

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

December 31, 2019

## HONDA MOTOR CO., LTD. AND SUBSIDIARIES

### Consolidated Financial Results

#### Overview of Operating Performance

Honda's consolidated sales revenue for the nine months ended December 31, 2019 decreased by 3.1%, to ¥11,472.9 billion from the same period last year, due mainly to decreased sales revenue in Automobile business operations as well as negative foreign currency translation effects, which was partially offset by increased sales revenue in Financial services business operations. Operating profit decreased by 6.5%, to ¥639.2 billion from the same period last year, due mainly to a decrease in profit attributable to decreased sales revenue and model mix as well as negative foreign currency effects, which was partially offset by continuing cost reduction as well as decreased selling, general and administrative expenses. Profit before income taxes decreased by 9.5%, to ¥786.1 billion from the same period last year. Profit for the period attributable to owners of the parent decreased by 22.1%, to ¥485.2 billion from the same period last year.

#### Business Segments

##### Motorcycle Business

For the nine months ended December 31, 2018 and 2019

	Units (thousands)							
	Honda Group Unit Sales*				Consolidated Unit Sales*			
	Nine months ended Dec. 31, 2018	Nine months ended Dec. 31, 2019	Change	%	Nine months ended Dec. 31, 2018	Nine months ended Dec. 31, 2019	Change	%
<b>Motorcycle Business</b>	<b>15,680</b>	<b>15,038</b>	<b>(642)</b>	<b>(4.1)</b>	<b>10,378</b>	<b>9,732</b>	<b>(646)</b>	<b>(6.2)</b>
Japan	157	154	(3)	(1.9)	157	154	(3)	(1.9)
North America	216	221	5	2.3	216	221	5	2.3
Europe	181	186	5	2.8	181	186	5	2.8
Asia	14,187	13,453	(734)	(5.2)	8,885	8,147	(738)	(8.3)
Other Regions	939	1,024	85	9.1	939	1,024	85	9.1

\* Honda Group Unit Sales is the total unit sales of completed motorcycle, ATV and side-by-side 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.

Sales revenue from external customers decreased by 1.6%, to ¥1,585.7 billion from the same period last year, due mainly to decreased consolidated unit sales as well as negative foreign currency translation effects. Operating profit decreased by 9.9%, to ¥222.1 billion from the same period last year, due mainly to a decrease in profit attributable to decreased sales volume and model mix as well as negative foreign currency effects, which was partially offset by continuing cost reduction.

### Automobile Business

For the nine months ended December 31, 2018 and 2019

	Units (thousands)							
	Honda Group Unit Sales*				Consolidated Unit Sales*			
	Nine months ended	Nine months ended	Change	%	Nine months ended	Nine months ended	Change	%
	Dec. 31, 2018	Dec. 31, 2019			Dec. 31, 2018	Dec. 31, 2019		
<b>Automobile Business</b>	<b>3,959</b>	<b>3,809</b>	<b>(150)</b>	<b>(3.8)</b>	<b>2,769</b>	<b>2,541</b>	<b>(228)</b>	<b>(8.2)</b>
Japan	515	489	(26)	(5.0)	464	431	(33)	(7.1)
North America	1,444	1,402	(42)	(2.9)	1,444	1,402	(42)	(2.9)
Europe	121	103	(18)	(14.9)	121	103	(18)	(14.9)
Asia	1,698	1,655	(43)	(2.5)	559	445	(114)	(20.4)
Other Regions	181	160	(21)	(11.6)	181	160	(21)	(11.6)

\* 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.

Sales revenue from external customers decreased by 6.5%, to ¥7,691.1 billion from the same period last year, due mainly to decreased consolidated unit sales. Operating profit decreased by 12.8%, to ¥229.0 billion from the same period last year, due mainly to a decrease in profit attributable to decreased sale volume and model mix as well as negative foreign currency effects, which was partially offset by continuing cost reduction as well as decreased selling, general and administrative expenses.

### Financial Services Business

Sales revenue from external customers increased by 12.4%, to ¥1,961.9 billion from the same period last year, due mainly to an increase in revenues on disposition of lease vehicles and operating lease revenues. Operating profit increased by 11.3%, to ¥196.7 billion from the same period last year, due mainly to an increase in profit attributable to increased sales revenue.

