment Information	a-1+	AA

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

C. Research and Development

The Company and its consolidated subsidiaries use the most-advanced technologies and conduct R&D activities with the goal of creating distinctive products that are internationally competitive. To attain this goal, Honda's main R&D divisions operate independently as subsidiaries, allowing engineers to pursue their tasks with significant freedom. Product-related R&D is conducted mainly by Honda R&D Co., Ltd. in Japan; Honda R&D

Americas, Inc. in the United States; and Honda Motor (China) Technology Co., Ltd. in China. 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.

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

Among major technological achievements, in November 2018, we began lease sales of the *PCX ELECTRIC*, which was announced at the TOKYO MOTOR SHOW in 2017. It has a driving range of 41km on a charge thanks to its two detachable *Honda Mobile Power Pack* batteries. Demonstration testing in Indonesia and Miyakojima in Japan verified the convenience of the electric motorcycle for both business and personal use, and collected data regarding usage. This data is being used in further development, and we are making steady advances in our efforts to promote greater electric motorcycle penetration.

In September 2018, we launched the *PCX HYBRID*, which is the world’s first mass-produced motorcycle with a hybrid system. A motor assists the motorcycle’s engine, providing greater throttle response and producing superb drive performance than conventional scooters in the same class.

We launched the *Super Cub C125* and *Monkey125*, which combine commuter practicality with playfulness and sophistication. The *Super Cub C125*, launched in September 2018, features universal and elegant styling, with the curvy silhouette of past models and *unit steering* reminiscent of the vehicle’s debut model. It also has more rigid structural components for more stable vehicle body behavior commensurate with its 125cc drive performance. The *Monkey125*, launched in July 2018, retains the cute silhouette of previous Monkey models, but has a 1,155mm wheel base, providing straight line stability and excellent handling performance for various driving conditions, such as when cornering or driving on rough terrain.

Furthermore, the *CB650R*, a middle-class naked road sports model launched in March 2019, is even more lightweight than past models, with a more centered mass. The components used in the body, underbody, and power unit have been refined, enriching the new generation *CB* series lineup.

R&D expenditures in this segment incurred during the fiscal years 2017, 2018 and 2019 were ¥74.3 billion, ¥79.4 billion and ¥85.1 billion, respectively.

Automobile Business

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

Among major technological achievements, in July 2018, we launched the *CLARITY PHEV* to enrich our lineup of electric vehicles and contribute to their full-fledged adoption and popularization. The two-motor

SPORT HYBRID i-MMD hybrid system was optimized for plug-in hybrid vehicles, and battery capacity improvements, converter output enhancements, and other advances have made EV driving possible in an even wider range of fields. The hybrid system provides an EV driving range (electric operation driving range) of 114.6km (JC08 mode), capable of covering most day to day driving needs, while size reductions have allowed it to be installed underfloor.

The *INSIGHT*, launched in December 2018, uses both the *1.5L DOHC i-VTEC engine* and the *SPORT HYBRID i-MMD*. It offers improved fuel economy, powerful acceleration, and comfortable driving.

The *N-VAN*, developed as a new standard for van-type mini-vehicles, was launched in July 2018. It features Honda's proprietary center-tank layout, with the fuel tank located beneath the front seats, and low-floor cargo space, making it easy to accommodate tall luggage. It is also the first van-type mini-vehicle to use a center-pillarless design for greater loading efficiency. Furthermore, it offers collision safety performance by using strong, lightweight materials and door-in pillar structure. In the 2018 Preventive Safety Performance Assessment, it was granted the highest rating, ASV+++.

In September 2018, we completely redesigned the *CRIDER*, a China-exclusive sedan launched in 2013. In addition to providing it with the feel of a vehicle in a higher size class and creating a more spacious interior, we also gave it a fuel mileage of 4.9L/100km, meeting Chinese fuel mileage regulations for 2020. This has provided the model with new value that is not restricted by the bounds of sedan conventions.

Furthermore, we launched the *CR-V*, one of Honda's leading global models, in Japan for the first time in two years. The gasoline model released in August 2018, boasts a high output turbo engine and an interior that meets a wide range of needs. The hybrid model released in November 2018, features *SPORT HYBRID i-MMD*, offering both high fuel mileage and powerful driving, together with linear, high quality drivability. Both models provide reliable, comfortable driving in all situations, such as through their use of a hands-free power tailgate (*Hands-Free Access Power Tailgate*), the first in any automobile in Japan.

R&D expenditures in this segment incurred during the fiscal years 2017, 2018 and 2019 were ¥559.8 billion, ¥625.0 billion and ¥703.6 billion, respectively.

Power Product and Other Businesses

Honda has engaged in research and development in the Power products and other businesses, based on the policy of 'Creating and providing the value of high quality usefulness and joy to support the lives and work of a diverse range of people'.

Among major technological achievements, new capabilities have been added to Honda's series of hybrid snow blowers, which are capable of quickly and powerfully removing snow, and improved hybrid snow blowers have been rolled out to the market. The *HSM1590i*, launched in September 2018, has the first *smart auger system* in its class. This reduces the burden placed by auger control during operation. The *HSM1590i* is also the first snow blower with *tilt-linked speed control*. This reduces slipping and sticking when blowing snow, improving operability in deep snow. The *HSM1390i(JR)* and *HSM1380i(JR)*, launched in September 2018, have improved auger reset functions and greater ease of use. The *HSS1170i*, released in July 2018, offers improved turn feeling thanks to movement control adjustment, and accelerates more smoothly from a stop.

In November 2018, we began accepting orders for the *Smart Hydrogen Station(SHS)70MPa*. It has a compact design thanks to its use of the *Power Creator*, Honda's original high-differential-pressure water electrolysis system. Despite its compact size, it is the world's first high-pressure water electrolysis hydrogen station with a filling pressure of 70MPa and a storage pressure of 82MPa. We aim to eliminate CO₂ production starting with the energy that powers vehicles, and are expanding our efforts to create a low-carbon, hydrogen-based society.

We also fully redesigned the popular *GCV* series, which is used in lawnmower and high-pressure washer power units. The redesigned *GCV* was gradually rolled out, starting in September 2018. Three models were developed: the *GCV145*, the *GCV170*, and the *GCV200*. They not only offer the superb fuel economy of previous models, but also use combustion technology improvements to achieve some of the greatest output and torque in their class, and were made easier to start, improving their ease of use as power units in work equipment in consumer products.

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

In aircraft business, Honda has created new value with uniquely developed leading-edge technology. We are building an operating base in order to grow our aircraft business from a long-term perspective.

The *HondaJet Elite*, a high-performance version of the *HondaJet*, carries on the technologies developed by Honda and used in the *HondaJet*, as well as featuring several state-of-the-art technologies and devices. These lengthen their cruising distances, improve takeoff and landing performance, create quieter cabin interiors by using Noise Attenuating Engine Inlets, and produce more highly evolved avionics systems, improving product competitiveness. In calendar year 2018, the *HondaJet* became the most delivered aircraft in the world in the small jet category for the second consecutive year, and in December 2018, it received type certification in Japan and we began product delivery. The *HondaJet Elite* has now received type certification in nine countries, and we are working to enhance sales, such as by increasing the number of dealers.

R&D expenditure in this segment incurred during the fiscal years 2016, 2017 and 2018 were ¥25.6 billion, ¥26.2 billion and ¥31.2 billion, respectively.

Patents and Licenses

As of March 31, 2019, Honda owned more than 21,600 patents in Japan and more than 28,000 patents abroad. Honda also had applications pending for more than 6,800 patents in Japan and for more than 14,300 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 Results" for information required by this item.

E. Off-Balance Sheet Arrangements

Loan commitments

Honda maintains unused balances on committed lines to dealers based on loan commitment contracts. The undiscounted maximum amount of this potential obligation as of March 31, 2019 was ¥57.4 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, 2019, we guaranteed ¥11.9 billion of employee bank loans for their housing costs. If an employee defaults on his/her loan payments, we are required to perform under the guarantee. The undiscounted maximum amount of our potential obligation to make future payments in the event of defaults is ¥11.9 billion. As of March 31, 2019, 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, 2019:

Contractual Obligations

	Yen (millions)				
	Total	Payments due by period			
		Within 1 year	1-3 years	3-5 years	Thereafter
Financing liabilities	¥7,650,429	¥3,321,576	¥2,787,501	¥1,301,714	¥239,638
Other financial liabilities	219,911	107,758	50,969	28,159	33,025
Future minimum lease payments under non-cancelable operating leases	115,634	23,733	29,300	18,256	44,345
Purchase and other commitments*1	99,379	80,050	17,445	644	1,240
Contributions to defined benefit pension plans*2	76,232	76,232	—	—	—
Total	<u>¥8,161,585</u>	<u>¥3,609,349</u>	<u>¥2,885,215</u>	<u>¥1,348,773</u>	<u>¥318,248</u>

*1 Honda had commitments for purchases of property, plant and equipment as of March 31, 2019.

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

Honda’s Board of Directors appoints one President and Director and may appoint one Chairman of the Board of Directors and several Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors from among Directors who are not Audit and Supervisory Committee Members. The President represents the Company. In addition, the Board of Directors may appoint, pursuant to its resolutions, Directors who shall each represent the Company. Under the Company Law, a representative director individually has authority to represent the company generally in the conduct of its affairs. The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company.

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

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). Also the names of the operating officers (who are not concurrently the members of the Board of Directors) of the Company and the current positions held by such persons are provided below.

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Chairman and Director			
Toshiaki Mikoshiba (November 15, 1957)	<p>Joined Honda Motor Co., Ltd. in April 1980</p> <p>Responsible for East Europe, the Middle & Near East and Africa for Regional Operations (Europe, the Middle & 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 & 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</p> <p>President and Director of Honda North America, Inc., appointed in April 2016</p> <p>President, Chief Executive Officer and Director of American Honda Motor Co., Inc., appointed in April 2016</p> <p>In Charge of Sales and Marketing of the Company, appointed in April 2017</p> <p>Senior Managing Director, appointed in June 2017</p>	*2	38,500

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
	President, Chief Executive Officer and Director of Honda North America, Inc., appointed in April 2018		
	Chairman, Chief Executive Officer and Director of Honda North America, Inc., appointed in November 2018		
	Chairman, Chief Executive Officer and Director of American Honda Motor Co., Inc., appointed in November 2018		
	Chairman and Director of the Company, appointed in April 2019 (presently held)		
	Chairman of the Board of Directors, appointed in April 2019 (presently held)		
	Director in Charge of Government and Industry Relations, appointed in April 2019 (presently held)		

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Representative Directors			
Takahiro Hachigo (May 19, 1959)	<p>Joined Honda Motor Co., Ltd. in April 1982</p> <p>General Manager of Automobile Purchasing Division II for Purchasing Operations, appointed in April 2008</p> <p>Operating Officer, appointed in June 2008</p> <p>General Manager of Purchasing Division II for Purchasing Operations, appointed in April 2010</p> <p>General Manager of Suzuka Factory for Production Operations, appointed in April 2011</p> <p>Vice President and Director of Honda Motor Europe, Ltd., appointed in April 2012</p> <p>Managing Officer of Honda R&D Co., Ltd., appointed in September 2012</p> <p>President and Director of Honda R&D Europe (U.K.) Ltd., appointed in September 2012</p> <p>Representative of Development, Purchasing and Production (China) of the Company, 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, appointed in April 2015</p> <p>President, Chief Executive Officer and Representative Director, appointed in June 2015</p> <p>Chief Executive Officer, appointed in April 2017 (presently held)</p> <p>President and Representative Director, appointed in June 2017 (presently held)</p> <p>Director in Charge of Research & Development (Research & Development, Intellectual Property and Standardization), appointed in April 2019 (presently held)</p>	*2	38,600

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Seiji Kuraishi (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) of the Company, 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, appointed in April 2011</p> <p>Operating Officer, appointed in June 2011 (resigned from position as Director)</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, appointed in April 2016</p> <p>Executive Vice President, Executive Officer and Representative Director, appointed in June 2016</p> <p>Risk Management Officer, appointed in June 2016</p> <p>Corporate Brand Officer, appointed in June 2016 (presently held)</p> <p>Chief Operating Officer, appointed in April 2017 (presently held)</p> <p>In Charge of Strategy, Business Operations and Regional Operations, appointed in April 2017</p> <p>Executive Vice President and Representative Director, appointed in June 2017 (presently held)</p> <p>Director in Charge of Strategy, Business Operations and Regional Operations, appointed in April 2019 (presently held)</p> <p>Chief Officer for Automobile Operations, appointed in April 2019 (presently held)</p>	*2	38,700

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Senior Managing Directors			
Yoshi Yamane (September 28, 1958)	<p>Joined Honda Engineering Co., Ltd. in October 1985</p> <p>Large Project Leader of Corporate Project, Automobile Production Planning Office for Production Operations of the Company, appointed in April 2008</p> <p>Operating Officer, appointed in June 2008</p> <p>Responsible for Production for Production Operations, appointed in June 2008</p> <p>Responsible for Production for Regional Operations (China), appointed in April 2009</p> <p>Vice President of Honda Motor (China) Investment Co., Ltd., appointed in September 2010</p> <p>General Manager of Suzuka Factory for Production Operations of the Company, appointed in April 2012</p> <p>Representative of Automobile Development, Purchasing and Production (Japan), appointed in April 2013</p> <p>General Manager of Suzuka Factory of Automobile Production for Automobile Operations, appointed in April 2013</p> <p>Managing Officer, appointed in April 2014</p> <p>Head of Automobile Production for Regional Operations (Japan), appointed in April 2014</p> <p>Head of Production Supervisory Unit of Automobile Production for Regional Operations (Japan), appointed in April 2014</p> <p>Senior Managing Officer, appointed in April 2015</p> <p>Chief Production Officer, appointed in April 2015</p> <p>Representative of Automobile Development, Purchasing and Production for Automobile Operations, appointed in April 2015</p> <p>Head of Production for Automobile Operations, appointed in April 2015</p>	*2	37,300

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
	Representative of Automobile Development, Purchasing and Production (Europe Region), appointed in April 2015		
	Senior Managing Officer and Director, appointed in June 2015		
	Chief Officer for Production Operations, appointed in April 2016		
	In Charge of Production (Production, Purchasing, Quality, Parts and Service) appointed in April 2017		
	Senior Managing Director, appointed in June 2017 (presently held)		
	Director in Charge of Production (Production, Purchasing, Quality, Parts and Service), appointed in April 2019 (presently held)		
	Risk Management Officer, appointed in April 2019 (presently held)		

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Kohei Takeuchi (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, appointed in April 2011</p> <p>Chief Officer for Business Management Operations, appointed in April 2013</p> <p>Operating Officer and Director, appointed in June 2013</p> <p>Managing Officer and Director, appointed in April 2015</p> <p>Senior Managing Officer and Director, appointed in April 2016</p> <p>Chief Officer for Driving Safety Promotion Center, appointed in April 2016 (presently held)</p> <p>Chief Financial Officer (Accounting, Finance, Human Resources, Corporate Governance and IT), appointed in April 2017</p> <p>Senior Managing Director, appointed in June 2017 (presently held)</p> <p>Chief Financial Officer and Director in Charge of Finance and Administration (Accounting, Finance, Human Resources, Corporate Governance and IT), appointed in April 2019 (presently held)</p> <p>Compliance Officer, appointed in April 2019 (presently held)</p>	*2	27,900

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Directors			
Motoki Ozaki (June 6, 1949)	<p>Chairman of the Board of Kao Corporation, appointed in June 2012 (resigned in March 2014)</p> <p>President and Representative Director of The Kao Foundation for Arts and Sciences, appointed in June 2012 (presently held)</p> <p>President of Kigyo Mecenat Kyogikai, Association for Corporate Support of the Arts, appointed in March 2014 (presently held)</p> <p>President of New National Theatre Foundation, appointed in June 2014 (presently held)</p> <p>Outside Director of Nomura Securities Co., Ltd., appointed in June 2015</p> <p>Director of the Company, appointed in June 2016 (presently held)</p> <p>Outside Director (Audit and Supervisory Committee Member) of Nomura Securities Co., Ltd., appointed in April 2019 (presently held)</p>	*2	1,100
Hiroko Koide (August 10, 1957)	<p>Joined J. Walter Thompson Japan K.K. (currently J. Walter Thompson Japan G.K.) in September 1986</p> <p>Joined Nippon Lever K.K. (currently Unilever Japan K.K.) in May 1993</p> <p>Director of Nippon Lever K.K., appointed in April 2001 (resigned in March 2006)</p> <p>General Manager of Marketing Management Division, Masterfoods Ltd. (U.S.) (currently Mars Japan Limited (U.S.)), appointed in April 2006</p> <p>Chief Operating Officer of Mars Japan Limited (U.S.), appointed in April 2008 (resigned in August 2010)</p> <p>President and Representative Director of Parfums Christian Dior Japon K.K., appointed in November 2010 (resigned in January 2012)</p> <p>Outside Director of Kirin Co., Ltd., appointed in January 2013 (resigned in March 2018)</p> <p>Senior Vice President of Global Marketing, Newell Rubbermaid Inc. (U.S.) (currently Newell Brands Inc. (U.S.)), appointed in April 2013 (resigned in February 2018)</p> <p>Outside Director of Mitsubishi Electric Corporation, appointed in June 2016 (presently held)</p> <p>Director of Vicela Japan Co., Ltd., appointed in April 2018 (resigned in March 2019)</p> <p>Director of the Company, appointed in June 2019 (presently held)</p>	*2	—

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Takanobu Ito (August 29, 1953)	<p>Joined Honda Motor Co., Ltd. in April 1978</p> <p>Executive Vice President of Honda R&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&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&D Co., Ltd., appointed in June 2003</p> <p>General Supervisor for Motor Sports of the Company, appointed in April 2004</p> <p>General Manager of Suzuka Factory for Production Operations, appointed in April 2005</p> <p>Managing Officer, appointed in June 2005</p> <p>Chief Officer for Automobile Operations, appointed in April 2007</p> <p>Senior Managing Director, appointed in June 2007</p> <p>President and Representative Director of Honda R&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, appointed in April 2011</p> <p>Chief Officer for Automobile Operations, appointed in April 2011</p> <p>Director and Advisor, appointed in June 2015 (presently held)</p>	*2	47,200

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Directors (Audit and Supervisory Committee Members)			
Masahiro Yoshida (March 5, 1957)	<p>Joined Honda Motor Co., Ltd. in April 1979</p> <p>Responsible for Human Resources and Associate Relations and General Manager of Human Resources Division for Business Support Operations, appointed in April 2007</p> <p>Operating Officer, 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, appointed in June 2010</p> <p>Operating Officer and Director, appointed in April 2011</p> <p>Compliance Officer, appointed in April 2012</p> <p>Managing Officer and Director, appointed in April 2013</p> <p>Corporate Auditor (Full-time), appointed in June 2016</p> <p>Director (Full-time Audit and Supervisory Committee Member), appointed in June 2017 (presently held)</p>	*3	41,900
Masafumi Suzuki (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 & Near East and Africa), appointed in April 2010</p> <p>General Manager of Regional Operation Planning Office for Regional Operations (Europe, CIS, the Middle & 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 (Full-time Audit and Supervisory Committee Member), appointed in June 2017 (presently held)</p>	*3	47,620

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Hideo Takaura (June 19, 1949)	<p>Registered as Japanese Certified Public Accountant 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 (resigned in June 2009)</p> <p>Outside Auditor of Innovation Network Corporation of Japan (currently Japan Investment Corporation), 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), appointed in June 2017 (presently held)</p> <p>Outside Director of Tokyo Electric Power Company Holdings, Inc., appointed in June 2017 (presently held)</p> <p>Outside Auditor of INCJ, Ltd., appointed in September 2018 (presently held)</p>	*3	1,500
Mayumi Tamura (May 22, 1960)	<p>Executive Officer, SVP and Chief Financial Officer of The Seiyu, Ltd. (currently Seiyu G.K.), appointed in June 2007</p> <p>Executive Officer, SVP and Chief Financial Officer of Seiyu G.K. and Wal-Mart Japan Holdings G.K. (currently Wal-Mart Japan Holdings K.K.), appointed in May 2010 (resigned in July 2013)</p> <p>Corporate Auditor of the Company, appointed in June 2015</p> <p>Director (Audit and Supervisory Committee Member), appointed in June 2017 (presently held)</p> <p>Outside Director of Hitachi High-Technologies Corporation, appointed in June 2017 (presently held)</p>	*3	1,500

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
Kunihiko Sakai (March 4, 1954)	Public Prosecutor of Tokyo District Public Prosecutors' Office, appointed in April 1979	*3	—
	Public Prosecutor of Nagano District Public Prosecutors' Office, appointed in March 1980		
	Public Prosecutor of Tokyo District Public Prosecutors' Office, appointed in March 1983		
	First Secretary of Embassy of Japan in the United States of America, appointed in July 1990		
	Public Prosecutor of Tokyo District Public Prosecutors' Office, appointed in April 1994		
	Senior Counsel of Minister's Secretariat of Ministry of Justice, appointed in July 1998		
	Public Prosecutor of Tokyo High Public Prosecutors' Office and Assistant Director of Public Security Department of Tokyo District Public Prosecutors' Office, appointed in April 2000		
	Director of the United Nations Asia and Far East Institute for the Prevention of Crime and the Treatment of Offenders, appointed in April 2002		
	Director of Trial Department of Tokyo High Public Prosecutors' Office, appointed in July 2005		
	Public Prosecutor of Supreme Public Prosecutors' Office, appointed in July 2006		
	Chief Public Prosecutor of Nara District Public Prosecutors' Office, appointed in June 2007		
	Director-General of General Affairs Department of Supreme Public Prosecutors' Office, appointed in July 2008		
	Director of Lay Judge Trial Department of Supreme Public Prosecutors' Office, appointed in June 2010		
	Chief Public Prosecutor of Nagoya District Public Prosecutors' Office, appointed in October 2010		
	President of Research and Training Institute of Ministry of Justice, appointed in June 2012		
Superintending Prosecutor of Takamatsu High Public Prosecutors' Office, appointed in July 2014			
Superintending Prosecutor of Hiroshima High Public Prosecutors' Office, appointed in September 2016 (resigned in March 2017)			

Name (Date of birth)	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
	Registered with the Dai-Ichi Tokyo Bar Association in April 2017		
	Advisor Attorney to TMI Associates, appointed in April 2017 (presently held)		
	Audit and Supervisory Board Member (Outside) of Furukawa Electric Co., Ltd., appointed in June 2018 (presently held)		
	Director (Audit and Supervisory Committee Member) of the Company, appointed in June 2019 (presently held)		

- *1 Directors (including Audit and Supervisory Committee Members) Mr. Motoki Ozaki, Ms. Hiroko Koide, Mr. Hideo Takaura, Ms. Mayumi Tamura and Mr. Kunihiko Sakai are Outside Directors.
- *2 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, 2020 after his/her election to office at the close of the ordinary general meeting of shareholders on June 19, 2019.
- *3 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, 2021 after his/her election to office at the close of the ordinary general meeting of shareholders on June 19, 2019.
- *4 The Company has introduced an operating officer system to strengthen operations in regions and local workplaces, and implement quick and appropriate decisions. Executive Officers, Senior Managing Officers, Managing Officers and Operating Officers under the operating officer system are not statutory positions under the Company Law and do not conform to the definition of “Directors and Senior Management” as defined in Form 20-F. The Company’s Managing Officers and Operating Officers under the operating officer system, as voluntarily disclosed in Japan, are as follows:

Managing Officers

Takashi Sekiguchi	Executive in Charge of Corporate Planning
Michimasa Fujino	President and Director of Honda Aircraft Company, LLC
Shinji Aoyama	Chief Officer for Regional Operations (North America) President, Chief Executive Officer and Director of Honda North America, Inc. President, Chief Executive Officer and Director of American Honda Motor Co., Inc.
Noriya Kaihara	Chief Officer for Purchasing Operations
Toshihiro Mibe	President and Representative Director of Honda R&D Co., Ltd. Executive in Charge of Intellectual Property and Standardization
Mitsugu Matsukawa	President and Director of Honda of America Mfg., Inc.
Noriaki Abe	Chief Officer for Motorcycle Operations
Yasuhide Mizuno	Chief Officer for Regional Operations (China) President of Honda Motor (China) Investment Co., Ltd. President of Honda Motor (China) Technology Co., Ltd.