### Life Creation and Other Businesses

For the nine months ended December 31, 2018 and 2019

	Units (thousands)			
	Honda Group Unit Sales /Consolidated Unit Sales*			
	Nine months ended	Nine months ended	Change	%
	Dec. 31, 2018	Dec. 31, 2019		
<b>Life Creation Business</b>	<b>3,954</b>	<b>3,630</b>	<b>(324)</b>	<b>(8.2)</b>
Japan	246	218	(28)	(11.4)
North America	1,781	1,661	(120)	(6.7)
Europe	600	502	(98)	(16.3)
Asia	1,080	1,038	(42)	(3.9)
Other Regions	247	211	(36)	(14.6)

\* 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 Life creation 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 were involved in the sale of Honda power products.

Sales revenue from external customers decreased by 8.0%, to ¥234.1 billion from the same period last year, due mainly to decreased consolidated unit sales in Life creation business. Operating loss was ¥8.6 billion, an increase of ¥6.5 billion from the same period last year, due mainly to a decrease in profit attributable to decreased sales volume and model mix. In addition, operating loss of aircraft and aircraft engines included in the Life creation and other businesses was ¥28.4 billion, an improvement of ¥0.8 billion from the same period last year.

## **Cash Flows**

Consolidated cash and cash equivalents on December 31, 2019 decreased by ¥52.2 billion from March 31, 2019, to ¥2,441.8 billion. The reasons for the increases or decreases for each cash flow activity, when compared with the same period last year, are as follows:

Net cash provided by operating activities amounted to ¥605.3 billion of cash inflows. Cash inflows from operating activities increased by ¥106.7 billion from the same period last year, due mainly to a decrease in receivables from financial services, despite increased payments for purchase of equipment on operating leases.

Net cash used in investing activities amounted to ¥435.9 billion of cash outflows. Cash outflows from investing activities decreased by ¥60.1 billion from the same period last year, due mainly to decreased payments for additions to property, plant and equipment.

Net cash used in financing activities amounted to ¥200.1 billion of cash outflows. Cash outflows from financing activities increased by ¥145.9 billion from the same period last year, due mainly to increased repayments of financing liabilities.

## **Research and Development**

The changes in research and development activities by Honda and its subsidiaries for the nine months ended December 31, 2019 are as follows:

Honda and the motorcycle development division of Honda R&D Co., Ltd. were integrated with an aim to transition from the current structure where sales, development, manufacturing and procurement divisions operate independently to a new structure where each process of planning and concept making, development, launch and mass-production of a new product are coordinated closely.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Statements of Financial Position  
March 31, 2019 and December 31, 2019

Assets	Note	Yen (millions)	
		March 31, 2019	December 31, 2019
		unaudited	unaudited
<b>Current assets:</b>			
Cash and cash equivalents		¥ 2,494,121	¥ 2,441,824
Trade receivables		793,245	635,473
Receivables from financial services		1,951,633	1,887,688
Other financial assets		163,274	253,814
Inventories		1,586,787	1,566,420
Other current assets		358,234	365,040
Total current assets		<u>7,347,294</u>	<u>7,150,259</u>
<b>Non-current assets:</b>			
Investments accounted for using the equity method		713,039	649,568
Receivables from financial services		3,453,617	3,438,065
Other financial assets		417,149	446,910
Equipment on operating leases	5	4,448,849	4,645,895
Property, plant and equipment	6	2,981,840	3,081,531
Intangible assets		744,368	751,187
Deferred tax assets		150,318	133,991
Other non-current assets		162,648	191,300
Total non-current assets		<u>13,071,828</u>	<u>13,338,447</u>
<b>Total assets</b>		<u>¥ 20,419,122</u>	<u>¥ 20,488,706</u>
Liabilities and Equity	Note	Yen (millions)	
		March 31, 2019	December 31, 2019
		unaudited	unaudited
<b>Current liabilities:</b>			
Trade payables		¥ 1,184,882	¥ 899,047
Financing liabilities		3,188,782	3,159,707
Accrued expenses		476,300	429,267
Other financial liabilities		132,910	155,086
Income taxes payable		49,726	52,046
Provisions	7	348,763	267,034
Other current liabilities		599,761	550,599
Total current liabilities		<u>5,981,124</u>	<u>5,512,786</u>
<b>Non-current liabilities:</b>			
Financing liabilities		4,142,338	4,177,419
Other financial liabilities		63,689	304,096
Retirement benefit liabilities		398,803	420,436
Provisions	7	220,745	233,406
Deferred tax liabilities		727,411	764,279
Other non-current liabilities		319,222	332,028
Total non-current liabilities		<u>5,872,208</u>	<u>6,231,664</u>
<b>Total liabilities</b>		<u>11,853,332</u>	<u>11,744,450</u>
<b>Equity:</b>			
Common stock		86,067	86,067
Capital surplus		171,460	171,790
Treasury stock		(177,827)	(217,223)
Retained earnings		7,973,637	8,312,797
Other components of equity		214,383	107,802
Equity attributable to owners of the parent		<u>8,267,720</u>	<u>8,461,233</u>
Non-controlling interests		298,070	283,023
<b>Total equity</b>		<u>8,565,790</u>	<u>8,744,256</u>
<b>Total liabilities and equity</b>		<u>¥ 20,419,122</u>	<u>¥ 20,488,706</u>