Operating Officers

Issao Mizoguchi	Chief Officer for Regional Operations (South America) President and Director of Honda South America Ltda. President and Director of Honda Automoveis do Brazil Ltda. President and Director of Moto Honda da Amazonia Ltda.
Yusuke Hori	Chief Officer for Customer First Operations Chief Officer for IT Operations
Tomomi Kosaka	President and Representative Director of Honda Engineering Co., Ltd.
Toshiyuki Shimabara	Representative of Production for Regional Operation (China) Executive Vice President of Honda Motor (China) Investment Co., Ltd. Executive Vice President of Honda Motor (China) Technology Co., Ltd.
Kazuhiro Odaka	Executive in Charge of Government and Industry Relations
Masayuki Igarashi	Chief Officer for Regional Operations (Asia & Oceania) President and Director of Asian Honda Motor Co., Ltd.
Hiroyuki Kachi	Chief Officer for Production Operations Executive in Charge of Corporate Project
Soichi Yamamoto	General Manager of Saitama Factory, Production Operations
Katsushi Inoue	Chief Officer for Regional Operations (Europe Region) President and Director of Honda Motor Europe Ltd.
Kimiyoshi Teratani	Chief Officer for Regional Operations (Japan)
Asako Suzuki	Chief Officer for Human Resources and Corporate Governance Operations
Katsuhisa Okuda	Chief Officer for Life Creation Operations
Katsuhide Moriyama	Chief Officer for Brand and Communication Operations
Keiji Ohtsu	Chief Quality Officer
Yoshishige Nomura	General Manager of Monozukuri Center, Motorcycle Operations Senior Managing Director of Honda R&D Co., Ltd. President and Representative Director of Honda Racing Corporation
Yoshikado Nakao	Executive in Charge of Purchasing, Purchasing Operations
Hiroshi Tokutake	General Manager of Kumamoto Factory, Motorcycle Operations Executive in Charge of Life Creation Production, Life Creation Operations
Taro Kobayashi	Executive in Charge of Automobile Sales, Automobile Operations
Jiro Morisawa	Chief Officer for Business Management Operations

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

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

B. Compensation

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

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

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

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

Remuneration of the executive Directors and the Operating Officers shall consist of monthly remuneration paid based on the remuneration standards approved by the Board of Directors as well as executive bonuses and stock compensation.

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

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

Regarding remuneration and other related matters, it was approved at the Ordinary General Meeting of Shareholders held on June 15, 2017 that the amount of remuneration for Directors (excluding Audit and Supervisory Committee Members) shall be no more than 1,160 million yen per year, while the remuneration for Outside Directors shall be no more than 34 million yen, and the remuneration for Directors who are Audit and Supervisory Committee Members shall be no more than 270 million per year. At the time of the approval, there were nine Directors (of which two are Outside Directors; excluding Director who are Audit and Supervisory Committee Members) and there were five Directors who belong to the Audit and Supervisory Committee.

Besides the amount of the remuneration provided above, it was approved at the Ordinary General Meeting of Shareholders held on June 14, 2018 that, for the Directors and Operating Officers who conduct business execution and who are residents of Japan, a new stock compensation scheme providing delivery or grant of shares in the Company and monetary compensation in an amount equivalent to the conversion proceeds of shares in the Company along with the dividends on shares in the Company will be introduced. The maximum amount of funds contributed by the Company was set at 3,910 million yen for the trust period (approximately three years). At the time of the approval, five Directors and 16 Operating Officers were eligible for this scheme.

The Board of Directors has the authority to determine policies relating to determination of the amount of remuneration paid to the Company's Directors as well as the relevant calculation methods. The scope of such authority and discretionary power of the Board of Directors to determine and approve the remuneration standards as well as the amount of remuneration paid to the Directors shall be within the allowed amount of remuneration set by the Ordinary General Meeting of Shareholders. If the Board of Directors seeks to determine or change the remuneration structure or the remuneration standards for the Directors, it shall discuss the matter after hearing the opinions formed in advance by the Audit and Supervisory Committee.

In the process of determining the remuneration of Directors for this business year, changes in the remuneration standards as well as introduction of a new stock compensation scheme were approved at the meeting of the Board of Directors held on May 15, 2018. In addition, the amounts of bonus to be paid to Directors were decided at the meeting of the Board of Directors held on May 8, 2019. Furthermore, changes in the remuneration standards as well as introduction of a new stock compensation scheme were approved at the meeting of the Board of Directors on May 15, 2018, based on the opinions that the suggested change and procedures were appropriate by the Audit and Supervisory Committee Meeting held on May 9, 2018.

Remuneration of executive Directors shall consist of performance-linked remuneration and other kinds of remuneration, whose ratio will be determined as follows. If performance-linked remuneration is paid at the base amount, 50% of the total remuneration will consist of performance-linked remuneration, such as the bonus and stock compensation, and the rest 50% will consist of other kinds of remuneration.

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

Directors and Operating Officers shall continuously hold throughout their term of office and for one year after their retirement any stock of the Company acquired as stock compensation or acquired through the Officers Shareholding Association.

In addition, regarding the guideline for performance-linked remuneration, the bonus amount is determined based on the business results of each business year, dividends paid to shareholders and the standards of bonuses of employees and other factors. The guideline for stock compensation is determined based on financial indicators, such as consolidated operating margin, and the degree of growth in non-financial indicators, such as brand value and ESG (Environmental, Social and Governance).

The above guideline determining the amount of bonus is selected in order to measure the degree of contribution to corporate value for each business year and to measure the degree of achievement of corporate responsibility to shareholders and employees. The above guideline determining the amount of stock compensation is selected in order to achieve sustainable growth and enhancement of corporate value over the mid- to long term.

Regarding the amount of performance-linked remuneration, while a specific target of the guideline is not set, the amount of bonus is determined at each meeting of the Board of Directors based on the relationship between the guidelines and amounts of bonus paid in the past as well as of the current business condition and future prospects.

The amount of stock compensation is determined within the range of 50%-150% of the performance coefficient based on the degree of growth of the Company during the most recent three fiscal years and calculated using the method determined at the Board of Directors.

The total amount of fixed monthly remuneration paid to the Company's Directors during the fiscal year ended March 31, 2019 was ¥732 million. The amount of fixed monthly remuneration paid to the Directors includes amount of fixed monthly remuneration paid to those Directors who were also Directors or Corporate Auditors of subsidiaries of the Company.

The total amount of bonuses and stock compensation for the Company's Directors accrued for the fiscal year ended March 31, 2019 were ¥172 million and ¥125 million, respectively.

The amounts of fixed monthly remuneration paid, bonuses and stock compensation accrued during the year ended March 31, 2019 are as follows:

	<u>Fixed remuneration</u>		<u>Performance-linked remuneration</u>			<u>Total</u>
	<u>Remuneration</u>		<u>Bonus</u>		<u>Stock compensation</u>	<u>Yen (millions)</u>
	<u>Number of persons</u>	<u>Yen (millions)</u>	<u>Number of persons</u>	<u>Yen (millions)</u>	<u>Yen (millions)</u>	
Directors excluding Audit and Supervisory Committee Members and outside						
Directors	7	¥505	6	¥172	¥125	¥ 802
Outside Directors excluding Audit and Supervisory Committee Members	2	33	—	—	—	33
Audit and Supervisory Committee Members excluding outside Directors	2	143	—	—	—	143
Outside Audit and Supervisory Committee Members	3	50	—	—	—	50
Total	<u>14</u>	<u>¥732</u>	<u>6</u>	<u>¥172</u>	<u>¥125</u>	<u>¥1,029</u>

The amount of fixed monthly remuneration paid to Toshiaki Mikoshiba during the fiscal year ended March 31, 2019 was ¥109 million. The amount of bonus and stock compensation for Toshiaki Mikoshiba accrued for the fiscal year ended March 31, 2019 were ¥19 million and ¥10 million, respectively.

The amount of fixed monthly remuneration paid to Takahiro Hachigo during the fiscal year ended March 31, 2019 was ¥94 million. The amount of bonus and stock compensation for Takahiro Hachigo accrued for the fiscal year ended March 31, 2019 were ¥45 million and ¥34 million, respectively.

The amount of fixed monthly remuneration paid to Seiji Kuraishi during the fiscal year ended March 31, 2019 was ¥61 million. The amount of bonus and stock compensation for Seiji Kuraishi accrued for the fiscal year ended March 31, 2019 were ¥29 million and ¥22 million, respectively.

The Board Incentive Plan

The Company resolved to introduce a new stock compensation scheme (the “Scheme”) for Directors and Operating Officers who conduct business execution and who are residents of Japan (collectively, “Directors Etc.”) at its Board of Directors meeting on May 15, 2018 and the 94th Ordinary General Meeting of Shareholders on June 14, 2018 (the approval at such Meeting of Shareholders, the “Shareholder Approval”). The Scheme is a stock compensation scheme that uses a “BIP (Board Incentive Plan) trust” (a “BIP Trust”), which is similar to performance share and restricted stock compensation plans used in the United States. Under the Scheme, Directors Etc. will be awarded and receive the Company shares and money in accordance with their positions and the degree of growth in management indicators of the Company, such as financial results and corporate value. The Scheme was introduced for the purpose of further motivating Directors Etc. to pursue sustained improvement of corporate value of the Company in the medium to long term as well as common interests with shareholders.

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

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

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

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

The trustees of the BIP Trust are Mitsubishi UFJ Trust and Banking Corporation and The Master Trust Bank of Japan, Ltd. We set ¥2,409 million as the amount of the trust money, which includes remunerations and expenses relating to maintenance of the trust. While up to 1,310,000 shares of the Company's common stock were originally planned to be bought from the market for the purpose of this BIP Trust, 713,600 shares were actually bought for this purpose during the period from August 22, 2018 to August 31, 2018. The Company is the holder of vested rights, and the residual assets the Company can receive during the liquidation of the BIP Trust will be limited to the amount of reserve fund for maintenance of the trust. The voting rights of the shares of common stock held by the BIP Trust will not be exercised.

C. Board Practices

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

D. Employees

The following tables list the number of Honda full-time employees as of March 31, 2017, 2018 and 2019.

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.

As of March 31, 2018

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

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

As of March 31, 2019

<u>Total</u>	<u>Motorcycle Business</u>	<u>Automobile Business</u>	<u>Financial Services Business</u>	<u>Power Product and Other Businesses</u>
219,722	45,319	162,278	2,442	9,683

As of March 31, 2019, Honda had 219,722 full-time employees, including 153,215 local nationals employed in its overseas operations.

Most of the Company's regular employees in Japan, except management personnel, are required by the terms of the Company's collective bargaining agreement with its labor union to become members of the Federation of All Honda Workers' Union (AHWU), which is affiliated with the Japan Council of the International Metalworkers' Federation. Approximately 85% of the employees of the Company and its Japanese subsidiaries were members of AHWU as of March 31, 2019.

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, 2017, 2018 and 2019 were 2.4%, 2.5% 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 19, 2019 is as follows.

<u>Title of Class</u>	<u>Amount Owned</u>	<u>% of Class</u>
Common Stock	321,820 shares	0.018%

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, 2019, the Association owned 6,266,277 shares of the Company's common stock.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

As of March 31, 2019, 1,811,428,430 shares of Honda's Common Stock were issued and 1,759,561,385 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, 2019:

<u>Name</u>	<u>Shares owned (thousands)</u>	<u>Ownership (%)</u>
Japan Trustee Services Bank, Ltd. (Trust Account)	128,449	7.30
The Master Trust Bank of Japan, Ltd. (Trust Account)	124,970	7.10

According to a statement on Schedule 13G (Amendment No. 15) filed by Mitsubishi UFJ Financial Group, Inc. with the SEC on February 13, 2019, Mitsubishi UFJ Financial Group, Inc. directly and indirectly held, as of December 31, 2018, 112,906,568 shares, or 6.4% of the then issued shares, of Honda's Common Stock. According to a statement on Schedule 13G (Amendment No. 4) filed by BlackRock, Inc. with the SEC on February 4, 2019, BlackRock, Inc. directly and indirectly held, as of December 31, 2018, 107,172,123 shares, or 5.9% of the then issued shares, of Honda's Common Stock. According to a statement on Schedule 13G (Amendment No. 2) filed by Sumitomo Mitsui Trust Holdings, Inc. with the SEC on February 12, 2019, Sumitomo Mitsui Trust Holdings, Inc. directly and indirectly held, as of December 31, 2018, 99,866,000 shares, or 5.5% 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, 2019 were 1,811,428,430 shares of Common Stock, of which 58,036,837 shares represented by ADSs and 254,067,657 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 263 at March 31, 2019.

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, 2019, Honda had sales of ¥838.5 billion and purchases of ¥1,552.5 billion with affiliates and joint ventures accounted for using the equity method. As of March 31, 2019, Honda had receivables of ¥260.3 billion from affiliates and joint ventures, and had payables of ¥176.6 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 were filed against Honda. The plaintiffs claimed for properly functioning airbag inflators, compensation of economic losses including incurred costs and the decline in the value of vehicles, as well as punitive damages.

Most of the class action lawsuits in the United States were transferred to the United States District Court for the Southern District of Florida and consolidated into a multidistrict class action litigation. For the year ended March 31, 2018, Honda has reached a settlement with the plaintiffs of the multidistrict class action litigation in the United States. Honda recognized the settlement of ¥53,739 million as selling, general and administrative expenses, which includes funds contributed to enhance airbag inflator recall activities. The final approval of the settlement from court was completed as July 31, 2018(U.S. local time).

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

8. Profit Redistribution Policy

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

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

The Company's basic policy for dividends is to make quarterly distributions. The Company may determine dividends from surplus by a resolution of the Board of Directors.

The Company may also acquire its own shares at a timing that it deems optimal, with the goal of improving efficiency of the Company's capital structure and implementing a flexible capital strategy.

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

The Company determined total dividends for the year ended March 31, 2019 were ¥111 per share, an increase of ¥11 from the annual dividends paid for the year ended March 31, 2018. Quarterly dividends per share for the year ended March 31, 2019 were as follows: the first quarter ¥27, the second quarter ¥28, the third quarter ¥28, the fourth quarter ¥28 per share.

Details of Distribution of Surplus (Record dates of the fiscal year ended March 31, 2019)

	<u>Resolution of the Board of Directors</u> <u>July 31, 2018</u>	<u>Resolution of the Board of Directors</u> <u>October 30, 2018</u>	<u>Resolution of the Board of Directors</u> <u>February 1, 2019</u>	<u>Resolution of the Board of Directors</u> <u>May 8, 2019</u>
Dividend per Share of Common Stock (yen)	27.00	28.00	28.00	28.00
Total Amount of Dividends (millions of yen)	47,682	49,287	49,287	49,287

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. Our ordinary shares are traded on the TSE under the symbol "7267".

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) under the symbol "HMC", having been traded on the over-the-counter markets in the United States since 1962.

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 certain 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. Additionally, the information called for by Items 10.B.3, 4, 5, 6, 7, 8, 9 and 10 of Form 20-F is included in Exhibit 2.7 to this Annual Report “Description of rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934—Common Stock” and is incorporated by reference herein.

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.

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 Exhibit 2.7 to this Annual Report "Description of rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934—Common Stock—Rights of the Shares—Record Date".

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

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

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

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

This summary is not a comprehensive description of all the tax considerations that may be relevant with respect to a U.S. holder’s shares or ADSs. Each beneficial owner of shares or ADSs should consult its own tax advisor regarding the U.S. federal, state and local and other tax consequences of owning and disposing of shares and ADSs in its particular circumstances.

Taxation of Dividends

Under the U.S. federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of any dividend paid by Honda out of its current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) to a U.S. holder is subject to U.S. federal income taxation. A U.S. holder must include any Japanese tax withheld from the dividend payment in this gross amount even though it does not in fact receive it.

Dividends paid to a noncorporate U.S. holder that constitute qualified dividend income will be taxable to such U.S. holder at the preferential rates applicable to long-term capital gains provided that the noncorporate U.S. holder holds the shares or ADSs with respect to which the dividends are paid for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements.

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

Subject to certain limitations, the Japanese tax withheld in accordance with the Treaty and paid over to Japan will be creditable or deductible against a U.S. holder's United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates. To the extent a refund of the tax withheld is available to a U.S. holder under Japanese law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. holder's United States federal income tax liability.

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

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if a U.S. holder sells or otherwise disposes of its shares or ADSs, it will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the U.S. dollar value of the amount that it realizes and its tax basis, determined in U.S. dollars, in its shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the U.S. for foreign tax credit limitation purposes.

Passive Foreign Investment Company (PFIC) Rules

Honda believes its shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes. This conclusion is a factual determination that is made annually and thus may be subject to change.

In general, Honda will be a PFIC with respect to a U.S. holder if for any taxable year in which such holder held shares or ADSs of Honda:

- at least 75% of Honda's gross income for the taxable year is passive income; or
- at least 50% of the value, determined on the basis of a quarterly average, of Honda's assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is

treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

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

- any gain it realizes on the sale or other disposition of its shares or ADSs; and
- any excess distribution that Honda makes to the U.S. holder (generally, any distributions to it during a single taxable year that are greater than 125% of the average annual distributions received by it in respect of the shares or ADSs during the three preceding taxable years or, if shorter, its holding period for the shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over the U.S. holder's holding period for the shares or ADSs,
- the amount allocated to the taxable year in which it realized the gain or excess distribution will be taxed as ordinary income,
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

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

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

Shares or ADSs held by a U.S. holder will be treated as stock in a PFIC if Honda was a PFIC at any time during the U.S. holder's holding period in its shares or ADSs, even if Honda is not currently a PFIC, unless a U.S. holder has made a mark-to-market election with respect to its shares or ADSs or the U.S. holder has otherwise made a "purging election" with respect to its shares or ADSs.

In addition, notwithstanding any election that a U.S. holder makes with regard to the shares or ADSs, dividends that a U.S. holder receives from Honda will not constitute qualified dividend income to such U.S. holder if Honda is a PFIC (or is treated as a PFIC with respect to such U.S. holder) in either the taxable year of the distribution or the preceding taxable year. Dividends that a U.S. holder receives that do not constitute qualified dividend income are not eligible for taxation at the preferential rates applicable to qualified dividend income. Instead, the U.S. holder must include the gross amount of any such dividend paid by Honda out of Honda's accumulated earnings and profits (as determined for United States federal income tax purposes) in the U.S. holder's gross income, and it will be subject to tax at rates applicable to ordinary income.

If a U.S. holder owns shares or ADSs during any year that Honda is a PFIC with respect to such U.S. holder, it must file Internal Revenue Service Form 8621, subject to certain applicable exceptions set forth in Internal Revenue Service regulations. Each U.S. holder should consult its own tax advisors regarding the PFIC rules and potential filing and other requirements.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosure about Market Risk

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

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

3. Fees and charges

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

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

Category (as defined by SEC)	Depository Actions	Associated Fee
(a) Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of Shares, including deposits and issuances in respect of: <ul style="list-style-type: none"> • Share distributions, stock split, rights, merger • Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the deposited securities 	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
(b) Receiving or distributing dividends	Not applicable	
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	USD 5.00 for each 100 ADSs (or portion thereof)
(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depository receipts	USD 2.50 per ADS certificate
(f) General depository services, particularly those charged on an annual basis	Not applicable	
Category	Depository Actions	Associated Fee
(g) Expenses of the depository	Expenses incurred on behalf of holders in connection with <ul style="list-style-type: none"> • Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment • The depository's or its custodian's compliance with applicable law, rule or regulation • Stock transfer or other taxes and other governmental charges • Cable, telex, facsimile transmission/delivery • Expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency) • Any other charge payable by the depository or its agents 	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, 2018 to March 31, 2019, the Depository waived \$151,776.54 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, 2019. 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, 2019 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, 2019.

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, 2019 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, 2019, 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 2018 and 2019:

	<u>Yen (millions)</u>	
	<u>2018</u>	<u>2019</u>
Audit Fees	¥4,512	¥4,374
Audit-Related Fees	123	129
All Other Fees	8	9
Total	<u>¥4,643</u>	<u>¥4,512</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, the Audit and Supervisory Committee must pre-approve audit services, audit-related services, tax services and other services to be provided by the principal accountant to ensure that the independence of the principal accountant under such rules is not impaired as a result of the provision of any of these services.

While, as a general rule, specific pre-approval must be obtained for these services to be provided, the Audit and Supervisory Committee has adopted pre-approval policies and procedures which list particular audit and non-audit services that may be provided without specific pre-approval. The Audit and Supervisory Committee reviews this list of services on an annual basis, and is informed of each such service that is actually provided.

All services to be provided to us by the principal accountant and its affiliates which are not specifically set forth in this list must be specifically pre-approved by the Audit and Supervisory Committee.

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

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, 2019. 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*1</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*2</u>
April 1 to April 30, 2018	222	¥3,661	—	—
May 1 to May 31, 2018	4,643,806	¥3,626	4,643,700	¥53,159,972,400
June 1 to June 30, 2018	7,612,124	¥3,494	7,611,600	¥26,561,566,900
July 1 to July 31, 2018	5,745,030	¥3,256	5,744,700	¥ 7,857,290,300
August 1 to August 31, 2018	148	¥3,416	—	—
September 1 to September 30, 2018	150	¥3,233	—	—
October 1 to October 31, 2018	436	¥3,229	—	—
November 1 to November 30, 2018	244	¥3,181	—	—
December 1 to December 31, 2018	504	¥3,083	—	—
January 1 to January 31, 2019	90	¥3,164	—	—
February 1 to February 28, 2019	226	¥3,138	—	—
March 1 to March 31, 2019	168	¥3,047	—	—
Total	<u>18,003,148</u>	<u>¥3,294</u>	<u>18,000,000</u>	

*1 For each month, the number of shares shown in column (a) in excess of the number of shares shown in column (c) represents the aggregate number of shares representing less than one unit that Honda purchased from the holders thereof upon their request. For an explanation of the right of such holders, see "Japanese

Unit Share System—Right of a Holder of Shares Representing Less Than One Voting Unit to Require Honda to Purchase or Sell Its Shares” under Item 10.B of this Annual Report. Total number of shares purchased does not include purchases of BIP trust.