See accompanying notes to condensed consolidated interim financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

For the nine months ended December 31, 2018 and 2019

	Note	Yen (millions)	
		December 31, 2018 unaudited	December 31, 2019 unaudited
Sales revenue	8	¥ 11,839,500	¥ 11,472,949
Operating costs and expenses:			
Cost of sales		(9,325,508)	(9,090,126)
Selling, general and administrative		(1,254,501)	(1,163,591)
Research and development		(575,486)	(579,978)
Total operating costs and expenses		(11,155,495)	(10,833,695)
Operating profit		684,005	639,254
Share of profit of investments accounted for using the equity method		169,631	149,731
Finance income and finance costs:			
Interest income		36,172	38,565
Interest expense		(10,065)	(15,125)
Other, net		(11,492)	(26,257)
Total finance income and finance costs		14,615	(2,817)
Profit before income taxes		868,251	786,168
Income tax expense		(187,436)	(254,713)
Profit for the period		¥ 680,815	¥ 531,455
Profit for the period attributable to:			
Owners of the parent		623,339	485,288
Non-controlling interests		57,476	46,167
		Yen	
		December 31, 2018	December 31, 2019
Earnings per share attributable to owners of the parent			
Basic and diluted	11	¥ 353.10	¥ 276.13

See accompanying notes to condensed consolidated interim financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

For the nine months ended December 31, 2018 and 2019

	Yen (millions)	
	December 31,	December 31,
	2018	2019
	<u>unaudited</u>	<u>unaudited</u>
Profit for the period	¥ 680,815	¥ 531,455
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	—	—
Net changes in revaluation of financial assets measured at fair value through other comprehensive income	(25,697)	3,337
Share of other comprehensive income of investments accounted for using the equity method	(3,023)	704
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	120	99
Exchange differences on translating foreign operations	29,817	(90,608)
Share of other comprehensive income of investments accounted for using the equity method	(23,918)	(23,331)
Total other comprehensive income, net of tax	<u>(22,701)</u>	<u>(109,799)</u>
Comprehensive income for the period	<u>¥ 658,114</u>	<u>¥ 421,656</u>
Comprehensive income for the period attributable to:		
Owners of the parent	606,702	378,667
Non-controlling interests	51,412	42,989

See accompanying notes to condensed consolidated interim financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