- *2 During the year ended March 31, 2019, the following share repurchase program was in effect:
 Share repurchase was resolved at the meeting of the Board of Directors pursuant to the articles of incorporation Date of announcement: April 27, 2018
 Maximum number of shares authorized to be repurchased: 18,000,000
 Maximum yen amount authorized to be used for repurchase: ¥70,000,000,000
 Repurchased period: from May 7, 2018 to December 31, 2018
 (This program expired on the last day of the repurchase period referred to above.)

Item 16F. Change in Registrant’s Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

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

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

The following table shows the significant differences between the corporate governance practices followed by U.S. listed companies under Section 303A of the NYSE Listed Company Manual and those followed by Honda.

Corporate Governance Practices Followed by NYSE-listed U.S. Companies	Corporate Governance Practices Followed by Honda
A NYSE-listed U.S. company must have a majority of directors meeting the independence requirements under Section 303A of the NYSE Listed Company Manual.	<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.</p>

Honda currently has eight 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 eight 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 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.

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.

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 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 (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.

A NYSE-listed U.S. company must have a nominating/corporate governance committee entirely of independent directors.

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

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

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.

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

Corporate Governance Practices Followed by Honda

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 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.

Pursuant to a resolution of the Ordinary General Meeting of Shareholders in June 2018, Honda implemented a new stock compensation scheme (the "Scheme") for Honda's Directors and Operating Officers who conduct business execution and who are residents of Japan (collectively, "Directors Etc."). Under the Scheme, which uses a Board Incentive Plan trust (the "BIP Trust"), Honda's shares and money will be delivered and paid to Directors Etc. in

accordance with their positions and the degree of growth in management indicators of Honda such as performance and corporate value. The period of the BIP Trust shall be from August 2018 to August 2021 (scheduled), provided, however, that this period may be extended for another three years by amending the trust agreement and entrusting additional amounts to the BIP Trust within the scope of the approval at the Ordinary General Meeting of Shareholders.

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)
- 2.7 Description of rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934
- 8.1 List of Significant Subsidiaries (See “Organizational Structure” in Item 4.C of this Form 20-F)
- 11.1 Code of Ethics (6)
- 12.1 Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a)
- 12.2 Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a)
- 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
- 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

(1) Incorporated by reference to the registrant’s Annual Report on Form 20-F filed on September 27, 2001. (P)

(2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995. (P)

(3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001. (P)

- (4) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-114874) filed on June 28, 2006.
- (5) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-143589) filed on June 8, 2007.
- (6) Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 9, 2004.

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

(P) Paper exhibits

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, 2019

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

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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

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Honda Motor Co., Ltd. and subsidiaries (the “Company”) as of March 31, 2019 and 2018, 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, 2019, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three year period ended March 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 19, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

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

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

/s/ KPMG AZSA LLC

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

Tokyo, Japan
June 19, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited Honda Motor Co., Ltd. and subsidiaries' (the "Company") internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial position of the Company as of March 31, 2019 and 2018, 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, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated June 19, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG AZSA LLC

Tokyo, Japan
June 19, 2019

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

March 31, 2018 and 2019

	Note	Yen (millions)	
		2018	2019
Assets			
Current assets:			
Cash and cash equivalents	5	¥ 2,256,488	¥ 2,494,121
Trade receivables	6	800,463	793,245
Receivables from financial services	7	1,840,699	1,951,633
Other financial assets	8	213,177	163,274
Inventories	9	1,523,455	1,586,787
Other current assets		291,006	358,234
Total current assets		6,925,288	7,347,294
Non-current assets:			
Investments accounted for using the equity method	10	679,517	713,039
Receivables from financial services	7	3,117,364	3,453,617
Other financial assets	8	436,555	417,149
Equipment on operating leases	11	4,088,133	4,448,849
Property, plant and equipment	12	3,062,433	2,981,840
Intangible assets	13	741,514	744,368
Deferred tax assets	23	129,338	150,318
Other non-current assets		169,022	162,648
Total non-current assets		12,423,876	13,071,828
Total assets		¥19,349,164	¥20,419,122
Liabilities and Equity			
Current liabilities:			
Trade payables	14	¥ 1,224,627	¥ 1,184,882
Financing liabilities	15	2,917,261	3,188,782
Accrued expenses		404,719	476,300
Other financial liabilities	16	115,405	132,910
Income taxes payable		53,595	49,726
Provisions	17	305,994	348,763
Other current liabilities		602,498	599,761
Total current liabilities		5,624,099	5,981,124
Non-current liabilities:			
Financing liabilities	15	3,881,749	4,142,338
Other financial liabilities	16	60,005	63,689
Retirement benefit liabilities	18	404,401	398,803
Provisions	17	220,625	220,745
Deferred tax liabilities	23	629,722	727,411
Other non-current liabilities		294,468	319,222
Total non-current liabilities		5,490,970	5,872,208
Total liabilities		11,115,069	11,853,332
Equity:			
Common stock		86,067	86,067
Capital surplus		171,118	171,460
Treasury stock		(113,271)	(177,827)
Retained earnings		7,611,332	7,973,637
Other components of equity		178,292	214,383
Equity attributable to owners of the parent		7,933,538	8,267,720
Non-controlling interests		300,557	298,070
Total equity	19	8,234,095	8,565,790
Total liabilities and equity		¥19,349,164	¥20,419,122

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended March 31, 2017, 2018 and 2019

	Note	Yen (millions)		
		2017	2018	2019
Sales revenue	20	¥ 13,999,200	¥ 15,361,146	¥ 15,888,617
Operating costs and expenses:				
Cost of sales		(10,865,848)	(12,000,581)	(12,580,949)
Selling, general and administrative		(1,601,212)	(1,775,151)	(1,774,393)
Research and development	21	(691,429)	(751,856)	(806,905)
Total operating costs and expenses		<u>(13,158,489)</u>	<u>(14,527,588)</u>	<u>(15,162,247)</u>
Operating profit		<u>840,711</u>	<u>833,558</u>	<u>726,370</u>
Share of profit of investments accounted for using the equity method	10	164,793	247,643	228,827
Finance income and finance costs:				
Interest income	22	32,389	41,191	48,618
Interest expense	22	(12,471)	(12,970)	(13,217)
Other, net	22	(18,436)	5,551	(11,223)
Total finance income and finance costs		<u>1,482</u>	<u>33,772</u>	<u>24,178</u>
Profit before income taxes		1,006,986	1,114,973	979,375
Income tax expense	23	(327,592)	13,666	(303,089)
Profit for the year		<u>¥ 679,394</u>	<u>¥ 1,128,639</u>	<u>¥ 676,286</u>
Profit for the year attributable to:				
Owners of the parent		616,569	1,059,337	610,316
Non-controlling interests		62,825	69,302	65,970
			<u>Yen</u>	
		<u>2017</u>	<u>2018</u>	<u>2019</u>
Earnings per share attributable to owners of the parent				
Basic and diluted	24	¥ 342.10	¥ 590.79	¥ 345.99

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years ended March 31, 2017, 2018 and 2019

	Note	Yen (millions)		
		2017	2018	2019
Profit for the year		¥ 679,394	¥ 1,128,639	¥ 676,286
Other comprehensive income, net of tax:				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit plans		58,154	13,344	(23,745)
Net changes in revaluation of financial assets measured at fair value through other comprehensive income . . .		22,707	19,288	(24,046)
Share of other comprehensive income of investments accounted for using the equity method	10	3,262	1,688	(2,837)
Items that may be reclassified subsequently to profit or loss				
Net changes in revaluation of financial assets measured at fair value through other comprehensive income . .		—	—	228
Exchange differences on translating foreign operations		8,064	(204,184)	95,568
Share of other comprehensive income of investments accounted for using the equity method	10	(22,644)	10,620	(18,847)
Total other comprehensive income, net of tax	19	69,543	(159,244)	26,321
Comprehensive income for the year		¥ 748,937	¥ 969,395	¥ 702,607
Comprehensive income for the year attributable to:				
Owners of the parent		696,079	899,545	637,609
Non-controlling interests		52,858	69,850	64,998

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended March 31, 2017, 2018 and 2019

		Yen (millions)							
		Equity attributable to owners of the parent							
Note	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity	
	Balance as of April 1, 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					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				64,219	(64,219)	—		—
	Transactions with owners and other								
	Dividends paid				(162,205)		(162,205)	(47,716)	(209,921)
	Purchases of treasury stock			(12)			(12)		(12)
	Disposal of treasury stock			1			1		1
	Equity transactions and others							(1,167)	(1,167)
	Total transactions with owners and other			(11)	(162,205)		(162,216)	(48,883)	(211,099)
	Balance as of March 31, 2017	¥86,067	¥171,118	¥ (26,189)	¥6,712,894	¥ 351,406	¥7,295,296	¥274,330	¥7,569,626
	Comprehensive income for the year								
	Profit for the year				1,059,337		1,059,337	69,302	1,128,639
	Other comprehensive income, net of tax					(159,792)	(159,792)	548	(159,244)
	Total comprehensive income for the year				1,059,337	(159,792)	899,545	69,850	969,395
	Reclassification to retained earnings				13,322	(13,322)	—		—
	Transactions with owners and other								
	Dividends paid				(174,221)		(174,221)	(43,623)	(217,844)
	Purchases of treasury stock			(87,083)			(87,083)		(87,083)
	Disposal of treasury stock			1			1		1
	Equity transactions and others								—
	Total transactions with owners and other			(87,082)	(174,221)		(261,303)	(43,623)	(304,926)
	Balance as of March 31, 2018	¥86,067	¥171,118	¥(113,271)	¥7,611,332	¥ 178,292	¥7,933,538	¥300,557	¥8,234,095
	Effect of changes in accounting policy				(46,833)	(208)	(47,041)	6	(47,035)
	Effect of hyperinflation				(9,454)	14,896	5,442		5,442
	Adjusted balance as of April 1, 2018	86,067	171,118	(113,271)	7,555,045	192,980	7,891,939	300,563	8,192,502
	Comprehensive income for the year								
	Profit for the year				610,316		610,316	65,970	676,286
	Other comprehensive income, net of tax					27,293	27,293	(972)	26,321
	Total comprehensive income for the year				610,316	27,293	637,609	64,998	702,607
	Reclassification to retained earnings				5,890	(5,890)	—		—
	Transactions with owners and other								
	Dividends paid				(194,271)		(194,271)	(66,010)	(260,281)
	Purchases of treasury stock			(64,557)			(64,557)		(64,557)
	Disposal of treasury stock			1			1		1
	Share-based payment transactions		342				342		342
	Equity transactions and others								—
	Total transactions with owners and other		342	(64,556)	(194,271)		(258,485)	(66,010)	(324,495)
	Other changes				(3,343)		(3,343)	(1,481)	(4,824)
	Balance as of March 31, 2019	¥86,067	¥171,460	¥(177,827)	¥7,973,637	¥ 214,383	¥8,267,720	¥298,070	¥8,565,790

See accompanying notes to consolidated financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2017, 2018 and 2019

	Note	Yen (millions)		
		2017	2018	2019
Cash flows from operating activities:				
Profit before income taxes		¥ 1,006,986	¥ 1,114,973	¥ 979,375
Depreciation, amortization and impairment losses excluding equipment on operating leases		674,329	713,093	721,695
Share of profit of investments accounted for using the equity method		(164,793)	(247,643)	(228,827)
Finance income and finance costs, net		(55,911)	13,218	(88,608)
Interest income and interest costs from financial services, net		(119,953)	(127,529)	(124,076)
Changes in assets and liabilities				
Trade receivables		49,217	(41,778)	9,344
Inventories		(72,144)	(202,916)	(60,906)
Trade payables		12,999	69,429	(11,816)
Accrued expenses		50,339	(2,700)	25,372
Provisions and retirement benefit liabilities		(252,837)	(28,945)	(1,590)
Receivables from financial services		40,525	(174,438)	(260,704)
Equipment on operating leases		(435,503)	(158,337)	(230,311)
Other assets and liabilities		71,940	11,602	11,045
Other, net		998	9,314	3,706
Dividends received		121,770	161,106	175,244
Interest received		220,947	245,095	270,776
Interest paid		(99,607)	(115,317)	(150,162)
Income taxes paid, net of refund		(164,229)	(250,556)	(263,569)
Net cash provided by operating activities		885,073	987,671	775,988
Cash flows from investing activities:				
Payments for additions to property, plant and equipment		(494,132)	(415,563)	(420,768)
Payments for additions to and internally developed intangible assets		(143,320)	(156,927)	(187,039)
Proceeds from sales of property, plant and equipment and intangible assets		18,710	15,042	20,765
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		(547)	(2,450)	(2,401)
Proceeds from sales of investments accounted for using the equity method		16,208	—	—
Payments for acquisitions of other financial assets		(222,464)	(280,236)	(506,431)
Proceeds from sales and redemptions of other financial assets		177,762	224,302	515,670
Other, net		—	719	2,649
Net cash used in investing activities		(650,618)	(615,113)	(577,555)
Cash flows from financing activities:				
Proceeds from short-term financing liabilities		8,207,530	8,106,505	8,435,249
Repayments of short-term financing liabilities		(8,129,295)	(8,004,620)	(8,213,698)
Proceeds from long-term financing liabilities		1,902,448	1,689,596	1,900,257
Repayments of long-term financing liabilities		(1,622,603)	(1,609,554)	(1,726,097)
Dividends paid to owners of the parent		(162,205)	(174,221)	(194,271)
Dividends paid to non-controlling interests		(35,059)	(48,332)	(66,872)
Purchases and sales of treasury stock, net		(11)	(87,082)	(64,556)
Other, net		(45,382)	(46,626)	(47,088)
Net cash provided by (used in) financing activities		115,423	(174,334)	22,924
Effect of exchange rate changes on cash and cash equivalents		(1,358)	(47,712)	16,276
Net change in cash and cash equivalents		348,520	150,512	237,633
Cash and cash equivalents at beginning of year		1,757,456	2,105,976	2,256,488
Cash and cash equivalents at end of year	5	¥ 2,105,976	¥ 2,256,488	¥ 2,494,121

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) Changes in Accounting Policies

1) IFRS 9 “Financial Instruments”

Honda was an early adopter of IFRS 9 “Financial Instruments” issued in November 2009, amended in October 2010 and November 2013 (“IFRS 9 (2013)”) until the year ended March 31, 2018 and has adopted IFRS 9 issued in July 2014 (“IFRS 9 (2014)”) with a date of initial application of April 1, 2018. The adoption of IFRS 9 (2014) resulted in changes in accounting policies primarily for classification and impairment of financial assets. IFRS 9 (2014) has an exemption allowing comparative information for prior periods not to be restated with respect to classification and measurement (including impairment) changes. Therefore, the comparative information has not been restated and continues to be reported under IFRS 9 (2013). Instead, the cumulative effect of adopting IFRS 9 (2014) was recognized in the opening balance of equity as of the date of initial application on April 1, 2018. The following are primary changes and corresponding impacts of adopting IFRS 9 (2014).

Classification of financial assets

Debt instruments other than those classified into financial assets measured at amortized cost were classified into financial assets measured at fair value through profit or loss under IFRS 9 (2013). IFRS 9 (2014) newly established a classification in which financial assets are measured at fair value through other comprehensive income. Under IFRS 9 (2014), a financial asset shall be measured at fair value through other comprehensive

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

income if both of the following conditions are met: 1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Honda has evaluated the business models within which financial assets are held and contractual terms of financial assets. As a result, Honda has reclassified certain debt securities such as government bonds and municipal bonds held by certain subsidiaries from the financial assets measured at fair value through profit or loss to financial assets measured at fair value through other comprehensive income as of April 1, 2018.

The impact of this reclassification is as follows:

	Yen (millions)		
	Carrying amounts as of March 31, 2018 under IFRS 9 (2013)	Reclassification	Carrying amounts as of April 1, 2018 under IFRS 9 (2014)
Other financial assets:			
Financial assets measured at fair value through profit or loss:			
Debt securities	¥69,829	¥(14,376)	¥55,453
Financial assets measured at fair value through other comprehensive income:			
Debt securities	—	14,376	14,376

Impairment of financial assets

IFRS 9 (2014) replaced the incurred loss model under IAS 39 with the expected credit loss (ECL) model. The ECL model requires the allowance for credit losses to be measured at amounts equal to either lifetime ECL for those financial assets which have experienced a significant increase in credit risk (SICR) since initial recognition and credit-impaired financial assets or 12-month ECL for financial assets which have not experienced a SICR. Lifetime ECL represents ECL that results from all possible default events over the expected life of a financial asset. 12-month ECL is the portion of lifetime ECL that results from default events that are possible within 12 months after the reporting date. ECL is a probability-weighted estimate of the difference between the contractual cash flows and the cash flows that the entity expects to receive, discounted at the original effective interest rates.

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

The application of the ECL model resulted in an increase in the allowance for credit losses of ¥4,599 million as of April 1, 2018, which is on receivables from financial services.

2) IFRS 15 “Revenue from Contracts with Customers”

Honda has adopted IFRS 15 “Revenue from Contracts with Customers” with a date of initial application of April 1, 2018 by recognizing the cumulative effect of initially applying this standard as an adjustment to the opening balance of equity at the date of initial application. Therefore, the comparative information has not been restated and continues to be reported under the previous accounting policy.

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

Honda's contracts with customers include promises to transfer goods or services without charges such as free inspections. Such promised goods or services are generally considered performance obligations and related sales revenue is deferred under IFRS 15, if it is deemed material, while such sales revenue was recognized at contract inception under the previous accounting policy.

Further, under IFRS 15, dealer incentives are considered variable consideration when determining the transaction price and sales revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved, which results in higher deductions from sales revenue recognized when products are sold to dealers.

The impacts of adopting IFRS 15 on Honda's consolidated financial statements as of and for the year ended March 31, 2019 are as follows:

Consolidated statements of financial position

As of March 31, 2019

	Yen (millions)		
	<u>Balances without adoption of IFRS 15</u>	<u>Adjustments</u>	<u>As reported</u>
Assets			
Current assets:			
Cash and cash equivalents	¥ 2,494,121	¥ —	¥ 2,494,121
Trade receivables	796,199	(2,954)	793,245
Receivables from financial services	1,951,633	—	1,951,633
Other financial assets	163,274	—	163,274
Inventories	1,586,787	—	1,586,787
Other current assets	357,428	806	358,234
Total current assets	<u>7,349,442</u>	<u>(2,148)</u>	<u>7,347,294</u>
Non-current assets:			
Investments accounted for using the equity method	713,026	13	713,039
Receivables from financial services	3,453,617	—	3,453,617
Other financial assets	417,149	—	417,149
Equipment on operating leases	4,448,849	—	4,448,849
Property, plant and equipment	2,981,840	—	2,981,840
Intangible assets	744,368	—	744,368
Deferred tax assets	149,800	518	150,318
Other non-current assets	161,842	806	162,648
Total non-current assets	<u>13,070,491</u>	<u>1,337</u>	<u>13,071,828</u>
Total assets	<u>¥20,419,933</u>	<u>¥ (811)</u>	<u>¥20,419,122</u>

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

	Yen (millions)		
	<u>Balances without adoption of IFRS 15</u>	<u>Adjustments</u>	<u>As reported</u>
Liabilities and Equity			
Current liabilities:			
Trade payables	¥ 1,184,882	¥ —	¥ 1,184,882
Financing liabilities	3,188,782	—	3,188,782
Accrued expenses	423,908	52,392	476,300
Other financial liabilities	132,910	—	132,910
Income taxes payable	49,726	—	49,726
Provisions	352,642	(3,879)	348,763
Other current liabilities	584,294	15,467	599,761
Total current liabilities	<u>5,917,144</u>	<u>63,980</u>	<u>5,981,124</u>
Non-current liabilities:			
Financing liabilities	4,142,338	—	4,142,338
Other financial liabilities	63,689	—	63,689
Retirement benefit liabilities	398,803	—	398,803
Provisions	221,694	(949)	220,745
Deferred tax liabilities	742,937	(15,526)	727,411
Other non-current liabilities	318,334	888	319,222
Total non-current liabilities	<u>5,887,795</u>	<u>(15,587)</u>	<u>5,872,208</u>
Total liabilities	<u>11,804,939</u>	<u>48,393</u>	<u>11,853,332</u>
Equity:			
Common stock	86,067	—	86,067
Capital surplus	171,460	—	171,460
Treasury stock	(177,827)	—	(177,827)
Retained earnings	8,021,584	(47,947)	7,973,637
Other components of equity	215,285	(902)	214,383
Equity attributable to owners of the parent	<u>8,316,569</u>	<u>(48,849)</u>	<u>8,267,720</u>
Non-controlling interests	298,425	(355)	298,070
Total equity	<u>8,614,994</u>	<u>(49,204)</u>	<u>8,565,790</u>
Total liabilities and equity	<u>¥20,419,933</u>	<u>¥ (811)</u>	<u>¥20,419,122</u>

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

Consolidated statements of income

For the year ended March 31, 2019

	Yen (millions)		
	Balances without adoption of IFRS 15	Adjustments	As reported
Sales revenue	¥ 15,894,946	¥ (6,329)	¥ 15,888,617
Operating costs and expenses:			
Cost of sales	(12,582,518)	1,569	(12,580,949)
Selling, general and administrative	(1,776,438)	2,045	(1,774,393)
Research and development	(806,905)	—	(806,905)
Total operating costs and expenses	<u>(15,165,861)</u>	<u>3,614</u>	<u>(15,162,247)</u>
Operating profit	<u>729,085</u>	<u>(2,715)</u>	<u>726,370</u>
Share of profit of investments accounted for using the equity method	228,824	3	228,827
Finance income and finance costs:			
Interest income	48,618	—	48,618
Interest expense	(13,217)	—	(13,217)
Other, net	(11,223)	—	(11,223)
Total finance income and finance costs	<u>24,178</u>	<u>—</u>	<u>24,178</u>
Profit before income taxes	982,087	(2,712)	979,375
Income tax expense	(303,745)	656	(303,089)
Profit for the year	<u>¥ 678,342</u>	<u>¥ (2,056)</u>	<u>¥ 676,286</u>
Profit for the year attributable to:			
Owners of the parent	611,621	(1,305)	610,316
Non-controlling interests	66,721	(751)	65,970

(e) New Accounting Standards and Interpretations Not Yet Adopted

Major new or amended standards and interpretations that have been issued as of the date of approval of the consolidated financial statements but are not effective and have not yet been adopted by Honda as of March 31, 2019 are as follows:

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. Accordingly, Honda will adopt this standard initially on April 1, 2019. 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 plans to apply the modified retrospective approach.

Honda plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into prior to April 1, 2019 and identified as leases under IAS 17 and IFRIC 4.

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

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 the operating leases as a lessee. In addition, expenses related to leases will now change from straight-line operating lease expenses to depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the finance leases as a lessee. Lessor accounting remains similar to the current standard.

Honda estimates that it will recognize additional lease liabilities of approximately ¥268 billion and total assets, mainly right-of-use assets will be recognized approximately in the same amounts in the consolidated statements of financial position as of April 1, 2019. The impact on the opening balance of retained earnings is expected to be immaterial.