For the three months ended December 31, 2018 and 2019

	Note	Yen (millions)	
		December 31, 2018 unaudited	December 31, 2019 unaudited
Sales revenue	8	¥ 3,973,655	¥ 3,747,593
Operating costs and expenses:			
Cost of sales		(3,158,104)	(2,966,552)
Selling, general and administrative		(444,556)	(379,648)
Research and development		(200,848)	(234,744)
Total operating costs and expenses		(3,803,508)	(3,580,944)
Operating profit		170,147	166,649
Share of profit of investments accounted for using the equity method		51,403	41,552
Finance income and finance costs:			
Interest income		12,848	12,305
Interest expense		(4,108)	(7,530)
Other, net		(3,363)	(6,243)
Total finance income and finance costs		5,377	(1,468)
Profit before income taxes		226,927	206,733
Income tax expense		(42,059)	(75,043)
Profit for the period		¥ 184,868	¥ 131,690
Profit for the period attributable to:			
Owners of the parent		168,238	116,432
Non-controlling interests		16,630	15,258
		Yen	
		December 31, 2018	December 31, 2019
Earnings per share attributable to owners of the parent			
Basic and diluted	11	¥ 95.61	¥ 66.37

See accompanying notes to condensed consolidated interim financial statements.



HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

For the three months ended December 31, 2018 and 2019

	Note	Yen (millions)	
		December 31,	December 31,
		2018	2019
		unaudited	unaudited
Profit for the period		¥ 184,868	¥ 131,690
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		—	—
Net changes in revaluation of financial assets measured at fair value through other comprehensive income		(26,131)	8,030
Share of other comprehensive income of investments accounted for using the equity method		(2,278)	1,308
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		161	(65)
Exchange differences on translating foreign operations		(169,559)	77,102
Share of other comprehensive income of investments accounted for using the equity method		(6,168)	8,240
Total other comprehensive income, net of tax		(203,975)	94,615
Comprehensive income for the period		¥ (19,107)	¥ 226,305
Comprehensive income for the period attributable to:			
Owners of the parent		(28,313)	205,575
Non-controlling interests		9,206	20,730

See accompanying notes to condensed consolidated interim financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Equity

For the nine months ended December 31, 2018 and 2019

	Yen (millions)								
	Note	Equity attributable to owners of the parent					Total	Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity			
Balance as of April 1, 2018 (unaudited)		¥ 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 period									
Profit for the period				623,339			623,339	57,476	680,815
Other comprehensive income, net of tax					(16,637)	(16,637)		(6,064)	(22,701)
Total comprehensive income for the period				623,339	(16,637)	606,702		51,412	658,114
Reclassification to retained earnings				(1,906)	1,906	—			—
Transactions with owners and other									
Dividends paid	12			(144,983)		(144,983)		(65,039)	(210,022)
Purchases of treasury stock				(64,556)		(64,556)			(64,556)
Disposal of treasury stock				1		1			1
Share-based payment transactions			225				225		225
Total transactions with owners and other			225	(144,983)		(209,313)		(65,039)	(274,352)
Other changes				(2,788)		(2,788)		(2,713)	(5,501)
Balance as of December 31, 2018 (unaudited)		¥ 86,067	¥171,343	¥(177,826)	¥8,028,707	¥ 178,249	¥8,286,540	¥ 284,223	¥8,570,763

	Yen (millions)								
	Note	Equity attributable to owners of the parent					Total	Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity			
Balance as of April 1, 2019 (unaudited)		¥ 86,067	¥171,460	¥(177,827)	¥7,973,637	¥ 214,383	¥8,267,720	¥ 298,070	¥8,565,790
Comprehensive income for the period									
Profit for the period				485,288			485,288	46,167	531,455
Other comprehensive income, net of tax					(106,621)	(106,621)		(3,178)	(109,799)
Total comprehensive income for the period				485,288	(106,621)	378,667		42,989	421,656
Reclassification to retained earnings				(40)	40	—			—
Transactions with owners and other									
Dividends paid	12			(147,863)		(147,863)		(54,987)	(202,850)
Purchases of treasury stock				(39,475)		(39,475)			(39,475)
Disposal of treasury stock				79		79			79
Share-based payment transactions			330				330		330
Equity transactions and others								(3,049)	(3,049)
Total transactions with owners and other			330	(147,863)		(186,929)		(58,036)	(244,965)
Other changes				1,775		1,775			1,775
Balance as of December 31, 2019 (unaudited)		¥ 86,067	¥171,790	¥(217,223)	¥8,312,797	¥ 107,802	¥8,461,233	¥ 283,023	¥8,744,256

See accompanying notes to condensed consolidated interim financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

For the nine months ended December 31, 2018 and 2019

	Note	Yen (millions)	
		December 31,	December 31,
		2018	2019
		unaudited	unaudited
<b>Cash flows from operating activities:</b>			
Profit before income taxes		¥ 868,251	¥ 786,168
Depreciation, amortization and impairment losses excluding equipment on operating leases		518,386	529,727
Share of profit of investments accounted for using the equity method		(169,631)	(149,731)
Finance income and finance costs, net		(68,087)	(36,878)
Interest income and interest costs from financial services, net		(92,655)	(98,250)
<b>Changes in assets and liabilities</b>			
Trade receivables		105,991	144,006
Inventories		(105,008)	(14,088)
Trade payables		(85,229)	(208,556)
Accrued expenses		(34,658)	(56,143)
Provisions and retirement benefit liabilities		(22,445)	(34,155)
Receivables from financial services		(165,210)	30,472
Equipment on operating leases		(141,291)	(248,773)
Other assets and liabilities		(101,717)	(104,211)
Other, net		108	3,782
Dividends received		98,624	104,657
Interest received		201,325	218,353
Interest paid		(105,418)	(113,631)
Income taxes paid, net of refunds		(202,677)	(147,350)
Net cash provided by operating activities		498,659	605,399
<b>Cash flows from investing activities:</b>			
Payments for additions to property, plant and equipment		(316,581)	(250,995)
Payments for additions to and internally developed intangible assets		(136,115)	(159,851)
Proceeds from sales of property, plant and equipment and intangible assets		16,381	10,307
Payments for acquisitions of subsidiaries, net of cash and cash equivalents acquired		—	(3,047)
Payments for acquisitions of investments accounted for using the equity method		(2,401)	(4,802)
Payments for acquisitions of other financial assets		(449,654)	(240,295)
Proceeds from sales and redemptions of other financial assets		389,553	214,102
Other, net		2,649	(1,404)
Net cash used in investing activities		(496,168)	(435,985)
<b>Cash flows from financing activities:</b>			
Proceeds from short-term financing liabilities		6,085,890	6,226,745
Repayments of short-term financing liabilities		(5,865,684)	(6,348,745)
Proceeds from long-term financing liabilities		1,290,354	1,398,797
Repayments of long-term financing liabilities		(1,256,400)	(1,182,699)
Dividends paid to owners of the parent		(144,983)	(147,863)
Dividends paid to non-controlling interests		(61,786)	(47,043)
Purchases and sales of treasury stock, net		(64,555)	(39,396)
Repayments of lease liabilities		(37,061)	(55,689)
Other, net		—	(4,237)
Net cash used in financing activities		(54,225)	(200,130)
Effect of exchange rate changes on cash and cash equivalents		(10,681)	(21,581)
Net change in cash and cash equivalents		(62,415)	(52,297)
Cash and cash equivalents at beginning of year		2,256,488	2,494,121
Cash and cash equivalents at end of period		¥ 2,194,073	¥ 2,441,824

See accompanying notes to condensed consolidated interim financial statements.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Condensed Consolidated Interim 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 Interim Financial Reporting Standards*

The condensed consolidated interim financial statements of the Company have been prepared in accordance with IAS 34 “Interim Financial Reporting”. The condensed consolidated interim financial statements should be read in conjunction with the Company’s consolidated financial statements for the fiscal year ended March 31, 2019, since the condensed consolidated interim financial statements do not include all the information required in the annual consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

*(b) Functional Currency and Presentation Currency*

The condensed consolidated interim 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.

*(c) Use of Estimates and Judgments*

The preparation of condensed consolidated interim financial statements 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.

The condensed consolidated interim financial statements are prepared based on the same judgments and estimations as those applied and described in the Company’s consolidated financial statements for the fiscal year ended March 31, 2019.

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

**Notes to Condensed Consolidated Interim Financial Statements**

**(3) Summary of Significant Accounting Policies**

The condensed consolidated interim financial statements are prepared based on the same accounting policies as those applied and described in the Company's consolidated financial statements for the fiscal year ended March 31, 2019, except for the changes below.