(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 and debt securities classified into financial assets measured at fair value through other comprehensive income (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)
- Estimated amounts of variable consideration (note 20)
- 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. 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 except when a functional currency is the currency of a hyperinflationary economy. 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 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.

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 except trade receivables arising from contracts with customers are initially measured at their fair value and trade receivables arising from contracts with customers are initially measured at their transaction price. Financial assets measured at amortized cost 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:

Financial assets measured at fair value through other comprehensive income

A debt security is classified into financial assets measured at fair value through other comprehensive income when the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt securities are initially measured at their fair value, and subsequent changes in fair value are recognized in other comprehensive income except for impairment gain or loss and foreign exchange gain or loss. When the debt securities are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. In the comparative periods, the debt securities are classified into financial assets measured at fair value through profit or loss.

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. Equity securities designated as 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 recognized in other comprehensive income. However, dividends from the equity securities are principally recognized in profit or loss. When the equity securities are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is directly reclassified to retained earnings.

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.

(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.

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

3) Derivatives

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

All these derivatives are initially recognized as assets or liabilities and measured at fair value, when Honda becomes a party to the contractual provision of the derivatives. Subsequent changes in fair value of derivatives are recognized in profit or loss in the period of the changes.

Honda has not held any derivatives designated as hedging instruments for the years ended March 31, 2017, 2018 and 2019.

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.

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

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

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.

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

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.

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 and debt securities classified into financial assets measured at fair value through other comprehensive income

Policy applicable from April 1, 2018

The allowance for impairment losses of financial assets measured at amortized cost other than trade receivables and debt securities classified into financial assets measured at fair value through other comprehensive income is measured at amounts according to the three-stage expected credit loss (ECL) model:

- Stage 1 12-month ECL for financial assets without a significant increase in credit risk since initial recognition
- Stage 2 Lifetime ECL for financial assets with a significant increase in credit risk since initial recognition but that are not credit-impaired
- Stage 3 Lifetime ECL for credit-impaired financial assets

The allowance for impairment losses of trade receivables is continuously measured at amounts equal to lifetime ECL.

Lifetime ECL represents ECL that results from all possible default events over the expected life of a financial asset. 12-month ECL is the portion of lifetime ECL that results from default events that are possible within 12 months after the reporting date. ECL is a probability-weighted estimate of the difference between the contractual cash flows and the cash flows that the entity expects to receive, discounted at the original effective interest rates.

Receivables from financial services – Allowance for credit losses

The allowance for credit losses is management's estimate of expected credit loss on receivables from financial services.

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

To determine whether credit risk has increased significantly, consumer finance receivables are assessed both individually and collectively. Individual assessments are based on delinquencies. Consumer finance receivables 30 days or greater past due have historically experienced increased default rates and therefore are considered to have a significant increase in credit risk. Collective assessments are performed for groups of consumer finance receivables with shared risk characteristics such as the period of initial recognition, collateral type, original term, and credit score considering relative changes in expected default rates since initial recognition. Dealer finance receivables are assessed at the individual dealership level to determine whether credit risk has increased significantly considering payment performance and other factors such as changes in the financial condition of the dealership and compliance with debt covenants.

Our definition of default on receivables from financial services varies depending on internal risk management practices of each of our finance subsidiaries. Our most significant finance subsidiary located in the United States considers delinquencies of 60 days past due to be in default. Collection efforts on consumer finance receivables are escalated after becoming 60 days past due including repossession of the underlying vehicles if it has been determined that the borrower is unable to perform on their obligations. Defaulted consumer finance receivables are considered to be credit-impaired. Dealer finance receivables are considered to be credit-impaired when there is evidence we will be unable to collect all amounts due in accordance with the original contractual terms including significant financial difficulty of the dealership, a breach of contract, such as a default or delinquency, or bankruptcy.

At the finance subsidiary in the United States, the estimated uncollectible portion of consumer finance receivables are written-off at 120 days past due or upon repossession of the underlying vehicle. Although various statutory regulations limit the length of time and circumstances when enforcement activities can be taken, in general, the outstanding contractual balances continue to be subject to enforcement activities for several years after write-offs. The portion of outstanding contractual balances that is estimated to be uncollectible reflects our expectations of collections from enforcement activities. Dealer finance receivables are written-off when there is no reasonable expectation of recovery.

At the finance subsidiary in the United States, ECL of consumer finance receivables is measured for groups of financial assets with shared risk characteristics by reflecting historical results, current conditions and forward-looking factors such as unemployment rates, used vehicles prices, and consumer debt service burdens.

Receivables from financial services – Allowance for losses on lease residual values

The allowance for losses on lease residual values is management's estimate of probable losses arising from declines in the estimated lease residual values incurred on receivables from finance leases.

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

Policy applicable before April 1, 2018

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

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment includes significant financial difficulty of the issuer or the borrowers, a default or delinquency in interest or principal payments, an increase in the probability of bankruptcy or other financial restructuring of the issuer, and disappearance of an active market for the security.

If there is an objective evidence that financial assets measured at amortized cost is impaired, the amount of impairment loss is measured as the difference between the carrying amount of the assets and its present value which is calculated by discounting estimated future cash flows using the asset's original effective interest rate. The impairment loss is recognized in profit or loss, by deducting the carrying amount of the financial assets directly or through an allowance account.

Further, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognized, the impairment loss which was recorded in prior periods is reversed and recognized in profit or loss.

Receivables from financial services – Allowance for credit losses

The allowance for credit losses is management's estimate of probable losses incurred on receivables from financial services. Estimated losses on past due operating lease rental payments are also recognized through an allowance for credit losses.

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

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

Receivables from financial services – Allowance for losses on lease residual values

The allowance for losses on lease residual values is management's estimate of probable losses arising from declines in the estimated lease residual values incurred on receivables from finance leases.

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

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

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) is 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 a cash-generating unit 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.

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.

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

2) Post-employment benefits

Honda has various post-employment benefit plans including defined benefit plans and defined contribution plans.

Defined benefit plans

For defined benefit plans, the present value of defined benefit obligations less the fair value of plan assets is recognized as either liability or asset in the consolidated statements of financial position.

The present value of defined benefit obligations and service cost are principally determined for each plan using the projected unit credit method. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds that is consistent with the currency and estimated term of the post-employment benefit obligation. Net interest on the net defined benefit liability (asset) for the reporting period is determined by multiplying the net defined benefit liability (asset) by the discount rate.

Past service cost defined as the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment is recognized in profit or loss upon occurrence of the plan amendment or curtailment.

Honda recognizes the difference arising from remeasurement of present value of the defined benefit obligations and the fair value of the plan assets in other comprehensive income when it is incurred, and reclassifies it immediately to retained earnings.

Defined contribution plans

For defined contribution plans, when the employees render related services, the contribution payables to defined contribution plan are recognized as expenses.

(m) Equity

1) Common share

Common share issued by the Company is classified as equity, and the proceeds from issuance of common share are included in common stock and capital surplus.

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

1) Sale of products

Sales of products are reported by Motorcycle business, Automobile business, Power products business and other businesses. For details of the information on each business, see note 4.

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

Honda recognizes revenue when control over products is transferred to customers. This transfer generally corresponds to the date of delivery of products to customers. Revenue is measured based on consideration specified in a contract with customer and excludes amounts collected on behalf of third parties. The total consideration in the contract is allocated to all products and services based on their stand-alone selling prices. The stand-alone selling prices are determined with reference to the selling prices of similar products or services and other reasonably available information. In the comparative periods, revenue from sale of products was recognized when the significant risks and rewards of ownership of products were transferred to the customer, Honda retained neither continuous involvement nor effective control over the product, the amount of revenue and the corresponding cost could be measured reliably and collection of the relevant receivable was reasonably assured. This generally corresponded to the date of delivery of products to customers.

Honda provides dealer incentives, 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 considered variable consideration when determining the transaction price and they are deducted from sales revenue recognized when products are sold to the dealers. Revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved. In the comparative periods, these incentives were estimated and recognized at the time the product was sold to the dealer and were deducted from sales revenue.

Customers usually pay consideration for sales of products within 30 days from the transfers of control over the products to customers.

In addition, product sales contracts with customers include warranty clauses to guarantee that the products comply with agreed-upon specifications and Honda recognizes provisions for product warranties to meet these guarantees. For more information on product warranties, see note 17.

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.

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

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.

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:

<u>Segment</u>	<u>Principal products and services</u>	<u>Functions</u>
Motorcycle Business	Motorcycles, all-terrain vehicles (ATVs), side-by-sides (SxS) and relevant parts	Research and development Manufacturing Sales and related services
Automobile Business	Automobiles and relevant parts	Research and development Manufacturing Sales and related services
Financial Services Business	Financial services	Retail loan and lease related to Honda products Others
Power Product and Other Businesses	Power products and relevant parts, and others	Research and development Manufacturing Sales and related services Others

(a) Segment Information

Segment information as of and for the years ended March 31, 2017, 2018 and 2019 is as follows:

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

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

As of and for the year ended March 31, 2018

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥2,038,712	¥10,852,171	¥ 2,123,194	¥347,069	¥15,361,146	¥ —	¥15,361,146
Intersegment	—	193,038	14,071	24,097	231,206	(231,206)	—
Total	<u>2,038,712</u>	<u>11,045,209</u>	<u>2,137,265</u>	<u>371,166</u>	<u>15,592,352</u>	<u>(231,206)</u>	<u>15,361,146</u>
Segment profit (loss)	<u>¥ 267,015</u>	<u>¥ 373,840</u>	<u>¥ 196,067</u>	<u>¥ (3,364)</u>	<u>¥ 833,558</u>	<u>¥ —</u>	<u>¥ 833,558</u>
Share of profit of investments accounted for using the equity method	¥ 31,270	¥ 215,843	¥ —	¥ 530	¥ 247,643	¥ —	¥ 247,643
Segment assets	1,533,367	7,879,769	9,409,243	314,838	19,137,217	211,947	19,349,164
Investments accounted for using the equity method	89,498	584,922	—	5,097	679,517	—	679,517
Depreciation and amortization	74,128	616,321	748,503	15,164	1,454,116	—	1,454,116
Capital expenditures	63,927	514,910	1,801,554	14,243	2,394,634	—	2,394,634
Impairment losses on non-financial assets	42	3,648	11,911	4	15,605	—	15,605
Provision for credit and lease residual losses on receivables from financial services	—	—	36,699	—	36,699	—	36,699

As of and for the year ended March 31, 2019

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥2,100,155	¥11,072,117	¥ 2,365,355	¥350,990	¥15,888,617	¥ —	¥15,888,617
Intersegment	—	215,647	14,687	26,266	256,600	(256,600)	—
Total	<u>2,100,155</u>	<u>11,287,764</u>	<u>2,380,042</u>	<u>377,256</u>	<u>16,145,217</u>	<u>(256,600)</u>	<u>15,888,617</u>
Segment profit (loss)	<u>¥ 291,642</u>	<u>¥ 209,694</u>	<u>¥ 235,945</u>	<u>¥ (10,911)</u>	<u>¥ 726,370</u>	<u>¥ —</u>	<u>¥ 726,370</u>
Share of profit of investments accounted for using the equity method	¥ 29,704	¥ 198,505	¥ —	¥ 618	¥ 228,827	¥ —	¥ 228,827
Segment assets	1,523,817	7,923,802	10,236,066	328,870	20,012,555	406,567	20,419,122
Investments accounted for using the equity method	88,494	619,091	—	5,454	713,039	—	713,039
Depreciation and amortization	66,680	603,124	784,683	14,198	1,468,685	—	1,468,685
Capital expenditures	74,024	525,419	2,041,735	16,074	2,657,252	—	2,657,252
Impairment losses on non-financial assets	1,404	32,674	12,716	14	46,808	—	46,808
Provision for credit and lease residual losses on receivables from financial services	—	—	34,720	—	34,720	—	34,720

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, 2017, 2018 and 2019 amounted to ¥530,809 million, ¥519,780 million and ¥682,842 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, 2017, 2018 and 2019 are ¥198,016 million, ¥219,575 million and ¥247,194 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, 2017, 2018 and 2019 are ¥22,707 million, ¥67,768 million and ¥32,565 million respectively. These are related to Automobile business and aircraft and aircraft engines, which are included in Power product and other businesses.

(b) Product or Service Groups Information

Sales revenue by product or service groups of Honda for the years ended March 31, 2017, 2018 and 2019 is as follows:

	Yen (millions)		
	2017	2018	2019
Motorcycles and relevant parts	¥ 1,598,935	¥ 1,919,232	¥ 1,986,968
All-terrain vehicles (ATVs), side-by-sides (SxS) and relevant parts	117,230	119,480	113,187
Automobiles and relevant parts	10,920,594	11,813,125	12,173,065
Financial services	1,044,316	1,162,240	1,264,407
Power products and relevant parts	245,881	266,233	266,012
Others	72,244	80,836	84,978
Total	¥13,999,200	¥15,361,146	¥15,888,617

(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, 2017, 2018 and 2019 are as follows:

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

As of and for the year ended March 31, 2018

	Yen (millions)			
	Japan	United States	Other Countries	Total
Sales revenue	¥2,240,033	¥7,028,633	¥6,092,480	¥15,361,146
Non-current assets other than financial instruments and deferred tax assets	¥2,580,515	¥3,784,531	¥1,696,056	¥ 8,061,102

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

As of and for the year ended March 31, 2019

	Yen (millions)			
	Japan	United States	Other Countries	Total
Sales revenue	¥2,394,584	¥7,480,382	¥6,013,651	¥15,888,617
Non-current assets other than financial instruments and deferred tax assets	¥2,695,603	¥3,956,228	¥1,685,874	¥ 8,337,705

(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, 2017

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥2,114,833	¥ 7,621,550	¥638,436	¥2,893,404	¥730,977	¥13,999,200	¥ —	¥13,999,200
Inter-geographic areas	1,998,576	476,518	150,957	562,629	2,518	3,191,198	(3,191,198)	—
Total	4,113,409	8,098,068	789,393	3,456,033	733,495	17,190,398	(3,191,198)	13,999,200
Operating profit (loss)	¥ 104,560	¥ 398,725	¥ 12,112	¥ 331,466	¥ 29,016	¥ 875,879	¥ (35,168)	¥ 840,711
Assets	¥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	¥2,492,467	¥ 4,766,609	¥107,443	¥ 694,919	¥187,220	¥ 8,248,658	¥ —	¥ 8,248,658

As of and for the year ended March 31, 2018

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥2,240,033	¥ 8,067,455	¥680,497	¥3,541,680	¥831,481	¥15,361,146	¥ —	¥15,361,146
Inter-geographic areas	2,240,651	517,150	236,717	679,340	6,043	3,679,901	(3,679,901)	—
Total	4,480,684	8,584,605	917,214	4,221,020	837,524	19,041,047	(3,679,901)	15,361,146
Operating profit (loss)	¥ 86,916	¥ 278,476	¥ 15,837	¥ 402,620	¥ 43,831	¥ 827,680	¥ 5,878	¥ 833,558
Assets	¥4,405,523	¥10,651,191	¥727,045	¥2,942,053	¥659,781	¥19,385,593	¥ (36,429)	¥19,349,164
Non-current assets other than financial instruments and deferred tax assets	¥2,580,515	¥ 4,530,019	¥105,649	¥ 683,006	¥161,913	¥ 8,061,102	¥ —	¥ 8,061,102

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

As of and for the year ended March 31, 2019

	Yen (millions)							Reconciling Items	Consolidated
	Japan	North America	Europe	Asia	Other Regions	Total			
Sales revenue:									
External customers	¥2,394,584	¥ 8,526,733	¥652,335	¥3,557,338	¥ 757,627	¥15,888,617	¥	—	¥ 15,888,617
Inter-geographic areas	2,453,729	497,231	275,089	714,901	6,826	3,947,776	(3,947,776)		—
Total	4,848,313	9,023,964	927,424	4,272,239	764,453	19,836,393	(3,947,776)		15,888,617
Operating profit (loss)	¥ 10	¥ 299,750	¥ (6,620)	¥ 404,220	¥ 22,616	¥ 719,976	¥ 6,394	¥	¥ 726,370
Assets	¥4,546,640	¥ 11,418,194	¥694,606	¥3,024,357	¥ 621,259	¥20,305,056	¥ 114,066	¥	¥ 20,419,122
Non-current assets other than financial instruments and deferred tax assets									
	¥2,695,603	¥ 4,740,675	¥ 65,500	¥ 691,211	¥ 144,716	¥ 8,337,705	¥	—	¥ 8,337,705

Explanatory notes:

1. Major countries or regions in each geographic area:

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

- 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.
- Assets of each geographical region are defined as total assets including investments accounted for using the equity method, derivatives, and deferred tax assets.
- Sales revenues between geographic areas are generally made at values that approximate arm's-length prices.
- 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, 2017, 2018 and 2019 amounted to ¥530,809 million, ¥519,780 million and ¥682,842 million, respectively, which consist primarily of the Company's cash and cash equivalents and financial assets measured at fair value through other comprehensive income.

(e) Others

Impact to Europe related to changes of the global automobile production network and capability

In February 2019, the Company announced making changes throughout the global automobile production network based on the direction to optimize production allocation and production capacity on a global basis. As a part of the changes, the Company announced mainly to begin consultation with employees in the direction toward discontinuing automobile production at its certain subsidiaries in Europe in 2021.

The Company and its certain subsidiaries recognized ¥68,092 million of losses including an impairment loss on property, plant and equipment, employee benefits and other expenses. Of the total loss and expenses, ¥56,590 million is included in cost of sales and ¥11,502 million is included in selling, general and administrative in the consolidated statements of income for the year ended March 31, 2019.

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

(5) Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Cash and deposits	¥1,691,645	¥1,815,920
Cash equivalents	564,843	678,201
Total	¥2,256,488	¥2,494,121

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

(6) Trade Receivables

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

Trade receivables as of March 31, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Trade accounts and notes receivable	¥ 688,102	¥ 712,180
Other	126,750	93,620
Allowance for impairment losses	(14,389)	(12,555)
Total	¥ 800,463	¥ 793,245

The changes in the allowance for impairment losses on trade receivables for the years ended March 31, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Balance at beginning of year	¥ 15,888	¥ 14,510	¥ 14,389
Remeasurement	¥ 5,046	¥ 858	¥ 251
Write-offs	(6,389)	(706)	(1,590)
Exchange differences on translating foreign operations	(35)	(273)	(495)
Balance at end of year	¥ 14,510	¥ 14,389	¥ 12,555

Comparative amounts for the years ended March 31, 2017 and 2018 represent the allowance for impairment losses under IFRS 9 (2013). The allowance for impairment losses on trade receivables for the year ended March 31, 2019 is continuously measured at an amount equal to the lifetime expected credit losses.

(7) Receivables from Financial Services

The finance subsidiaries of the Company provide various financial services to customers and dealers in order to support the sale of products. These receivables from financial services are categorized as follows:

Consumer finance receivables:

Retail receivables primarily consist of receivables from installment contracts with customers.

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

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 mainly classified into financial assets measured at amortized cost.

Receivables from financial services as of March 31, 2018 and 2019 consist of the following:

	<u>Yen (millions)</u>	
	<u>2018</u>	<u>2019</u>
Consumer finance receivables:		
Retail	¥4,187,420	¥4,602,848
Finance lease	165,156	142,855
Dealer finance receivables:		
Wholesale	<u>651,141</u>	<u>712,214</u>
Subtotal	<u>¥5,003,717</u>	<u>¥5,457,917</u>
Allowance for credit losses	¥ (34,803)	¥ (43,203)
Allowance for losses on lease residual values	(743)	(29)
Unearned interest income and fees	<u>(10,108)</u>	<u>(9,435)</u>
Total	<u>¥4,958,063</u>	<u>¥5,405,250</u>
Current assets	¥1,840,699	¥1,951,633
Non-current assets	3,117,364	3,453,617
Total	<u>¥4,958,063</u>	<u>¥5,405,250</u>

Finance lease receivables

The gross investment in the lease and the present value of minimum lease payments receivable as of March 31, 2018 and 2019 are as follows:

	<u>Yen (millions)</u>			
<u>As of March 31, 2018</u>	<u>Within 1 year</u>	<u>Between 1 and 5 years</u>	<u>Later than 5 years</u>	<u>Total</u>
Gross investment in the lease	¥ 65,253	¥ 99,845	¥58	¥165,156
Unearned interest income and fees	(2,023)	(8,078)	(7)	(10,108)
Unguaranteed residual values	<u>(27,480)</u>	<u>(50,636)</u>	<u>(0)</u>	<u>(78,116)</u>
Present value of minimum lease payments receivable	<u>¥ 35,750</u>	<u>¥ 41,131</u>	<u>¥51</u>	<u>¥ 76,932</u>

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

As of March 31, 2019	Yen (millions)			
	Within 1 year	Between 1 and 5 years	Later than 5 years	Total
Gross investment in the lease	¥ 52,099	¥ 90,658	¥ 98	¥142,855
Unearned interest income and fees	(1,632)	(7,790)	(13)	(9,435)
Unguaranteed residual values	(25,369)	(46,662)	—	(72,031)
Present value of minimum lease payments receivable	<u>¥ 25,098</u>	<u>¥ 36,206</u>	<u>¥ 85</u>	<u>¥ 61,389</u>

Allowance for credit losses

The changes in the allowance for credit losses on receivables from financial services for the years ended March 31, 2017, 2018 and 2019 are as follows:

For the years ended March 31, 2017 and 2018

	Yen (millions)			
	Retail	Finance lease	Wholesale	Total
Balance as of April 1, 2016	¥ 22,300	¥ 762	¥2,503	¥ 25,565
Provision	¥ 29,870	¥ 338	¥ (278)	¥ 29,930
Write-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	<u>¥ 28,867</u>	<u>¥ 809</u>	<u>¥1,823</u>	<u>¥ 31,499</u>
Provision	¥ 36,037	¥ 214	¥ 336	¥ 36,587
Write-offs	(39,478)	(299)	(271)	(40,048)
Recoveries	8,368	50	13	8,431
Exchange differences on translating foreign operations	(1,718)	47	5	(1,666)
Balance as of March 31, 2018	<u>¥ 32,076</u>	<u>¥ 821</u>	<u>¥1,906</u>	<u>¥ 34,803</u>

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

For the year ended March 31, 2019

	Yen (millions)			Total
	Lifetime ECL			
	12-month ECL (Stage 1)	Not credit-impaired (Stage 2)	Credit-impaired (Stage 3)	
Retail:				
Balance as of April 1, 2018 under IFRS 9 (2013)				¥ 32,076
Effect of adopting IFRS 9 (2014)				¥ 4,599
Balance as of April 1, 2018 under IFRS 9 (2014)	¥20,574	¥ 9,543	¥ 6,558	¥ 36,675
Remeasurement	¥ 1,788	¥ 579	¥ 31,506	¥ 33,873
Write-offs	—	—	(30,986)	(30,986)
Exchange differences on translating foreign operations	250	285	(337)	198
Balance as of March 31, 2019	<u>¥22,612</u>	<u>¥10,407</u>	<u>¥ 6,741</u>	<u>¥ 39,760</u>
Finance lease:				
Balance as of April 1, 2018 under IFRS 9 (2013)				¥ 821
Effect of adopting IFRS 9 (2014)				¥ —
Balance as of April 1, 2018 under IFRS 9 (2014)	¥ 604	¥ 78	¥ 139	¥ 821
Remeasurement	¥ (19)	¥ (3)	¥ 114	¥ 92
Write-offs	—	—	(125)	(125)
Exchange differences on translating foreign operations	(51)	(3)	(4)	(58)
Balance as of March 31, 2019	<u>¥ 534</u>	<u>¥ 72</u>	<u>¥ 124</u>	<u>¥ 730</u>
Wholesale:				
Balance as of April 1, 2018 under IFRS 9 (2013)				¥ 1,906
Effect of adopting IFRS 9 (2014)				¥ —
Balance as of April 1, 2018 under IFRS 9 (2014)	¥ 1,553	¥ 309	¥ 44	¥ 1,906
Remeasurement	¥ (49)	¥ 35	¥ 769	¥ 755
Write-offs	—	—	153	153
Exchange differences on translating foreign operations	(85)	(15)	(1)	(101)
Balance as of March 31, 2019	<u>¥ 1,419</u>	<u>¥ 329</u>	<u>¥ 965</u>	<u>¥ 2,713</u>
Total:				
Balance as of April 1, 2018 under IFRS 9 (2013)				¥ 34,803
Effect of adopting IFRS 9 (2014)				¥ 4,599
Balance as of April 1, 2018 under IFRS 9 (2014)	¥22,731	¥ 9,930	¥ 6,741	¥ 39,402
Remeasurement	¥ 1,720	¥ 611	¥ 32,389	¥ 34,720
Write-offs	—	—	(30,958)	(30,958)
Exchange differences on translating foreign operations	114	267	(342)	39
Balance as of March 31, 2019	<u>¥24,565</u>	<u>¥10,808</u>	<u>¥ 7,830</u>	<u>¥ 43,203</u>

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

Comparative amounts for the years ended March 31, 2017 and 2018 represent the allowance for credit losses under IFRS 9 (2013).