*IFRS 16 "Leases"*

Honda has adopted IFRS 16 "Leases" with a date of initial application of April 1, 2019. Honda used the modified retrospective approach, under which the cumulative effect of initial application was recognized 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.

Previously, Honda determined at contract inception whether an arrangement was or contained a lease under IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease". Honda assesses whether a contract is or contains a lease under IFRS 16 on or after April 1, 2019. Honda applied the practical expedient to grandfather the assessment of which a contract was or contained a lease when applying IFRS 16. Therefore, Honda applied IFRS 16 to all contracts entered into prior to April 1, 2019 and identified as leases under IAS 17 and IFRIC 4.

IFRS 16 introduced 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. In addition, expenses related to leases change from straight-line operating lease expenses to depreciation charge for right-of-use assets and interest expense on lease liabilities. At transition, Honda recognized the lease liabilities for leases previously classified as an operating lease under IAS 17, and measured these liabilities at the present value of the remaining lease payments, discounted using Honda's incremental borrowing rate as of April 1, 2019. The weighted average rate applied was 1.19%. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. In addition, Honda applied the following practical expedients when applying IFRS 16.

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Adjusted the right-of-use assets by the amount of any provision for onerous leases under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" recognized immediately before the date of initial application as an alternative to performing an impairment review; and
- Excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application.

In the condensed consolidated statements of financial position, lease liabilities are included in other financial liabilities and right-of-use assets are included in property, plant and equipment.

Honda recognized additional lease liabilities of ¥272,232 million and total assets, mainly right-of-use assets were recognized approximately in the same amounts in the condensed consolidated statements of financial position as of April 1, 2019.

The difference between the future minimum lease payments under non-cancelable operating leases as of March 31, 2019 disclosed in the consolidated financial statements immediately before the date of initial application, and the lease liabilities recognized as of April 1, 2019, is as follows:

	<u>Yen (millions)</u>
Future minimum lease payments under non-cancelable operating leases as of March 31, 2019	115,634
Discounted using the incremental borrowing rate as of April 1, 2019	<u>108,147</u>
Add: Finance lease obligations	62,308
Add: Cancelable operating leases	11,612
Add: Extension options reasonably certain to be exercised	<u>152,473</u>
Lease liabilities recognized as of April 1, 2019	<u><u>334,540</u></u>

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

**Notes to Condensed Consolidated Interim Financial Statements**

**(4) Segment Information**

Honda has four reportable segments: Motorcycle business, Automobile business, Financial services business and Life creation 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 condensed consolidated interim financial statements.

Principal products and services, and functions of each segment are as follows:

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

Explanatory note:

\* Power product business has been renamed Life creation business from April 1, 2019. Honda expands the concept of our Power product business and continues 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.

*(a) Segment Information*

Segment information as of and for the nine months ended December 31, 2018 and 2019 is as follows:

**As of and for the nine months ended December 31, 2018**

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 1,610,740	¥ 8,228,119	¥ 1,746,285	¥ 254,356	¥ 11,839,500	¥ —	¥ 11,839,500
Intersegment	—	146,792	11,202	19,840	177,834	(177,834)	—
Total	<u>1,610,740</u>	<u>8,374,911</u>	<u>1,757,487</u>	<u>274,196</u>	<u>12,017,334</u>	<u>(177,834)</u>	<u>11,839,500</u>
Segment profit (loss)	¥ 246,711	¥ 262,734	¥ 176,746	¥ (2,186)	¥ 684,005	¥ —	¥ 684,005
Segment assets	¥ 1,437,358	¥ 7,749,612	¥ 9,944,099	¥ 327,153	¥ 19,458,222	¥ 392,979	¥ 19,851,201
Depreciation and amortization	49,304	455,477	583,184	10,871	1,098,836	—	1,098,836
Capital expenditures	46,708	363,963	1,468,846	9,540	1,889,057	—	1,889,057

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As of and for the nine months ended December 31, 2019