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

(8) Other Financial Assets

Other financial assets as of March 31, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Financial assets measured at amortized cost:		
Receivables other than trade receivables and receivables from financial services	¥115,046	¥118,256
Debt securities	104,286	54,964
Guaranty deposits	14,234	13,098
Restricted cash	48,230	66,555
Other	9,225	9,776
Allowance for impairment losses	(10,145)	(4,233)
Financial assets measured at fair value through other comprehensive income:		
Debt securities	—	10,495
Equity securities	210,682	207,035
Financial assets measured at fair value through profit or loss:		
Derivatives	88,345	46,397
Debt securities	69,829	58,080
Total	<u>¥649,732</u>	<u>¥580,423</u>
Current assets	¥213,177	¥163,274
Non-current assets	436,555	417,149
Total	<u>¥649,732</u>	<u>¥580,423</u>

The changes in the allowance for impairment losses on other financial assets for the years ended March 31, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Balance at beginning of year	¥11,731	¥10,964	¥10,145
Remeasurement	¥ 219	¥ 343	¥ 284
Write-offs	(936)	(1,179)	(6,194)
Exchange differences on translating foreign operations	(50)	17	(2)
Balance at end of year	<u>¥10,964</u>	<u>¥10,145</u>	<u>¥ 4,233</u>

Comparative amounts for the years ended March 31, 2017 and 2018 represent the allowance for impairment losses under IFRS 9 (2013). The allowance for impairment losses on other financial assets for the year ended March 31, 2019 is mainly for credit-impaired financial assets.

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

Major securities included in the equity securities designated as financial assets measured at fair value through other comprehensive income as of March 31, 2018 and 2019 are as follows:

As of March 31, 2018

	<u>Yen (millions)</u>
	<u>Fair value</u>
Sirius XM Holdings Inc.	¥62,207
Stanley Electric Co., Ltd.	36,295
Mitsubishi UFJ Financial Group, Inc.	10,108
Shindengen Electric Manufacturing Co., Ltd.	9,394
NIPPON SEIKI CO., LTD.	7,247
Daido Steel Co., Ltd.	7,101

As of March 31, 2019

	<u>Yen (millions)</u>
	<u>Fair value</u>
GM Cruise Holdings LLC	¥83,242
Stanley Electric Co., Ltd.	27,475
Mitsubishi UFJ Financial Group, Inc.	7,976
NIPPON SEIKI CO., LTD.	6,714
NIKKON Holdings Co., Ltd.	6,414
Tokio Marine Holdings, Inc.	5,859

Honda sells (derecognizes) the equity securities designated as financial assets measured at fair value through other comprehensive income to improve efficiency and effectiveness in the utilization of resources.

The fair values at the date of derecognition and cumulative net gains or losses recognized in other comprehensive income in equity for the years ended March 31, 2017, 2018 and 2019 are as follows:

	<u>Yen (millions)</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Fair value	¥ 2	¥431	¥61,038
Cumulative net gain or loss	¥(1)	¥302	¥39,382

(9) Inventories

Inventories as of March 31, 2018 and 2019 consist of the following:

	<u>Yen (millions)</u>	
	<u>2018</u>	<u>2019</u>
Finished goods	¥ 931,774	¥ 973,797
Work in process	69,702	78,006
Raw materials	521,979	534,984
Total	<u>¥1,523,455</u>	<u>¥1,586,787</u>

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

The amounts of write-down of inventories recognized as an expense for the years ended March 31, 2017, 2018 and 2019 are ¥22,707 million, ¥67,768 million and ¥32,565 million, respectively.

(10) Investments accounted for using the equity method

Honda's equity in affiliates and joint ventures as of March 31, 2018 and 2019 is as follows:

	Yen (millions)	
	2018	2019
Investments accounted for using the equity method:		
Affiliates	¥ 359,784	¥ 382,706
Joint ventures	319,733	330,333
Total	¥ 679,517	¥ 713,039
Honda's equity of undistributed earnings:		
Affiliates	¥ 261,296	¥ 294,532
Joint ventures	230,387	249,284
Total	¥ 491,683	¥ 543,816

For the year ended March 31, 2017, the Company recognized impairment losses of ¥12,871 million on certain investments accounted for using the equity method, because there is objective evidence of impairment from declines in quoted market values. The impairment losses are included in share of profit of investments accounted for using the equity method in the consolidated statements of income and mainly included in the automobile business segment. For the year ended March 31, 2018 and 2019, the Company did not recognize any significant impairment losses.

In addition, for the year ended March 31, 2018, the Company recognized reversal of impairment losses of ¥15,782 million, which had been previously recognized, on certain investments accounted for using the equity method mainly due to the recovery of quoted market values. The reversal of impairment losses is included in share of profit of investments accounted for using the equity method in the consolidated statements of income and mainly included in the automobile business segment. For the year ended March 31, 2017 and 2019, the Company did not recognize any significant reversal of impairment losses.

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

Honda's share of comprehensive income of affiliates and joint ventures for the years ended March 31, 2017, 2018 and 2019 is as follows:

	Yen (millions)		
	2017	2018	2019
Profit for the year:			
Affiliates	¥ 9,626	¥ 45,501	¥ 43,137
Joint ventures	<u>155,167</u>	<u>202,142</u>	<u>185,690</u>
Total	<u>¥164,793</u>	<u>¥247,643</u>	<u>¥228,827</u>
Other comprehensive income:			
Affiliates	¥ (6,560)	¥ 4,983	¥ (13,150)
Joint ventures	<u>(12,822)</u>	<u>7,325</u>	<u>(8,534)</u>
Total	<u>¥(19,382)</u>	<u>¥ 12,308</u>	<u>¥(21,684)</u>
Comprehensive income for the year:			
Affiliates	¥ 3,066	¥ 50,484	¥ 29,987
Joint ventures	<u>142,345</u>	<u>209,467</u>	<u>177,156</u>
Total	<u>¥145,411</u>	<u>¥259,951</u>	<u>¥207,143</u>

Investments accounted for using the equity method, Honda's equity of undistributed earnings, profit for the year, other comprehensive income and comprehensive income for the year items include a joint venture that is material to the Company.

(Material joint venture)

Dongfeng Honda Automobile Co., Ltd. is a joint venture that is material to the Company. Dongfeng Honda Automobile Co., Ltd., located in Wuhan City, China, manufactures and sells automobile products. Honda and Dongfeng Motor Corporation each holds 50% equity stake in Dongfeng Honda Automobile Co., Ltd.

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

Summarized financial information of Dongfeng Honda Automobile Co., Ltd. as of March 31, 2018 and 2019 is as follows:

	Yen (millions)	
	2018	2019
Current assets	¥548,948	¥513,364
Non-current assets	160,874	195,806
Total assets	<u>709,822</u>	<u>709,170</u>
Current liabilities	397,669	369,119
Non-current liabilities	41,032	42,264
Total liabilities	<u>438,701</u>	<u>411,383</u>
Total equity	<u>¥ 271,121</u>	<u>¥ 297,787</u>
Honda's share of total equity (50%)	135,561	148,893
Equity method adjustments	(1,389)	(1,310)
Carrying amount of its interest in the joint venture	<u>¥ 134,172</u>	<u>¥ 147,583</u>
Cash and cash equivalents included in current assets	¥ 275,571	¥ 201,698
Financial liabilities (excluding trade payables and provisions) included in current liabilities	4,421	4,628

Summarized financial information of Dongfeng Honda Automobile Co., Ltd. for the years ended March 31, 2017, 2018 and 2019 is as follows:

	Yen (millions)		
	2017	2018	2019
Sales revenue	¥1,321,596	¥1,695,603	¥1,696,651
Interest income	4,663	8,998	6,190
Depreciation and amortization	16,391	16,001	16,091
Income tax expense	49,928	60,295	58,504
Profit for the year	140,916	185,604	176,787
Other comprehensive income	(12,558)	11,586	(8,354)
Comprehensive income for the year	<u>¥ 128,358</u>	<u>¥ 197,190</u>	<u>¥ 168,433</u>
Comprehensive income for the year (50%)	64,179	98,595	84,217
Equity method adjustments	177	842	56
Honda's share of comprehensive income for the year	<u>¥ 64,356</u>	<u>¥ 99,437</u>	<u>¥ 84,273</u>
Dividend from the joint venture to Honda	¥ 53,554	¥ 75,407	¥ 70,788

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

Combined financial information in respect of affiliates as of March 31, 2018 and 2019, and for the years ended March 31, 2017, 2018 and 2019 is as follows:

	Yen (millions)			
<u>For the year ended March 31, 2017</u>	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
Sales revenue	¥158,174	¥2,515,601	¥ 6,724	¥2,680,499
Profit for the year	10,112	60,145	973	71,230

	Yen (millions)			
<u>As of and for the year ended March 31, 2018</u>	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
Current assets	¥ 56,573	¥1,091,352	¥ 8,190	¥1,156,115
Non-current assets	29,300	1,078,735	22,481	1,130,516
Total assets	85,873	2,170,087	30,671	2,286,631
Current liabilities	25,806	614,762	2,399	642,967
Non-current liabilities	5,638	231,325	1,280	238,243
Total liabilities	31,444	846,087	3,679	881,210
Total equity	¥ 54,429	¥1,324,000	¥26,992	¥1,405,421
Sales revenue	¥168,229	¥2,589,380	¥ 6,777	¥2,764,386
Profit for the year	11,115	99,119	1,001	111,235

	Yen (millions)			
<u>As of and for the year ended March 31, 2019</u>	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
Current assets	¥ 53,449	¥1,143,390	¥ 8,897	¥1,205,736
Non-current assets	31,464	1,069,087	22,821	1,123,372
Total assets	84,913	2,212,477	31,718	2,329,108
Current liabilities	24,307	594,494	2,751	621,552
Non-current liabilities	4,414	216,199	1,168	221,781
Total liabilities	28,721	810,693	3,919	843,333
Total equity	¥ 56,192	¥1,401,784	¥27,799	¥1,485,775
Sales revenue	¥170,750	¥2,657,023	¥ 7,004	¥2,834,777
Profit for the year	8,654	143,833	766	153,253

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

Combined financial information in respect of joint ventures as of March 31, 2018 and 2019, and for the years ended March 31, 2017, 2018 and 2019 is as follows:

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
For the year ended March 31, 2017				
Sales revenue	¥671,227	¥3,038,643	¥4,796	¥3,714,666
Profit for the year	58,585	250,451	380	309,416

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
As of and for the year ended March 31, 2018				
Current assets	¥208,510	¥1,219,060	¥2,736	¥1,430,306
Non-current assets	106,351	285,869	600	392,820
Total assets	<u>314,861</u>	<u>1,504,929</u>	<u>3,336</u>	<u>1,823,126</u>
Current liabilities	176,486	930,759	759	1,108,004
Non-current liabilities	9,884	73,508	1,190	84,582
Total liabilities	<u>186,370</u>	<u>1,004,267</u>	<u>1,949</u>	<u>1,192,586</u>
Total equity	<u>¥128,491</u>	<u>¥ 500,662</u>	<u>¥1,387</u>	<u>¥ 630,540</u>
Sales revenue	¥701,676	¥3,835,476	¥5,151	¥4,542,303
Profit for the year	56,733	347,661	337	404,731

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
As of and for the year ended March 31, 2019				
Current assets	¥210,818	¥1,179,520	¥3,112	¥1,393,450
Non-current assets	119,749	377,019	683	497,451
Total assets	<u>330,567</u>	<u>1,556,539</u>	<u>3,795</u>	<u>1,890,901</u>
Current liabilities	192,951	929,071	1,039	1,123,061
Non-current liabilities	10,842	81,316	873	93,031
Total liabilities	<u>203,793</u>	<u>1,010,387</u>	<u>1,912</u>	<u>1,216,092</u>
Total equity	<u>¥126,774</u>	<u>¥ 546,152</u>	<u>¥1,883</u>	<u>¥ 674,809</u>
Sales revenue	¥746,385	¥3,819,913	¥5,907	¥4,572,205
Profit for the year	54,230	316,491	433	371,154

The amounts of a joint venture that is material to the Company are included in above.

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, 2018 and 2019 are as follows:

(Cost)

	<u>Yen (millions)</u>
Balance as of April 1, 2017	¥ 5,114,543
Additions	¥ 1,799,155
Sales or disposal	(1,475,302)
Exchange differences on translating foreign operations	(219,950)
Other	—
Balance as of March 31, 2018	<u>¥ 5,218,446</u>
Additions	¥ 2,038,734
Sales or disposal	(1,721,471)
Exchange differences on translating foreign operations	164,802
Other	—
Balance as of March 31, 2019	<u>¥ 5,700,511</u>

(Accumulated depreciation and impairment losses)

	<u>Yen (millions)</u>
Balance as of April 1, 2017	¥(1,009,880)
Depreciation	¥ (744,717)
Sales or disposal	591,721
Exchange differences on translating foreign operations	44,474
Other	(11,911)
Balance as of March 31, 2018	<u>¥(1,130,313)</u>
Depreciation	¥ (781,082)
Sales or disposal	704,691
Exchange differences on translating foreign operations	(32,242)
Other	(12,716)
Balance as of March 31, 2019	<u>¥(1,251,662)</u>

(Carrying amount)

	<u>Yen (millions)</u>
Balance as of March 31, 2018	¥4,088,133
Balance as of March 31, 2019	4,448,849

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, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Within 1 year	¥ 689,284	¥ 736,650
Between 1 and 5 years	777,582	897,789
Later than 5 years	—	—
Total	<u>¥1,466,866</u>	<u>¥1,634,439</u>

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, 2018 and 2019 are as follows:

(Cost)

	Yen (millions)				
	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
Balance as of April 1, 2017	¥546,855	¥ 2,231,274	¥ 5,305,139	¥ 277,086	¥ 8,360,354
Additions	¥ 397	¥ 7,725	¥ 134,604	¥ 342,052	¥ 484,778
Reclassification	1,216	58,706	359,442	(419,364)	—
Sales or disposal	(1,543)	(13,937)	(276,782)	—	(292,262)
Exchange differences on translating foreign operations	(1,733)	(34,039)	(140,296)	(6,390)	(182,458)
Other	—	(936)	(1,602)	(825)	(3,363)
Balance as of March 31, 2018	<u>¥545,192</u>	<u>¥ 2,248,793</u>	<u>¥ 5,380,505</u>	<u>¥ 192,559</u>	<u>¥ 8,367,049</u>
Additions	304	10,399	174,686	281,268	466,657
Reclassification	2,421	64,101	194,365	(260,887)	—
Sales or disposal	(1,469)	(11,432)	(294,761)	—	(307,662)
Exchange differences on translating foreign operations	307	15,931	63,898	2,647	82,783
Other	128	(269)	(3,710)	(1,618)	(5,469)
Balance as of March 31, 2019	<u>¥546,883</u>	<u>¥ 2,327,523</u>	<u>¥ 5,514,983</u>	<u>¥ 213,969</u>	<u>¥ 8,603,358</u>

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, 2017	¥ (3,866)	¥(1,224,339)	¥(3,929,601)	¥ (2,170)	¥(5,159,976)
Depreciation	¥ —	¥ (75,561)	¥ (437,894)	¥ —	¥ (513,455)
Sales or disposal	18	12,136	239,645	—	251,799
Exchange differences on translating foreign operations	(32)	16,217	103,037	(99)	119,123
Other	(299)	785	(2,677)	84	(2,107)
Balance as of March 31, 2018	¥ (4,179)	¥(1,270,762)	¥(4,027,490)	¥ (2,185)	¥(5,304,616)
Depreciation	—	(74,391)	(424,645)	—	(499,036)
Impairment losses	(1,052)	(6,077)	(17,944)	(1,975)	(27,048)
Sales or disposal	22	9,665	254,802	—	264,489
Exchange differences on translating foreign operations	9	(9,266)	(51,094)	23	(60,328)
Other	636	449	3,936	—	5,021
Balance as of March 31, 2019	¥ (4,564)	¥(1,350,382)	¥(4,262,435)	¥ (4,137)	¥(5,621,518)

(Carrying amount)

	Yen (millions)				
	Land	Buildings and structures	Machinery and equipment	Construction in progress	Total
Balance as of March 31, 2018	¥541,013	¥ 978,031	¥ 1,353,015	¥ 190,374	¥ 3,062,433
Balance as of March 31, 2019	542,319	977,141	1,252,548	209,832	2,981,840

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, 2018 and 2019 are as follows:

(Cost)

	Yen (millions)			
	Capitalized development costs	Software	Other	Total
Balance as of April 1, 2017	¥ 977,134	¥ 347,045	¥ 33,862	¥1,358,041
Additions	¥ —	¥ 12,765	¥ 2,469	¥ 15,234
Internally developed	132,800	13,586	—	146,386
Sales or disposal	(137,637)	(13,757)	(1,695)	(153,089)
Exchange differences on translating foreign operations	667	(4,388)	(289)	(4,010)
Other	—	(88)	(878)	(966)
Balance as of March 31, 2018	¥ 972,964	¥ 355,163	¥ 33,469	¥1,361,596
Additions	¥ —	¥ 11,836	¥ 3,956	¥ 15,792
Internally developed	161,232	14,975	—	176,207
Sales or disposal	(104,237)	(5,082)	(265)	(109,584)
Exchange differences on translating foreign operations	183	2,701	(1,067)	1,817
Other	—	(29)	2,195	2,166
Balance as of March 31, 2019	<u>¥1,030,142</u>	<u>¥ 379,564</u>	<u>¥ 38,288</u>	<u>¥1,447,994</u>

(Accumulated amortization and impairment losses)

	Yen (millions)			
	Capitalized development costs	Software	Other	Total
Balance as of April 1, 2017	¥ (358,130)	¥(211,912)	¥ (9,807)	¥ (579,849)
Amortization	¥ (153,922)	¥ (40,663)	¥ (1,359)	¥ (195,944)
Sales or disposal	137,637	12,610	1,057	151,304
Exchange differences on translating foreign operations	(28)	3,423	352	3,747
Other	—	(146)	806	660
Balance as of March 31, 2018	¥ (374,443)	¥(236,688)	¥ (8,951)	¥ (620,082)
Amortization	¥ (148,100)	¥ (39,224)	¥ (1,243)	¥ (188,567)
Sales or disposal	104,237	2,842	59	107,138
Exchange differences on translating foreign operations	(9)	(2,040)	222	(1,827)
Other	—	612	(900)	(288)
Balance as of March 31, 2019	<u>¥ (418,315)</u>	<u>¥(274,498)</u>	<u>¥(10,813)</u>	<u>¥ (703,626)</u>

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, 2018	¥ 598,521	¥ 118,475	¥ 24,518	¥ 741,514
Balance as of March 31, 2019	611,827	105,066	27,475	744,368

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, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Trade accounts and notes payable	¥ 1,075,545	¥ 1,056,065
Other	149,082	128,817
Total	¥ 1,224,627	¥ 1,184,882

(15) Financing Liabilities

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

Financing liabilities presented in current liabilities as of March 31, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Current:		
Commercial paper	¥ 849,605	¥ 943,905
Loans	312,992	366,620
Medium-term notes	40,070	122,080
Asset-backed securities	33,980	41,019
Subtotal	¥ 1,236,647	¥ 1,473,624
Reclassification from non-current liabilities (Current portion)	¥ 1,680,614	¥ 1,715,158
Total	¥ 2,917,261	¥ 3,188,782

The weighted average interest rates for financing liabilities presented in current liabilities (excluding reclassification from non-current liabilities) as of March 31, 2018 and 2019 are as follows:

	2018	2019
Weighted average interest rate	1.51%	1.85%

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

Financing liabilities presented in non-current liabilities as of March 31, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Non-current:		
Loans	¥ 1,253,429	¥ 1,235,791
Medium-term notes	2,885,168	3,151,868
Corporate bonds	454,543	444,517
Asset-backed securities	969,223	1,025,320
Subtotal	<u>¥ 5,562,363</u>	<u>¥ 5,857,496</u>
Reclassification to current liabilities (Current portion)	<u>¥(1,680,614)</u>	<u>¥(1,715,158)</u>
Total	<u>¥ 3,881,749</u>	<u>¥ 4,142,338</u>

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, 2018 and 2019 are as follows:

	2018	2019
Loans	Interest rate: 0.09% - 15.00% Due: 2018 - 2046	Interest rate: 0.10% - 10.50% Due: 2019 - 2046
Medium-term notes	Interest rate: 0.07% - 7.63% Due: 2018 - 2028	Interest rate: 0.35% - 3.88% Due: 2019 - 2028
Corporate bonds	Interest rate: 0.01% - 0.59% Due: 2018 - 2022	Interest rate: 0.01% - 0.59% Due: 2019 - 2023
Asset-backed securities	Interest rate: 0.13% - 2.83% Due: 2018 - 2023	Interest rate: 0.11% - 3.30% Due: 2019 - 2024

(Pledged assets)

Pledged assets for financing liabilities as of March 31, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Trade receivables	¥ 24,571	¥ 26,286
Receivables from financial services	1,047,676	1,134,489
Inventories	17,528	26,677
Property, plant and equipment	58,720	55,139
Total	<u>¥ 1,148,495</u>	<u>¥ 1,242,591</u>

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)

(Reconciliation of liabilities arising from financing activities)

The changes in liabilities arising from financing activities for the years ended March 31, 2018 and 2019 are as follows:

For the year ended March 31, 2018

	Yen (millions)							Balance as of March 31, 2018
	Balance as of April 1, 2017	Cash flows from financing activities	Cash flows from operating activities	Acquisitions	Non-cash changes			
					Changes in foreign currency exchange rates	Changes in fair value	Other	
Short-term financing liabilities ..	¥1,162,111	¥101,885	¥ —	¥ —	¥ (28,854)	¥ —	¥1,505	¥1,236,647
Long-term financing liabilities ..	5,647,007	80,042	—	—	(169,403)	—	4,717	5,562,363
Lease obligations*1	69,364	(47,449)	—	50,610	(468)	—	566	72,623
Derivative financial liabilities (assets)*2	25,300	—	(3,308)	—	(1,732)	(36,466)	—	(16,206)
Total	¥6,903,782	¥134,478	¥(3,308)	¥50,610	¥(200,457)	¥(36,466)	¥6,788	¥6,855,427

For the year ended March 31, 2019

	Yen (millions)							Balance as of March 31, 2019
	Balance as of April 1, 2018	Cash flows from financing activities	Cash flows from operating activities	Acquisitions	Non-cash changes			
					Changes in foreign currency exchange rates	Changes in fair value	Other	
Short-term financing liabilities ..	¥1,236,647	¥221,551	¥ —	¥ —	¥ 14,568	¥ —	¥ 858	¥1,473,624
Long-term financing liabilities ..	5,562,363	174,160	—	—	118,789	—	2,184	5,857,496
Lease obligations*1	72,623	(47,106)	—	37,028	(237)	—	—	62,308
Derivative financial liabilities (assets)*2	(16,206)	3,342	(9,187)	—	(859)	47,487	—	24,577
Total	¥6,855,427	¥351,947	¥(9,187)	¥37,028	¥ 132,261	¥ 47,487	¥3,042	¥7,418,005

Explanatory notes:

- *1 The cash flows arising from lease obligations are included in other, net in cash flows from financing activities in the consolidated statements of cash flows.
- *2 Derivative financial liabilities (assets) are held by the finance subsidiaries of the Company to hedge foreign currency risk for principals and interests payment of long-term financing liabilities. The cash flows related to repayments of principals are included in cash flows from financing activities, while the cash flows related to interest paid are included in cash flows from operating activities.

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

(16) Other Financial Liabilities

Other financial liabilities as of March 31, 2018 and 2019 consist of the following:

	Yen (millions)	
	2018	2019
Financial liabilities measured at amortized cost	¥ 50,001	¥ 64,800
Financial liabilities measured at fair value through profit or loss:		
Derivatives	52,786	69,491
Lease obligations	72,623	62,308
Total	<u>¥ 175,410</u>	<u>¥ 196,599</u>
Current liabilities	¥ 115,405	¥ 132,910
Non-current liabilities	60,005	63,689
Total	<u>¥ 175,410</u>	<u>¥ 196,599</u>

(17) Provisions

The components of and changes in provisions for the year ended March 31, 2019 are as follows:

	Yen (millions)		
	Product warranties*	Other	Total
Balance as of April 1, 2018	¥ 457,596	¥ 69,023	¥ 526,619
Effect of changes in accounting policy	¥ (4,536)	¥ —	¥ (4,536)
Adjusted balance as of April 1, 2018	<u>¥ 453,060</u>	<u>¥ 69,023</u>	<u>¥ 522,083</u>
Provision	¥ 247,194	¥ 75,866	¥ 323,060
Write-offs	(231,230)	(25,314)	(256,544)
Reversal	(17,596)	(9,023)	(26,619)
Exchange differences on translating foreign operations	7,054	474	7,528
Balance as of March 31, 2019	<u>¥ 458,482</u>	<u>¥ 111,026</u>	<u>¥ 569,508</u>

Current liabilities and non-current liabilities of provisions as of March 31, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Current liabilities	¥ 305,994	¥ 348,763
Non-current liabilities	220,625	220,745
Total	<u>¥ 526,619</u>	<u>¥ 569,508</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

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

resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. These provisions are estimated based on historical warranty claim experience with consideration given to the expected level of future warranty costs as well as current information on repair costs. Provision for product warranties are utilized for expenditures based on the demand from customers and dealers.

(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 pension benefit plans as well as lump-sum retirement benefit plans, in which the amount of benefits is basically determined based on the level of salary, service years, and other factors. In addition, certain consolidated subsidiaries in North America provide mainly health care and life insurance benefits to retired employees.

The Company's pension plans are administered by the Honda Pension Fund (the Fund) which is legally independent of the Company. The Director of the Fund has the fiduciary duty to comply with laws, the directives by the Minister of Health, Labour and Welfare, and the Director-Generals of Regional Bureaus of Health and Welfare made pursuant to those laws, and the by-laws of the Fund and the decisions made by the Board of Representatives of the Fund. The Company is required to make contributions to the Fund and obligated to make contributions in the amount stipulated by the Fund. Contributions are also regularly reviewed and adjusted as necessary to the extent permitted by laws and regulations.

In August 2016, the Company and its certain subsidiaries in Japan decided, effective April 1, 2017, to extend mandatory retirement age from 60 years old to 65 years old and introduce a flexible retirement scheme that enables employees to choose retirement age between 60 years old and 65 years old, along with amendments to their defined benefit pension plans to align with the postponement of the retirement age, to fulfill diversifying needs of individual employees. The plan amendments include the revision of the benefit curve that makes a lump-sum benefit payment at the retirement age between 60 years old and 65 years old under the new plan consistent with a lump-sum benefit payment at the previous mandatory retirement age. In addition, one of the defined benefit pension plans was replaced by a defined contribution plan.

These plan amendments resulted in a reduction of the defined benefit obligations and recognition of the past service cost in profit or loss. Honda recognized ¥84,024 million of past service cost in a credit to profit or loss, of which ¥37,197 million is included in cost of sales, ¥21,385 million is included in selling, general and administrative and ¥25,442 million is included in research and development in the consolidated statements of income for the year ended March 31, 2017. The defined benefit obligations and plan assets were also remeasured.

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, 2018 and 2019 are as follows:

	Yen (millions)			
	2018		2019	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Present value of defined benefit obligations:				
Balance at beginning of year	¥1,362,192	¥1,057,351	¥ 1,331,475	¥ 1,042,753
Current service cost	35,138	28,387	36,300	29,133
Past service cost	—	506	—	338
Interest cost	10,493	39,401	9,535	39,547
Plan participants' contributions	—	1,579	—	1,903
Transfer to defined contribution plan	(63,055)	—	—	—
Remeasurements:				
Changes in demographic assumptions	13,843	(1,951)	(25,360)	(3,648)
Changes in financial assumptions	19,783	30,612	34,655	36,157
Other	(4,599)	(21,512)	21,981	8,943
Benefits paid	(42,320)	(56,631)	(42,206)	(96,801)
Exchange differences on translating foreign operations	—	(34,989)	—	28,113
Balance at end of year	<u>¥1,331,475</u>	<u>¥1,042,753</u>	<u>¥ 1,366,380</u>	<u>¥ 1,086,438</u>
Fair value of plan assets:				
Balance at beginning of year	¥1,182,140	¥ 795,561	¥ 1,219,073	¥ 807,528
Interest income	9,630	29,950	8,807	30,553
Actual return on plan assets, excluding interest income	45,841	35,412	34,142	10,489
Employer contributions	21,652	25,964	22,109	87,803
Plan participants' contributions	—	1,579	—	1,903
Benefits paid	(40,190)	(56,631)	(39,601)	(96,801)
Exchange differences on translating foreign operations	—	(24,307)	—	19,383
Balance at end of year	<u>¥1,219,073</u>	<u>¥ 807,528</u>	<u>¥ 1,244,530</u>	<u>¥ 860,858</u>
Net defined benefit liabilities	<u>¥ 112,402</u>	<u>¥ 235,225</u>	<u>¥ 121,850</u>	<u>¥ 225,580</u>

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, 2018 and 2019 is as follows:

As of March 31, 2018

	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	¥ 5,464	¥ —	¥ 5,464	¥ 5,659	¥ —	¥ 5,659
Equity securities:						
Japan	31,306	—	31,306	18,333	—	18,333
United States	214,783	—	214,783	92,774	—	92,774
Other	228,083	—	228,083	94,156	4,503	98,659
Debt securities:						
Japan	73,125	1,375	74,500	—	183	183
United States	2,799	121,574	124,373	—	105,986	105,986
Other	149,589	94,703	244,292	—	12,561	12,561
Group annuity insurance:						
General accounts	—	32,322	32,322	—	—	—
Separate accounts	—	16,243	16,243	—	—	—
Pooled funds:						
Real estate funds	—	—	—	—	61,459	61,459
Private equity funds	—	—	—	—	73,972	73,972
Hedge funds	—	112,011	112,011	—	53,357	53,357
Commingled and other mutual funds	2,213	130,645	132,858	54,063	213,938	268,001
Other	8	2,830	2,838	(875)	17,459	16,584
Total	¥707,370	¥511,703	¥1,219,073	¥264,110	¥543,418	¥807,528

As of March 31, 2019

	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	¥ 9,207	¥ —	¥ 9,207	¥ 36,373	¥ —	¥ 36,373
Equity securities:						
Japan	32,885	1	32,886	13,970	—	13,970
United States	234,226	—	234,226	94,332	—	94,332
Other	231,162	242	231,404	112,403	4,614	117,017
Debt securities:						
Japan	71,487	—	71,487	—	433	433
United States	3,036	143,673	146,709	—	119,942	119,942
Other	181,728	47,845	229,573	—	10,910	10,910
Group annuity insurance:						
General accounts	—	34,663	34,663	—	—	—
Separate accounts	—	16,569	16,569	—	—	—
Pooled funds:						
Real estate funds	—	—	—	—	53,100	53,100
Private equity funds	—	—	—	—	91,264	91,264
Hedge funds	—	116,183	116,183	—	61,520	61,520
Commingled and other mutual funds	3,859	111,914	115,773	8,882	238,504	247,386
Other	32	5,818	5,850	(1,447)	16,058	14,611
Total	¥767,622	¥476,908	¥1,244,530	¥264,513	¥596,345	¥860,858

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, 2018 and 2019 are as follows:

	2018		2019	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Discount rate	0.7%	2.8 - 4.2%	0.6%	2.5 - 3.9%
Rate of salary increase	1.7%	2.5 - 3.0%	1.6%	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, 2018 and 2019 are as follows:

	Yen (millions)			
	2018		2019	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
0.5% decrease	¥112,535 increase	¥ 97,682 increase	¥114,468 increase	¥102,878 increase
0.5% increase	¥ 99,540 decrease	¥85,897 decrease	¥101,281 decrease	¥ 90,659 decrease

This sensitivity analysis shows changes in defined benefit obligations as of March 31, 2018 and 2019, 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 ¥22,751 million to its Japanese pension plans and ¥53,481 million to its foreign pension plans in the year ending March 31, 2020.

A subsidiary in the United Kingdom entered into an arrangement related to its pension plan in March 2019. The arrangement includes an agreement to contribute additional ¥32,186 million which is a part of the expected contribution to the foreign pension plan in the year ending March 31, 2020.

The weighted average duration of defined benefit obligations as of March 31, 2018 and 2019 are as follows:

	2018		2019	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Weighted average duration of defined benefit obligations	16 years	17 years	16 years	17 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, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Personnel expenses	¥1,373,578	¥1,576,012	¥1,634,785

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, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Financing liabilities	¥ 6,799,010	¥ 7,331,120
Equity	8,234,095	8,565,790

(b) Common Stock

The Company's total number of shares authorized and issued for the years ended March 31, 2017, 2018 and 2019 are as follows:

	Shares		
	2017	2018	2019
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, 2017, 2018 and 2019 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, 2017, 2018 and 2019 is as follows:

	Shares		
	2017	2018	2019
Common shares	9,148,035	33,150,615	51,867,045

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.

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

(e) Other Components of Equity

The changes in other components of equity for the years ended March 31, 2017, 2018 and 2019 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, 2016	¥ —	¥ 61,639	¥ 274,476	¥ 336,115
Adjustment during the year . . .	¥ 64,478	¥ 24,049	¥ (9,017)	¥ 79,510
Reclassification to retained earnings	(64,478)	259	—	(64,219)
Balance as of March 31, 2017	¥ —	¥ 85,947	¥ 265,459	¥ 351,406
Adjustment during the year . . .	¥ 12,125	¥ 20,655	¥(192,572)	¥(159,792)
Reclassification to retained earnings	(12,125)	(1,197)	—	(13,322)
Balance as of March 31, 2018	¥ —	¥105,405	¥ 72,887	¥ 178,292
Effect of changes in accounting policy	¥ —	¥ (208)	¥ —	¥ (208)
Effect of hyperinflation	—	—	14,896	14,896
Adjusted balance as of April 1, 2018	¥ —	¥105,197	¥ 87,783	¥ 192,980
Adjustment during the year . . .	¥(23,383)	¥ (26,696)	¥ 77,372	¥ 27,293
Reclassification to retained earnings	23,383	(29,273)	—	(5,890)
Balance as of March 31, 2019	¥ —	¥ 49,228	¥ 165,155	¥ 214,383

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, 2017, 2018 and 2019 are as follows:

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:			
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	—	—	—
Reclassification to profit or loss	—	—	—
Net changes	—	—	—
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

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

For the year ended March 31, 2018

	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	¥ 47,383	¥(34,039)	¥ 13,344
Net changes	<u>47,383</u>	<u>(34,039)</u>	<u>13,344</u>
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	20,020	(732)	19,288
Net changes	<u>20,020</u>	<u>(732)</u>	<u>19,288</u>
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	1,729	(41)	1,688
Net changes	<u>1,729</u>	<u>(41)</u>	<u>1,688</u>
Items that may be reclassified subsequently to profit or loss:			
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	—	—	—
Reclassification to profit or loss	—	—	—
Net changes	<u>—</u>	<u>—</u>	<u>—</u>
Exchange differences on translating foreign operations:			
Amount incurred during the year	(204,372)	(4)	(204,376)
Reclassification to profit or loss	188	4	192
Net changes	<u>(204,184)</u>	<u>—</u>	<u>(204,184)</u>
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	12,266	(521)	11,745
Reclassification to profit or loss	(1,155)	30	(1,125)
Net changes	<u>11,111</u>	<u>(491)</u>	<u>10,620</u>
Total other comprehensive income	<u>¥(123,941)</u>	<u>¥(35,303)</u>	<u>¥(159,244)</u>

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

For the year ended March 31, 2019

	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	¥(25,538)	¥ 1,793	¥(23,745)
Net changes	(25,538)	1,793	(23,745)
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	(34,898)	10,852	(24,046)
Net changes	(34,898)	10,852	(24,046)
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	(3,029)	192	(2,837)
Net changes	(3,029)	192	(2,837)
Items that may be reclassified subsequently to profit or loss:			
Net changes in revaluation of financial assets measured at fair value through other comprehensive income:			
Amount incurred during the year	378	(55)	323
Reclassification to profit or loss	(88)	(7)	(95)
Net changes	290	(62)	228
Exchange differences on translating foreign operations:			
Amount incurred during the year	97,122	(443)	96,679
Reclassification to profit or loss	(1,554)	443	(1,111)
Net changes	95,568	—	95,568
Share of other comprehensive income of investments accounted for using the equity method:			
Amount incurred during the year	(19,793)	946	(18,847)
Reclassification to profit or loss	—	—	—
Net changes	(19,793)	946	(18,847)
Total other comprehensive income	¥ 12,600	¥13,721	¥ 26,321

The components of other comprehensive income included in non-controlling interests for the years ended March 31, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	¥ (4,413)	¥ 1,534	¥ (338)
Net changes in revaluation of financial assets measured at fair value through other comprehensive income	9	6	17
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(5,563)	(992)	(651)
Total	¥ (9,967)	¥ 548	¥ (972)

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, 2017, 2018 and 2019 are as follows:

1) Dividend payout

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

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

For the year ended March 31, 2018

Resolution	The Ordinary General Meeting of Shareholders on June 15, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	March 31, 2017
Effective date	June 16, 2017
Resolution	The Board of Directors Meeting on August 1, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	June 30, 2017
Effective date	August 25, 2017
Resolution	The Board of Directors Meeting on November 1, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	September 30, 2017
Effective date	November 29, 2017
Resolution	The Board of Directors Meeting on February 2, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	44,456
Dividend per share (yen)	25.00
Record date	December 31, 2017
Effective date	February 28, 2018

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

For the year ended March 31, 2019

Resolution	The Board of Directors Meeting on April 27, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	48,013
Dividend per share (yen)	27.00
Record date	March 31, 2018
Effective date	May 30, 2018
Resolution	The Board of Directors Meeting on July 31, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	47,682
Dividend per share (yen)	27.00
Record date	June 30, 2018
Effective date	August 28, 2018
Resolution	The Board of Directors Meeting on October 30, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	49,287
Dividend per share (yen)	28.00
Record date	September 30, 2018
Effective date	November 28, 2018
Resolution	The Board of Directors Meeting on February 1, 2019
Type of shares	Common shares
Total amount of dividends (millions of yen)	49,287
Dividend per share (yen)	28.00
Record date	December 31, 2018
Effective date	February 28, 2019

2) Dividends payable of which record date was in the year ended March 31, 2019, effective after the period

Resolution	The Board of Directors Meeting on May 8, 2019
Type of shares	Common shares
Resource for dividend	Retained earnings
Total amount of dividends (millions of yen)	49,287
Dividend per share (yen)	28.00
Record date	March 31, 2019
Effective date	June 3, 2019

(20) Sales Revenue

(a) Disaggregation of revenue

As stated in note 4, Honda has four reportable segments: Motorcycle business, Automobile business, Financial services business and Power product and other businesses.

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

The sales revenue disaggregated by geographical markets based on the location of the customer and the reconciliation of the disaggregated sales revenue with the four reportable segments for the year ended March 31, 2019 are as follows:

For the year ended March 31, 2019

	Yen (millions)				
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Total
Revenue arising from contracts with customers					
Japan	¥ 79,297	¥ 1,590,032	¥ 86,437	¥ 87,503	¥ 1,843,269
North America	188,022	6,163,120	1,013,987	135,277	7,500,406
Europe	159,645	427,347	—	60,993	647,985
Asia	1,372,583	2,359,557	33	46,402	3,778,575
Other Regions	297,757	521,124	—	20,608	839,489
Total	¥2,097,304	¥11,061,180	¥1,100,457	¥350,783	¥14,609,724
Revenue arising from the other sources* . . .	2,851	10,937	1,264,898	207	1,278,893
Total	¥2,100,155	¥11,072,117	¥2,365,355	¥350,990	¥15,888,617

Explanatory note:

* Revenue arising from the other sources primarily includes lease revenues recognized under IAS 17 and interest recognized under IFRS 9.

(b) Contract balances

The receivables from contracts with customers and contract liabilities for the year ended March 31, 2019 are as follows:

	Yen (millions)	
	As of April 1, 2018	As of March 31, 2019
Receivables from contracts with customers:		
Trade receivables	¥690,061	¥707,337
Contract liabilities:		
Other current liabilities	241,595	214,888
Other noncurrent liabilities	156,355	165,722

The amount of revenue recognized for the year ended March 31, 2019 that was included in the contract liability balance at the beginning of the year is ¥212,303 million. The amount of revenue recognized for the year ended March 31, 2019 from performance obligations satisfied (or partially satisfied) in previous years was immaterial. In addition, the balance of contract assets is immaterial.

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

(c) Transaction price allocated to the remaining performance obligation

The revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2019 is as follows:

	Yen (millions)
	2019
Within 1 year	¥103,734
Between 1 and 5 years	185,456
Later than 5 years	12,791
Total	¥301,981

The table does not include the remaining performance obligations that have original expected durations of one year or less and estimated amounts of variable consideration that are constrained from being recognized as revenue.

(d) Assets recognized from the costs to obtain or fulfill a contract with a customer

The assets recognized from the costs to obtain a contract with a customer as of March 31, 2019 are as follows.

	Yen (millions)
	2019
Assets recognized from the costs to obtain a contract with a customer	¥105,471

Honda recognizes the incremental costs of obtaining a contract with a customer and the costs incurred in fulfilling a contract with a customer that are directly associated with the contract as an asset, if those costs are expected to be recoverable. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The assets recognized from the costs to obtain a contract are presented in the consolidated statement of financial position mainly as other non-current assets and are amortized over the period for which the services based on a contract are provided. The amount of assets recognized from the costs to fulfill a contract is not material.

The amount of amortization of the assets for the year ended March 31, 2019 is ¥35,057 million.

(21) Research and Development

Research and development costs for the years ended March 31, 2017, 2018 and 2019 consist of the following:

	Yen (millions)		
	2017	2018	2019
Research and development expenditures incurred during the reporting period	¥ 659,918	¥ 730,734	¥ 820,037
Amount capitalized	(121,037)	(132,800)	(161,232)
Amortization of capitalized development costs	152,548	153,922	148,100
Total	¥ 691,429	¥ 751,856	¥ 806,905

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

(22) Finance Income and Finance Costs

Finance income and finance costs for the years ended March 31, 2017, 2018 and 2019 consist of the following:

	Yen (millions)		
	2017	2018	2019
Interest income:			
Financial assets measured at amortized cost	¥ 31,331	¥ 39,645	¥ 46,862
Financial assets measured at fair value through other comprehensive income	—	—	323
Financial assets measured at fair value through profit or loss . .	1,058	1,546	1,433
Total	<u>32,389</u>	<u>41,191</u>	<u>48,618</u>
Interest expense:			
Financial liabilities measured at amortized cost	(12,471)	(12,970)	(13,217)
Other, net:			
Dividends received:			
Financial assets measured at fair value through other comprehensive income	4,922	4,708	5,056
Financial assets measured at fair value through profit or loss	11	15	21
Gains (losses) on derivatives:			
Financial assets and financial liabilities measured at fair value through profit or loss	(51,416)	67,132	(54,897)
Gains (losses) on foreign exchange	21,902	(69,197)	31,266
Other	6,145	2,893	7,331
Total	<u>(18,436)</u>	<u>5,551</u>	<u>(11,223)</u>
Total	<u>¥ 1,482</u>	<u>¥ 33,772</u>	<u>¥ 24,178</u>

(23) Income Taxes

(a) Income Tax Expense

Profit before income taxes and income tax expense for the years ended March 31, 2017, 2018 and 2019 consist of the following:

	Yen (millions)								
	2017			2018			2019		
	Japan	Foreign	Total	Japan	Foreign	Total	Japan	Foreign	Total
Profit (loss) before income taxes	¥88,336	¥918,650	¥1,006,986	¥126,915	¥ 988,058	¥1,114,973	¥70,805	¥908,570	¥979,375
Income tax expense (benefit):									
Current taxes	9,072	187,077	196,149	(2,956)	280,316	277,360	32,937	183,828	216,765
Deferred taxes	21,425	110,018	131,443	25,149	(316,175)	(291,026)	58,121	28,203	86,324
Total	<u>¥30,497</u>	<u>¥297,095</u>	<u>¥ 327,592</u>	<u>¥ 22,193</u>	<u>¥ (35,859)</u>	<u>¥ (13,666)</u>	<u>¥91,058</u>	<u>¥212,031</u>	<u>¥303,089</u>

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The amount of write-down of deferred tax assets included in income tax expense (deferred taxes) for the year ended March 2019 is ¥50,322 million.

The statutory income tax rate in Japan for the years ended March 31, 2017, 2018 and 2019 was 30.4%, 30.4% and 30.2%, respectively. The foreign subsidiaries are subject to taxes based on income at rates ranging from 16.0% to 35.0%.

The Japanese statutory income tax rate for the years ended March 31, 2017, 2018 and 2019 differs from the average effective tax rate for the following reasons:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Statutory income tax rate	30.4%	30.4%	30.2%
Difference in statutory income tax rates of foreign subsidiaries	0.0	(1.1)	(4.3)
Effects of investments accounted for using the equity method	(4.9)	(6.7)	(7.1)
Effects of undistributed earnings and withholding taxes on royalty	6.1	7.0	7.7
Changes in unrecognized deferred tax assets	2.7	(0.2)	8.3
Effects of income and expense not taxable and deductible for tax purpose	0.2	0.1	0.2
Effects of tax credit	(1.3)	(2.1)	(3.2)
Other adjustments relating to prior years	(0.2)	0.3	(0.1)
Adjustments for the uncertain tax positions on income taxes	0.3	0.7	0.8
Adjustments for the changes in income tax laws*	(0.1)	(30.1)	(2.5)
Other	<u>(0.7)</u>	<u>0.5</u>	<u>0.9</u>
Average effective tax rate	<u>32.5%</u>	<u>(1.2)%</u>	<u>30.9%</u>

Explanatory note:

* The Tax Cuts and Jobs Act (“the Act”) was enacted in the United States on December 22, 2017. Due to the Act, the federal corporate income tax rate in the United States applicable to the Company’s United States businesses was reduced from 35% to a blended rate of 31.55% for the fiscal year ended March 31, 2018 and to 21% from the fiscal year commencing on April 1, 2018. The Company recognized impacts of the enactment of the Act, including a decrease in income tax expenses of ¥346,129 million, as a result of reevaluating deferred tax assets and liabilities in its consolidated subsidiaries in the United States based on the reduced federal corporate income tax rate, for the fiscal year ended March 31, 2018.

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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, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Deferred tax assets:		
Inventories	¥ 66,801	¥ 39,044
Accrued expenses	67,410	75,378
Provisions	121,898	101,780
Property, plant and equipment	26,803	18,462
Intangible assets	19,167	22,776
Retirement benefit liabilities	92,272	95,324
Carryforward of unused tax losses	36,732	54,817
Carryforward of unused tax credit	33,743	43,130
Other	126,079	124,588
Total	<u>¥ 590,905</u>	<u>¥ 575,299</u>
Deferred tax liabilities:		
Property, plant and equipment	¥ 85,606	¥ 81,472
Intangible assets	177,899	180,607
Other financial assets	42,886	21,720
Finance leases	33,878	41,050
Operating leases	641,134	718,981
Undistributed earnings	58,630	58,112
Other	51,256	50,450
Total	<u>¥1,091,289</u>	<u>¥1,152,392</u>
Net deferred tax assets (liabilities)	<u>¥ (500,384)</u>	<u>¥ (577,093)</u>

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, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Inventories	¥ 7,886	¥ 5,541	¥ 28,022
Provisions	49,864	45,492	20,711
Property, plant and equipment	19,551	(27,520)	(499)
Retirement benefit liabilities	16,212	(623)	3,237
Operating leases	83,414	(328,950)	49,142
Undistributed earnings	(3,704)	12,655	215
Carryforward of unused tax losses	(13,346)	9,226	(19,335)
Carryforward of unused tax credit	(6,394)	(10,300)	(8,038)
Other	(22,040)	3,453	12,869
Total	<u>¥131,443</u>	<u>¥ (291,026)</u>	<u>¥ 86,324</u>

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

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Notes to Consolidated Financial Statements—(Continued)

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, 2018 and 2019. 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 ¥21,911 million and ¥57,410 million as of March 31, 2018 and 2019, 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, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Deductible temporary differences	¥ 301,349	¥ 560,738
Carryforward of unused tax losses	218,783	261,294
Carryforward of unused tax credit	6,202	3,850

The components by expiry of the carryforward of unused tax losses for which deferred tax assets are not recognized as of March 31, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Within 1 year	¥ 3,755	¥ 8,759
Between 1 and 5 years	86,277	67,352
Between 5 and 20 years	56,605	101,953
Indefinite periods	72,146	83,230
Total	¥ 218,783	¥ 261,294

The components by expiry of the carryforward of unused tax credit for which deferred tax assets are not recognized as of March 31, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Within 1 year	¥ 541	¥ 570
Between 1 and 5 years	1,727	1,422
Between 5 and 20 years	3,934	1,858
Indefinite periods	—	—
Total	¥ 6,202	¥ 3,850

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, 2018 and 2019 are ¥4,709,772 million and ¥4,908,449 million, respectively.

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(24) Earnings Per Share

Earnings per share attributable to owners of the parent for the years ended March 31, 2017, 2018 and 2019 are calculated based on the following information. There were no dilutive potential common shares outstanding for the years ended March 31, 2017, 2018 and 2019.

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Profit for the year attributable to owners of the parent (millions of yen)	¥ 616,569	¥ 1,059,337	¥ 610,316
Weighted average number of common shares outstanding, basic (shares)	1,802,282,093	1,793,088,970	1,763,983,221
Basic earnings per share attributable to owners of the parent (yen)	¥ 342.10	¥ 590.79	¥ 345.99

(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.

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, 2018 and 2019 is as follows.

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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)	
	2018	2019
Impact on profit before income taxes	¥ (829)	¥ (777)

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, 2018 and 2019 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)	
	2018	2019
Impact on profit before income taxes	¥(1,569)	¥(1,915)

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.

(c) Credit Risk

Honda is exposed to the risk that one party to a financial instrument causes a financial loss for the other party by failing to discharge an obligation. Honda reduces the risk of financial assets other than derivatives in accordance with credit administration rules. Honda reduces the risk of derivatives by limiting the counterparties to major international banks and financial institutions that meet the internally established credit guidelines.

The credit risk is mainly in receivables from financial services. Credit risk of the portfolio of consumer finance receivables can be affected by general economic conditions. Adverse changes such as a rise in unemployment can increase the likelihood of defaults. Declines in used vehicle prices can reduce the amount of recoveries on repossessed collaterals. The finance subsidiaries of the Company manage exposures to credit risk in consumer finance receivables by monitoring and adjusting underwriting standards, which affect the level of credit risk that Honda assumes, pricing contracts for expected losses, and focusing collection efforts to minimize losses. Credit risk on dealer finance receivables is affected primarily by the financial strength of the dealers

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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.

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 finance subsidiaries of the Company maintain 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. There is risk that dealers fail to discharge withdrawn committed lines and cause financial loss for Honda. Regarding 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, 2019, 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.

1) Credit risk exposure

The analysis of the age of receivables from financial services that are past due as of March 31, 2018 and 2019 is as follows:

	Yen (millions)				Total
	Less than 30 days past due	30-59 days past due	60-89 days past due	90 days and greater past due	
As of March 31, 2018					
Consumer finance receivables:					
Retail	¥174,649	¥29,692	¥ 5,683	¥ 3,930	¥213,954
Finance lease	858	218	41	93	1,210
Dealer finance receivables:					
Wholesale	16,843	858	103	79	17,883
Total	<u>¥192,350</u>	<u>¥30,768</u>	<u>¥ 5,827</u>	<u>¥ 4,102</u>	<u>¥233,047</u>
As of March 31, 2019					
Consumer finance receivables:					
Retail	¥204,475	¥35,706	¥ 7,572	¥ 6,070	¥253,823
Finance lease	349	108	26	198	681
Dealer finance receivables:					
Wholesale	21,509	7,407	92	3,858	32,866
Total	<u>¥226,333</u>	<u>¥43,221</u>	<u>¥ 7,690</u>	<u>¥10,126</u>	<u>¥287,370</u>

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.

The following table shows the balances of dealer finance receivables and loan commitments classified into Group A or B based on the internal risk ratings. Group A includes the dealer finance receivables and loan commitments of dealerships with high credit quality characteristics. Group B includes the dealer finance receivables and loan commitments of remaining dealerships.

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The balances of dealer finance receivables and the undiscounted maximum amounts of potential payment for loan commitments by this risk rating as of March 31, 2019 are as follows:

<u>As of March 31, 2019</u>	Yen (millions)			
	<u>12-month ECL (Stage 1)</u>	Lifetime ECL		<u>Total</u>
		Not credit-impaired (Stage 2)	Credit-impaired (Stage 3)	
Dealer finance receivables:				
Group A	¥469,877	¥ 9,224	¥ —	¥479,101
Group B	202,993	13,223	16,897	233,113
Total	¥672,870	¥22,447	¥16,897	¥712,214
Loan commitments:				
Group A	¥ 46,962	¥ —	¥ —	¥ 46,962
Group B	10,479	—	—	10,479
Total	¥ 57,441	¥ —	¥ —	¥ 57,441

The undiscounted maximum amount of potential payment for guarantees of bank loans of employees for their housing costs as of March 31, 2019 is ¥11,953 million.

2) Collateral held as security

The finance subsidiaries of the Company generally hold sold products as collateral for consumer finance receivables. The finance subsidiaries of the Company hold the dealerships' other assets as collateral in addition to sold products for dealer finance receivables. The extent to which collateral mitigates credit risk is dependent on the value of collateral relative to the outstanding receivables balance at the time of repossession. The estimated fair value of collateral for credit-impaired consumer finance receivables is approximately 60% of the carrying amounts and that for dealer finance receivables is approximately 90% of the carrying amounts as of March 31, 2019, excluding collateral values in excess of carrying amounts. The extent to which collateral mitigates credit risk is also dependent on finance subsidiaries' ability to take possession of the collateral.

(d) Liquidity Risk

Honda raises funds by commercial paper, bank loans, medium-term notes, corporate bonds and securitization of finance receivables. Honda is exposed to the liquidity risk that Honda would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

Exposure to liquidity risk is managed by maintaining sufficient capital resources, a sufficient level of liquidity and a sound balance sheet. Honda meets its working capital targets primarily through cash generated by business operations and bank loans. Honda funds financial programs for customers and dealers primarily from commercial paper, bank loans, medium-term notes, corporate bonds and securitization of finance receivables.

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The unused portions of the credit facility of Honda's commercial paper and medium-term note programs as of March 31, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Commercial paper	¥ 660,740	¥ 602,243
Medium-term notes	1,923,587	1,229,911
Total	<u>¥2,584,327</u>	<u>¥1,832,154</u>

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, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Commercial paper programs	¥1,047,551	¥1,080,503
Other	59,502	58,199
Total	<u>¥1,107,053</u>	<u>¥1,138,702</u>

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, 2018 and 2019 are as follows:

As of March 31, 2018	Yen (millions)				
	Carrying amount	Within 1 year	Between 1 and 5 years	Later than 5 years	Total contractual cash flows
Trade payables	¥1,224,627	¥1,224,627	¥ —	¥ —	¥1,224,627
Financing liabilities	6,799,010	3,030,934	3,784,440	283,459	7,098,833
Accrued expenses	404,719	404,719	—	—	404,719
Other financial liabilities	122,624	66,457	32,380	24,498	123,335
Total	<u>¥8,550,980</u>	<u>¥4,726,737</u>	<u>¥3,816,820</u>	<u>¥307,957</u>	<u>¥8,851,514</u>

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<u>As of March 31, 2019</u>	Yen (millions)				Total contractual cash flows
	Carrying amount	Within 1 year	Between 1 and 5 years	Later than 5 years	
Trade payables	¥1,184,882	¥1,184,882	¥ —	¥ —	¥1,184,882
Financing liabilities	7,331,120	3,321,576	4,089,215	239,638	7,650,429
Accrued expenses	476,300	476,300	—	—	476,300
Other financial liabilities	127,108	66,240	29,615	31,416	127,271
Total	<u>¥9,119,410</u>	<u>¥5,048,998</u>	<u>¥4,118,830</u>	<u>¥271,054</u>	<u>¥9,438,882</u>

2) *Derivative financial liabilities*

Derivative financial liabilities by maturity as of March 31, 2018 and 2019 are as follows:

<u>As of March 31, 2018</u>	Yen (millions)			Total contractual cash flows
	Within 1 year	Between 1 and 5 years	Later than 5 years	
Derivative financial liabilities	¥17,162	¥42,529	¥3,057	¥62,748

<u>As of March 31, 2019</u>	Yen (millions)			Total contractual cash flows
	Within 1 year	Between 1 and 5 years	Later than 5 years	
Derivative financial liabilities	¥41,518	¥49,513	¥1,609	¥92,640

(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.

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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.

(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. In addition, in the case that cost represents the best estimate of fair value, fair value for the equity securities with no active market is measured at cost.

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 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.

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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.

(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, 2018 and 2019 consist of the following:

<u>As of March 31, 2018</u>	<u>Yen (millions)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥ 38,926	¥ —	¥ 38,926
Interest rate instruments	—	49,419	—	49,419
Total	<u>—</u>	<u>88,345</u>	<u>—</u>	<u>88,345</u>
Debt securities	26,763	37,860	5,206	69,829
Financial assets measured at fair value through other comprehensive income:				
Debt securities	—	—	—	—
Equity securities	198,011	—	12,671	210,682
Total	<u>¥224,774</u>	<u>¥126,205</u>	<u>¥17,877</u>	<u>¥368,856</u>
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥ 16,417	¥ —	¥ 16,417
Interest rate instruments	—	36,369	—	36,369
Total	<u>—</u>	<u>52,786</u>	<u>—</u>	<u>52,786</u>
Total	<u>¥ —</u>	<u>¥ 52,786</u>	<u>¥ —</u>	<u>¥ 52,786</u>

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There were no transfers between Level 1 and Level 2 for the year ended March 31, 2018.

<u>As of March 31, 2019</u>	<u>Yen (millions)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥12,233	¥ —	¥ 12,233
Interest rate instruments	—	34,164	—	34,164
Total	—	46,397	—	46,397
Debt securities	21,090	31,551	5,439	58,080
Financial assets measured at fair value through other comprehensive income:				
Debt securities	—	10,495	—	10,495
Equity securities	108,879	—	98,156	207,035
Total	<u>¥129,969</u>	<u>¥88,443</u>	<u>¥103,595</u>	<u>¥322,007</u>
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥35,449	¥ —	¥ 35,449
Interest rate instruments	—	34,042	—	34,042
Total	—	69,491	—	69,491
Total	<u>¥ —</u>	<u>¥69,491</u>	<u>¥ —</u>	<u>¥ 69,491</u>

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2019.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended March 31, 2018 and 2019 are as follows:

<u>For the year ended March 31, 2018</u>	<u>Yen (millions)</u>	
	<u>Debt securities</u>	<u>Equity securities</u>
Balance as of April 1, 2017	¥ 5,610	¥ 11,318
Total gains or losses:		
Profit or loss	111	—
Other comprehensive income	—	(323)
Purchases	—	1,833
Sales	(222)	(107)
Exchange differences on translating foreign operations	(293)	(50)
Balance as of March 31, 2018	<u>¥ 5,206</u>	<u>¥ 12,671</u>
Unrealized gains or losses included in profit or loss on assets held at March 31, 2018	¥ 111	¥ —

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

<u>For the year ended March 31, 2019</u>	Yen (millions)	
	Debt securities	Equity securities
Balance as of April 1, 2018	¥ 5,206	¥ 12,671
Total gains or losses:		
Profit or loss	(42)	—
Other comprehensive income	—	(3,824)
Purchases	—	89,651
Sales	—	(295)
Exchange differences on translating foreign operations	275	(47)
Balance as of March 31, 2019	¥ 5,439	¥ 98,156
Unrealized gains or losses included in profit or loss on assets held at March 31, 2019	¥ (42)	¥ —

Explanatory notes:

1. Gains or losses included in profit or loss for the years ended March 31, 2018 and 2019 are included in other, net in finance income and finance costs in the consolidated statements of income.
2. Gains or losses on equity securities included in other comprehensive income for the years ended March 31, 2018 and 2019 are included in net changes in revaluation of financial assets measured at fair value through other comprehensive income under items that will not be reclassified to profit or loss 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, 2018 and 2019 are as follows:

	Yen (millions)			
	2018		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from financial services	¥4,958,063	¥4,935,772	¥5,405,250	¥5,417,297
Debt securities	104,286	104,284	54,964	54,952
Financing liabilities	6,799,010	6,795,675	7,331,120	7,355,632

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

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, 2018 and 2019 is as follows:

As of March 31, 2018	Yen (millions)					Net Amounts
	Gross amounts of recognized financial assets and financial liabilities	Amounts offset in the consolidated statements of financial position	Net amounts presented in the consolidated statements of financial position	Amounts not offset due to not meeting offsetting criteria despite being subject to a master netting agreement or similar agreement		
Other financial assets						
Derivatives	¥88,345	¥ —	¥88,345	¥(39,415)		¥48,930
Other financial liabilities						
Derivatives	52,786	—	52,786	(39,415)		13,371
	Yen (millions)					
As of March 31, 2019	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	¥46,397	¥ —	¥46,397	¥(34,407)		¥11,990
Other financial liabilities						
Derivatives	69,491	—	69,491	(34,407)		35,084

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, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Commitments for purchases of property, plant and equipment and other commitments . . .	¥ 71,188	¥ 99,379

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, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Within 1 year	¥ 17,126	¥ 23,733
Between 1 and 5 years	35,577	47,556
Later than 5 years	22,784	44,345
Total	<u>¥ 75,487</u>	<u>¥ 115,634</u>

Lease payments under operating leases recognized as expenses for the years ended March 31, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Lease payments under operating leases recognized as expenses	¥ 32,030	¥ 35,180	¥ 41,529

(b) 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.

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 were filed against Honda. The plaintiffs 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.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements—(Continued)

Most of the class action lawsuits in the United States were transferred to the United States District Court for the Southern District of Florida and consolidated into a multidistrict class action litigation. For the year ended March 31, 2018, Honda has reached a settlement with the plaintiffs of the multidistrict class action litigation in the United States. Honda recognized the settlement of ¥53,739 million as selling, general and administrative expenses, which includes funds contributed to enhance airbag inflator recall activities. The final approval of the settlement from court was completed as July 31, 2018 (U.S. local time).

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

(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, 2018 and 2019.

(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.

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

The balances of receivables and payables with affiliates and joint ventures as of March 31, 2018 and 2019 are as follows:

	Yen (millions)	
	2018	2019
Receivables:		
Affiliates	¥ 21,259	¥ 22,518
Joint ventures	242,672	237,880
Total	<u>¥ 263,931</u>	<u>¥ 260,398</u>
Payables:		
Affiliates	¥ 148,017	¥ 141,576
Joint ventures	33,351	35,044
Total	<u>¥ 181,368</u>	<u>¥ 176,620</u>

The amount of the transactions with affiliates and joint ventures for the years ended March 31, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Sales revenue:			
Affiliates	¥ 115,188	¥ 119,725	¥ 113,814
Joint ventures	598,177	744,435	724,712
Total	<u>¥ 713,365</u>	<u>¥ 864,160</u>	<u>¥ 838,526</u>
Purchase:			
Affiliates	¥1,376,581	¥1,407,755	¥1,416,729
Joint ventures	145,161	143,800	135,787
Total	<u>¥1,521,742</u>	<u>¥1,551,555</u>	<u>¥1,552,516</u>

(b) Compensation to Key Management

Compensation paid to the directors of the Company for the years ended March 31, 2017, 2018 and 2019 are as follows:

	Yen (millions)		
	2017	2018	2019
Remuneration	¥ 677	¥ 719	¥ 732
Bonus	275	231	172
Stock compensation	—	—	125
Total	<u>¥ 952</u>	<u>¥ 950</u>	<u>¥ 1,029</u>

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

(c) Major Consolidated Subsidiaries

Major consolidated subsidiaries as of March 31, 2019 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 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 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 19, 2019.

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)
2.7	Description of rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934
8.1	List of Significant Subsidiaries (See “Organizational Structure” in Item 4.C of this Form 20-F)
11.1	Code of Ethics (6)
12.1	Certification of the principal executive officer required by 17 C.F.R. 240. 13a-14(a)
12.2	Certification of the principal financial officer required by 17 C.F.R. 240. 13a-14(a)
13.1	Certification of the chief executive officer required by 18 U.S.C. Section 1350
13.2	Certification of the chief financial officer required by 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

(1) Incorporated by reference to the registrant’s Annual Report on Form 20-F filed on September 27, 2001. (P)

(2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 33-91842) filed on May 1, 1995. (P)

(3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-14228) filed on December 20, 2001. (P)

(4) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-114874) filed on June 28, 2006.

- (5) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-143589) filed on June 8, 2007.
- (6) Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 9, 2004.

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

(P) Paper exhibits

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 19, 2019
Tokyo, Japan

[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 objectives thereof and the matters to be submitted thereto;
- (ii) the election and discharge of Representative Directors and Directors with Executive Powers;
- (iii) 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 issuance of bonds;
- (v) the matters to be submitted to relating to financial reports and business reports, and schedules attached thereto;
- (vi) the payment of dividends from surplus;
- (vii) the appointment and dismissal of managers and other important employees;
- (viii) the basic policy for the establishment of internal control 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
Partly amended on April 1, 2019

-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—

**Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934**

American Depositary Shares (“ADSs”) representing one share of Honda’s Common Stock (the “Common Stock”) are listed and traded on the New York Stock Exchange and, in connection with this listing (but not for trading), Honda’s Common Stock is registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of (i) the holders of shares of Common Stock and (ii) ADS holders. Shares of Common Stock underlying the ADSs are held by JPMorgan Chase Bank, N.A., as depositary, and holders of ADSs will not be treated as holders of the shares of Common Stock.

Disclosures under the following items are not applicable to Honda and have been omitted: debt securities (Item 12.A of Form 20-F), warrants and rights (Item 12.B of Form 20-F) and other securities (Item 12.C of Form 20-F).

Common Stock

Type and Class of Securities (Item 9.A.5 of Form 20-F)

The respective number of shares of Common Stock authorized and outstanding as of the last day of the fiscal year ended March 31, 2019 is given on the cover page of the annual report to which this description is attached or incorporated by reference as an exhibit.

Preemptive Rights (Item 9.A.3 of Form 20-F)

See “—Rights of the Shares (Item 10.B.3 of Form 20-F)—Subscription Rights and Stock Acquisition Rights” below.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

Not applicable.

Other Rights (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of the Shares (Item 10.B.3 of Form 20-F)

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

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.

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.

Voting Rights

Honda holds its Ordinary General Meeting of Shareholders in June of each year. In addition, Honda may hold an Extraordinary General Meeting of Shareholders whenever necessary by giving at least two weeks' advance notice. Under the Company Law, notice of any shareholders' meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with Honda's Share Handling Regulations, at least two weeks prior to the date of the meeting. The record date for an Ordinary General Meeting of Shareholders is March 31 of each year.

A shareholder of Honda is generally entitled to one vote per voting unit of shares as described in this paragraph and under “—Differences between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)—Japanese Unit Share System.” 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, a 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.

For a description of the process and procedures for the voting of ADRs representing Common Stock, see “American Depositary Shares—Voting deposited securities.”

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.

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), provided, however, that it is expected that, on or after July 16, 2019, the shares will generally trade ex-dividend or ex-rights on the Japanese financial instruments exchanges on the first business day prior to a record date (or if the record date is not a business day, the second business day prior thereto).

Acquisition of Own 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.

Requirements for Amendments (Item 10.B.4 of Form 20-F)

Please refer to "—Rights of the Shares (Item 10.B.3 of Form 20-F)—Voting Rights" above. None of the requirements for amendments are more significant than required by applicable law.

Limitations on the Rights to Own Shares (Item 10.B.6 of Form 20-F)

Other than the Japanese unit share system that is described under "—Differences between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)—Japanese Unit Share System" below, no limitations on the rights of non-residents or foreign shareholders to hold or exercise voting rights with respect to Honda's shares are imposed by law, Honda's Articles of Incorporation or Honda's other constituent documents.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Not applicable.

Ownership Threshold (Item 10.B.8 of Form 20-F)

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.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

Japanese Unit Share System

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

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

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

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

A holder of Honda's shares representing less than one voting unit may at any time require Honda to purchase its shares. These shares will be purchased at (a) the closing price of the shares reported by the Tokyo 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.

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.

Changes in Capital (Item 10.B.10 of Form 20-F)

Please refer to “—Rights of the Shares (Item 10.B.3 of Form 20-F)—Capital and Reserves” and “—Rights of the Shares (Item 10.B.3 of Form 20-F)—Voting Rights” above. None of the requirements for changes in capital are more stringent than required by applicable law.

American Depositary Shares (*Items 12.D.1 and 12.D.2 of Form 20-F*)

JPMorgan Chase Bank, N.A., a national banking association organized under the laws of the United States, is the Depositary (the “Depositary”) of Honda’s ADSs representing Honda’s Common Stock, including evidence of rights to receive such Common Stock. Each ADS represents one share of Common Stock at the date of the applicable ADR, deposited at the principal office of MUFG Bank, Ltd., Tokyo (the “Custodian”), as agent of the Depositary. The address of the Depositary’s office is 383 Madison Avenue, Floor 11, New York, New York 10179 (the “Depositary’s Office”).

The rights of ADR holders, including their rights to corporate governance practices, are governed by the Deposit Agreement which is an exhibit to the annual report to which this description is attached or incorporated by reference as an exhibit.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because JPMorgan Chase Bank, N.A. will actually hold the shares underlying your ADRs, you must rely on it to exercise the rights of a shareholder. The obligations of JPMorgan Chase Bank, N.A. are set out in an agreement among Honda, JPMorgan Chase Bank, N.A. and you, as an ADR holder. The agreement and the ADRs are generally governed by New York law.

The following is a summary of the agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire agreement and the form of ADR, each of which is included as an exhibit to the annual report to which this description is attached or incorporated by reference as an exhibit.

Fixing of the Record Date (Item 12.D.2.(b) of Form 20-F)

Whenever the Depositary shall receive notice of the fixing of a record date by Honda for the determination of holders of the Common Stock deposited and any and all other securities, property and cash from time to time held thereunder (the “Deposited Securities”) entitled to receive any cash dividend or other cash distribution or any distribution other than cash, or any rights to be issued with respect to Common Stock or other Deposited Securities, or whenever the Depositary shall receive notice of the fixing of a record date by Honda for the determination of holders of Common Stock or other Deposited Securities entitled to vote at any meeting of any such holders, the Depositary shall fix a record date for the determination of the holders of ADRs who shall be entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting and shall give notice thereof to the holders of ADRs as soon as practicable thereafter, as provided in the Deposit Agreement.

Voting deposited securities (Item 12.D.2.(b) and Item 12.D.2.(d) of Form 20-F)

Upon notice of any meeting of holders of Common Stock or other Deposited Securities the Depositary shall, as soon as practicable thereafter, and after fixing a record date for determining the record holders of ADRs entitled to give instructions for the exercise of voting rights, as provided in the Deposit Agreement, mail to the record holders of ADRs (a) a copy of the notice of such meeting (which shall be in English) received by the Depositary and (b) a statement that the record holders of ADRs at the close of business on a specified record date will be entitled, subject to any applicable provisions of law and of the Articles of Incorporation of Honda, to instruct the Depositary as to the exercise of their voting rights, and a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given to the Depositary

to give a discretionary proxy to a person designated by Honda. Upon the written request of a record holder of an ADR on such record date, received on or before the date established by the Depositary for such purpose, the Depositary will endeavor insofar as practicable to vote or cause to be voted the Common Stock or other Deposited Securities represented by such ADR in accordance with the instructions set forth in such request. The above notice to record holders of ADRs will state that if no instructions are received by the Depositary on or before the date established by the Depositary for such purpose the Depositary will give a discretionary proxy to a person designated by Honda unless Honda has knowledge of any contest as to the action to be taken at the meeting or unless action is to be taken to authorize a merger, consolidation or amalgamation (except an amalgamation between Honda and one or more of its 100% owned Japanese subsidiaries) or on any other matter which may affect substantially the rights or privileges of the holders of such Common Stock or other Deposited Securities. So long as the Depositary shall act in good faith it shall not be responsible for any failure to carry out any instructions filed with it or to comply with the provisions of any such notice or for the manner or effect of any such vote, with or without instructions or for not exercising any right to vote.

Dividends and Distributions (Item 12.D.12.(c) and Item 12.D.2.(f) of Form 20-F)

Whenever the Depositary receives any cash dividend or other cash distribution by Honda on the Deposited Securities, the Depositary will, if at the time of receipt thereof any non-dollar currency amounts distributable to record holders of ADRs can in its judgment be converted on a reasonable basis into U.S. dollars distributable to the record holders of ADRs entitled thereto and subject to the provisions of the Deposit Agreement, convert such dividend or distribution into U.S. dollars and distribute the resulting amount to such holders; provided, however, that the amount distributed will be reduced by any amounts required to be withheld by Honda or the Depositary on account of taxes. If any distribution consists of a dividend in, or free distribution of, Common Stock, the Depositary may in its discretion, with the approval of Honda, distribute to the record holders of ADRs entitled thereto additional ADRs representing the amount of Common Stock received as such dividend or free distribution. Other distributions received on the Deposited Securities may be made available to record holders of ADRs as provided in the Deposit Agreement. In lieu of delivering ADRs for fractional ADSs in any such case, the Depositary may, in its discretion, sell the amount of Common Stock represented by the aggregate of such fractions at public or private sale, at such place or places and upon such terms as it may deem proper or, if any portion of such amount consists of shares of Common Stock which are insufficient in number to constitute a full Unit, sell such portion to Honda in accordance with the applicable provisions of the Japanese Commercial Code or any other Japanese law, and distribute the net proceeds of any such sale, all in the manner and subject to the conditions described in the Deposit Agreement.

Liability of Holder for Taxes (Item 12.D.2.(c) and Item 12.D.2.(i) of Form 20-F)

Any tax or other governmental charge payable by the Depositary with respect to any Deposited Securities represented hereby shall be payable by the holder hereof to the Depositary. The Depositary may refuse to effect any transfer of an ADR, or any withdrawal of Deposited Securities represented hereby until such payment is made, and may withhold dividends or other distributions or may sell (after attempting by reasonable means to notify the holder prior to such sale) any part or all of the Deposited Securities represented hereby, and may apply such dividends or distributions or the proceeds of any such sale toward such tax or charge, the holder hereof remaining liable for any deficiency.

Reports; Inspection of Transfer Books (Item 12.D.2.(d) and Item 12.D.2.(h) of Form 20-F)

The Depositary shall make available for inspection by Holders at the Depositary's Office, at the office of the Custodian and at any other designated transfer offices any reports and communications, including any proxy solicitation material, received from Honda which are both (a) received by the Depositary, the Custodian or the nominee of either as the holder of Deposited Securities and (b) made generally available to the holders of Common Stock or Deposited Securities by Honda. In connection with any registration statement relating to the ADRs or with any undertaking contained therein, Honda and the Depositary shall each furnish to the other and to the Commission such information as shall be required to make such filings or comply with such undertakings.

Rights (Item 12.D.2.(e) and Item 12.D.2.(f) of Form 20-F)

In the event that Honda shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for or to purchase additional Common Stock or any rights of any other nature, such rights shall be made available by the Depositary to the holders of ADRs in such manner as the Depositary may determine, either by the issue to the record holders entitled thereto of warrants representing such rights or by, such other method as may be approved by the Depositary in its discretion; provided, however, that if at the time of issue or offer of any rights the Depositary determines that it is not lawful or not feasible to make such rights available to record holders of ADRs by the issue of warrants or otherwise, or if and to the extent so instructed by record holders of ADRs that such holders do not desire to exercise such rights the Depositary in its discretion may, if the applicable laws permit such transfer, sell such rights at public or private sale, at such place or places and upon such terms as it may deem proper, and distribute the net proceeds to the record holders of ADRs entitled thereto as in the case of a distribution received in cash.

So long as the aggregate number of shares of Common Stock held by or for United States residents exceeds 1% of the total number of shares of Common Stock then outstanding, if registration under the Securities Act of 1933, as amended, of the securities to which any rights relate is required for Honda to offer such rights to holders of ADRs and sell the securities represented by such rights, Honda has agreed with the Depositary that it will file promptly a registration statement pursuant to such Act with respect to such rights and securities and use its best efforts and take all steps available to it to cause such registration statement to become effective at least 21 days before such rights shall expire. In no event shall the Depositary make available to the holders of ADRs any right to subscribe for or to purchase any securities unless and until such a registration statement is in effect, or unless the offering and sale of such securities to the holders of such ADRs are exempt, in the opinion of counsel, from registration under the provisions of such Act.

If any other action under the laws of any jurisdiction or any governmental or administrative authorization, consent or permit is required in order for such rights to be made available to holders of ADRs, Honda has agreed with the Depositary that Honda will use its best efforts, to the extent not unduly burdensome in the judgment of Honda, to take such action or obtain such authorization, consent or permit sufficiently in advance of the expiration of the rights, to enable holders of ADRs to exercise such rights.

Changes Affecting Deposited Securities (Item 12.D.2.(f) of Form 20-F)

Upon any split-up, consolidation, cancellation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting Honda or to which it is a party, any securities or property that shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement, or otherwise in respect of, Deposited Securities shall constitute Deposited Securities under the Deposit Agreement, and each ADS shall thereafter subject to applicable laws also represent the right to receive Deposited Securities including the securities and property so received in exchange or conversion to the extent that additional ADRs or new ADRs or the net proceeds of the sale of such securities or property are not effectively distributed to Holders pursuant to the following sentences of this paragraph. In any such case the Depositary, after consultation with Honda if practicable, may, and shall, if Honda shall so request, subject to the Deposit Agreement, execute and deliver additional ADRs as in the case of a dividend of Common Stock, or call for the surrender of outstanding ADRs to be exchanged for new ADRs or other depositary ADRs specifically describing such newly received Deposited Securities. Promptly upon the ADR of written notice from Honda as to the occurrence of any such event, the Depositary shall give notice thereof in writing to all Holders at Honda's expense. Notwithstanding the foregoing, in the event that the Depositary determines that any security or property so received may not be lawfully or practicably distributed to all or certain Holders, the Depositary, after consultation with Honda if practicable, may and shall, if Honda requests, sell such securities or property at public or private sale, at such place or places and upon such terms as it may deem proper, and allocate the net proceeds of such sales (after payment of the expenses thereof and any taxes or governmental charges) for the account of the Holders otherwise entitled to such securities or property upon an averaged or other practicable basis without

regard to any distinctions among such Holders and distribute the net proceeds so allocated to the extent practicable as in the case of a distribution received in cash.

Amendment and Termination of Deposit Agreement (Item 12.D.2.(g) of Form 20-F)

The form of the ADRs and any provisions of the Deposit Agreement may be amended by agreement between Honda and the Depositary in any respect which they may deem necessary or desirable. Any amendment imposing or having the effect of increasing any fees or charges payable by the holders of ADRs (other than taxes or other governmental charges, registration fees and cable, telex or facsimile transmission and delivery expenses) or otherwise prejudicing any substantial existing rights of holders of ADRs shall, however, not become effective as to outstanding ADRs until the expiration of three months after notice of such amendment shall have been given to the record holders of outstanding ADRs and published as provided in the Deposit Agreement. Every holder of an ADR at the time any such amendment so becomes effective shall be deemed, by continuing to hold such ADR to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the holder hereof to surrender an ADR and receive therefor the Deposited Securities represented hereby, except in order to comply with mandatory provisions of applicable law.

The Depositary will, if Honda at any time so requests, terminate the Deposit Agreement by mailing notice of such termination to the record holders of the ADRs then outstanding and publishing notice as provided in the Deposit Agreement, in each case at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement in accordance with the same notice requirements if at any time 60 days shall have expired after the Depositary shall have delivered to Honda a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment. Upon the termination of the Deposit Agreement, Honda shall be discharged from all obligations thereunder except for its obligations to the Depositary, the Registrar and the Custodian with respect to indemnification, charges and expenses. If any ADRs shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the transfer of ADRs, shall suspend the distribution of dividends to the holders thereof, and shall not give any further notices (other than notice of such termination) or perform any further acts under the Deposit Agreement, except as provided below and except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in the Deposit Agreement and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for ADRs surrendered to the Depositary. Upon termination of the Deposit Agreement, the Depositary shall deliver Common Stock in respect of deliverable portions of such ADRs so surrendered and deliver ADRs in respect of the non-deliverable portion of ADRs so surrendered pursuant to the Deposit Agreement and will continue to effect transfers of ADRs representing non-deliverable portions in accordance with the Deposit Agreement. At any time after the expiration of six months from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement at public or private sale, at such place or places and upon such terms as it deems proper or, if any portion of such Deposited Securities consists of shares of Common Stock which are insufficient in number to constitute a full Unit, sell such portion to Honda in accordance with the applicable provisions of the Japanese Commercial Code or other Japanese law, and may thereafter hold the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, without liability for interest, for the pro rata benefit of the holders of ADRs which have not theretofore been surrendered.

Surrender of ADRs and Withdrawal of Common Stock (Item 12.D.2.(i) of Form 20-F)

Upon surrender of an ADR at the Depositary's Office or at such other offices as the Depositary may designate of a Holder's written order directing the Depositary to cause the Deposited Securities represented by the ADSs evidenced by such ADR to be withdrawn and delivered to or upon the written order of the person or persons designated in such order along with a certificated ADR (properly endorsed in blank or accompanied by proper instruments of transfer in blank, to the extent required by the Depositary) or, in the case of a Direct

Registration Receipt, proper instruments of transfer in blank, to the extent required by the Depositary, the Depositary shall (i) cancel such certificated ADR or make a notation on the Direct Registration System reflecting the cancellation of such Direct Registration Receipts, as the case may be, and (ii) direct the Custodian to deliver without unreasonable delay, subject to the Deposit Agreement and to the provisions of or governing Deposited Securities, to or upon the written order of the person or persons designated in such order, the deliverable portion (as defined below) of such Common Stock and other Deposited Securities at the time represented by the Depositary Shares evidenced by such ADR, and the Custodian shall so deliver such deliverable portion of such Common Stock and other Deposited Securities, at the office of the Custodian, except that the Depositary may, at the request, risk and expense of the Holder make delivery of such Deposited Securities without unreasonable delay to such person or persons at the Depositary's Office or at any other place specified by the Holder in such order. Notwithstanding the foregoing, to the extent required by the operation of applicable provisions of the Japanese Commercial Code or any other Japanese law the Depositary will effect the delivery to such holder of only that portion of Common Stock (and any other Deposited Securities relating to such Common Stock) comprising a Unit of 100 shares of Common Stock (or such other number of shares of Common Stock as the Articles of Incorporation of Honda may designate as a "Unit of Shares") or an integral multiple thereof (the "deliverable portion" of such ADR or ADRs). For the purpose of the foregoing sentences, the deliverable portion shall be determined on the basis of the aggregate number of shares of Common Stock represented by the entire amount of the ADSs evidenced by such ADR or ADRs, surrendered by the same holder at the same time. The Depositary will promptly advise such holder as to the amount of Common Stock and Deposited Securities, if any, represented by the non-deliverable portion of such ADR or ADRs and shall deliver to such holder a new ADR evidencing such non-deliverable portion. In addition, the Depositary shall notify such holder of the additional amount of ADSs which such holder would be required to surrender in order for the Depositary to effect delivery of all the Common Stock and Deposited Securities represented by the ADSs of such holder. Notwithstanding any provision of the Deposit Agreement or an ADR to the contrary, the Depositary may restrict withdrawals of Deposited Securities only for the reasons set forth in General Instruction I.A.(1) to Form F-6 under the Securities Act of 1933.

Conditions to Execution and Delivery, Registration of Transfer, etc. of ADRs (Item 12.D.2.(i) of Form 20-F)

As a condition precedent to the execution and delivery, registration, registration of transfer, split-up or combination of any ADR, the delivery of any distribution thereon or, subject to the last sentence of Paragraph 3, the withdrawal of any Deposited Securities, the Depositary, Honda or any Custodian may require the Holder, the presenter of the ADR or the depositor of Common Stock: (a) payment of a sum sufficient to pay or reimburse it for payment of (i) any Common Stock transfer or other tax or other governmental charge with respect thereto, (ii) any Common Stock transfer or registration fees for the registration of transfers of Common Stock or other Deposited Securities upon any applicable register and (iii) any charges of the Depositary upon delivery of ADRs against deposits of Common Stock and upon withdrawal of Deposited Securities against surrender of ADRs; (b) the production of proof satisfactory to it as to the identity and genuineness of any signature and as to any other matter contemplated by Section 3.01 of the Deposit Agreement; and (c) compliance with such reasonable regulations, if any, as the Depositary and Honda may establish consistent with the provisions of the Deposit Agreement. Any person presenting Common Stock for deposit, or any holder of an ADR, may be required to file such proof of citizenship or residence, evidence of the number of shares of Common Stock beneficially owned or any other matters necessary or appropriate to evidence compliance with the Foreign Exchange and Foreign Trade Law of Japan or other information, and to execute such certificates as the Depositary may deem necessary or proper.

Suspension of Delivery, Transfer, etc. (Item 12.D.2.(i) of Form 20-F)

The delivery of ADRs against deposits of Common Stock generally or against deposits of particular Common Stock may be suspended, or the registration of transfer of ADRs in particular instances may be refused, or the registration of transfer or surrender of outstanding ADRs generally may be suspended, during any period when the register of shareholders of Honda is closed, or if any such action is deemed necessary or advisable by

the Depositary or Honda at any time because of any requirement of law or of any government or governmental body or commission or under any provision of the Deposit Agreement. The Depositary may issue ADRs against rights to receive Common Stock from Honda, or any Custodian, or any registrar, transfer agent, clearing agency or other entity recording Common Stock ownership or transactions. The Depositary may issue ADRs against other rights to receive Common Stock (a "pre-release") only if (x) such ADRs are fully collateralized (marked to market daily) with cash or U.S. government securities until such Common Stock is deposited; (y) the applicant for such ADRs represents in writing that it owns such Shares, has assigned all beneficial right, title and interest in such Common Stock to the Depositary, and shall not dispose of such Common Stock other than in satisfaction of the pre-release (no evidence of ownership is required or time of delivery specified) and (z) all such ADRs represent not more than 20% of Common Stock actually deposited. Such collateral, but not the earnings thereon, shall be held for the benefit of the Holders. The Depositary may retain for its own account any compensation for the issuance of ADRs against such other rights to receive Common Stock, including without limitation earnings on the collateral securing such rights. Without limitation of the foregoing, the Depositary will not knowingly accept any Common Stock which would be subject to the registration provisions of the Securities Act of 1933, as amended, unless a registration statement is in effect as to such Common Stock.

Transfers, Split-ups, Combinations of ADRs (Item 12.D.2.(i) of Form 20-F)

An ADR is transferable on the books of the Depositary upon surrender of such ADR to the Depositary at such offices as it may designate properly endorsed or accompanied by a properly executed and duly stamped instrument of transfer, and upon such transfer the Depositary shall execute and deliver an ADR to or upon the order of the person entitled thereto, as provided in the Deposit Agreement. An ADR may be split into other ADRs or combined with other ADRs into one ADR. The Depositary may close the register at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder.

Liability and Obligations of Honda, the Depositary and the Custodian (Item 12.D.2.(j) of Form 20-F)

Neither the Depositary nor Honda nor the Custodian shall incur any liability to any holder of an ADR, if by reason of any provision of any present or future law or regulation of Japan or any other country, or of any action of any other governmental authority, or in the case of the Depositary or the Custodian, by reason of any provision, present or future, of the Articles of Incorporation or the Share Handling Regulations of Honda, or by reason of any act of God or war or other circumstance beyond its control, the Depositary, Honda or the Custodian shall be prevented or forbidden from, or subjected to any civil or criminal penalty on account of, doing any act which the Deposit Agreement provides shall be done; nor shall the Depositary, Honda or the Custodian incur any liability to any holder hereof by reason of any non-performance or delay, caused as aforesaid, in performance of any act which it is so provided shall or may be done, or by reason of any exercise of, or failure to exercise any discretion provided for in the Deposit Agreement.

Neither the Depositary, nor Honda nor the Custodian assumes any obligation nor shall any of them be subject to any liability under the Deposit Agreement to holders of ADRs, except that each agrees to use its best judgment and good faith in the performance of obligations and duties specifically set forth in the Deposit Agreement. Neither the Depositary nor Honda shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the ADRs, which in its opinion may involve it in expense or liability, unless satisfactory indemnity be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary.

Neither the Depositary, nor the Custodian nor Honda shall be liable for any action or non-action by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Common Stock for deposit, any holder of an ADR, or any other person believed by it in good faith to be competent to give such advice or information or for any translation of any notice, report or other document made by a translator believed by it to be competent. Neither the Depositary nor the Custodian will be responsible for any failure to

carry out any instructions to vote any of the Deposited Securities, or for the manner or effect of any such vote, made either with or without request as long as any such action or non-action is in good faith. Honda will indemnify the Depositary, the Registrar and the Custodian against any liability which may arise out of acts performed, in accordance with the provisions of the Deposit Agreement and of the ADRs (i) by the Depositary, the Custodian or any Registrar, or any of their agents, except for any liability arising out of its own negligence or bad faith or (ii) by Honda or any of its agents. The Depositary will indemnify Honda against any liability which may arise out of acts performed or omitted by the Depositary or its agents (including the Custodian) due to negligence or bad faith. The Depositary and the Custodian may own and deal in any class of securities of Honda and its affiliates and in ADRs.

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Honda Motor Co., Ltd. (the “Company”), hereby certifies, to such officer’s knowledge, that the Company’s Annual Report on Form 20-F for the year ended March 31, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 19, 2019

By: _____ /s/ Kohei Takeuchi
Name: **Kohei Takeuchi**
Title: **Senior Managing Director
Chief Financial Officer
Honda Motor Co., Ltd.**