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 1,585,770	¥ 7,691,119	¥ 1,961,952	¥ 234,108	¥ 11,472,949	¥ —	¥ 11,472,949
Intersegment	—	164,786	10,626	19,317	194,729	(194,729)	—
Total	1,585,770	7,855,905	1,972,578	253,425	11,667,678	(194,729)	11,472,949
Segment profit (loss)	¥ 222,182	¥ 229,000	¥ 196,761	¥ (8,689)	¥ 639,254	¥ —	¥ 639,254
Segment assets	¥ 1,519,250	¥ 7,837,663	¥ 10,373,083	¥ 362,483	¥ 20,092,479	¥ 396,227	¥ 20,488,706
Depreciation and amortization	50,147	417,950	615,663	10,777	1,094,537	—	1,094,537
Capital expenditures	52,849	328,282	1,730,700	10,574	2,122,405	—	2,122,405

Segment information for the three months ended December 31, 2018 and 2019 is as follows:

For the three months ended December 31, 2018

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 516,514	¥ 2,806,148	¥ 560,305	¥ 90,688	¥ 3,973,655	¥ —	¥ 3,973,655
Intersegment	—	53,408	3,716	8,704	65,828	(65,828)	—
Total	516,514	2,859,556	564,021	99,392	4,039,483	(65,828)	3,973,655
Segment profit (loss)	¥ 69,537	¥ 41,228	¥ 60,374	¥ (992)	¥ 170,147	¥ —	¥ 170,147

For the three months ended December 31, 2019

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 530,227	¥ 2,523,149	¥ 616,318	¥ 77,899	¥ 3,747,593	¥ —	¥ 3,747,593
Intersegment	—	51,736	3,470	8,471	63,677	(63,677)	—
Total	530,227	2,574,885	619,788	86,370	3,811,270	(63,677)	3,747,593
Segment profit (loss)	¥ 74,527	¥ 33,707	¥ 64,599	¥ (6,184)	¥ 166,649	¥ —	¥ 166,649

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.
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 December 31, 2018 and 2019 amounted to ¥654,744 million and ¥650,927 million, respectively, which consist primarily of the Company's cash and cash equivalents and financial assets measured at fair value through other comprehensive income.

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

**Notes to Condensed Consolidated Interim Financial Statements**

*(b) 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 nine months ended December 31, 2018**

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥1,750,679	¥ 6,319,470	¥462,264	¥2,738,003	¥569,084	¥11,839,500	¥ —	¥11,839,500
Inter-geographic areas	1,891,295	375,358	204,574	537,150	5,418	3,013,795	(3,013,795)	—
Total	3,641,974	6,694,828	666,838	3,275,153	574,502	14,853,295	(3,013,795)	11,839,500
Operating profit (loss)	¥ 85,496	¥ 213,839	¥ 8,582	¥ 343,271	¥ 32,745	¥ 683,933	¥ 72	¥ 684,005
Assets	¥4,510,933	¥11,104,584	¥664,122	¥2,891,842	¥610,717	¥19,782,198	¥ 69,003	¥19,851,201
Non-current assets other than financial instruments, deferred tax assets and net defined benefit assets	¥2,617,310	¥ 4,694,949	¥ 90,489	¥ 665,401	¥145,342	¥ 8,213,491	¥ —	¥ 8,213,491

**As of and for the nine months ended December 31, 2019**

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥1,714,572	¥ 6,259,055	¥426,596	¥2,532,782	¥539,944	¥11,472,949	¥ —	¥11,472,949
Inter-geographic areas	1,623,743	285,634	156,462	500,784	5,239	2,571,862	(2,571,862)	—
Total	3,338,315	6,544,689	583,058	3,033,566	545,183	14,044,811	(2,571,862)	11,472,949
Operating profit (loss)	¥ 38,066	¥ 280,736	¥ 11,004	¥ 274,911	¥ 35,555	¥ 640,272	¥ (1,018)	¥ 639,254
Assets	¥4,812,390	¥11,366,463	¥652,222	¥2,966,416	¥625,857	¥20,423,348	¥ 65,358	¥20,488,706
Non-current assets other than financial instruments, deferred tax assets and net defined benefit assets	¥2,936,823	¥ 4,816,100	¥ 59,005	¥ 687,869	¥133,830	¥ 8,633,627	¥ —	¥ 8,633,627

**For the three months ended December 31, 2018**

	Yen (millions)							
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated
Sales revenue:								
External customers	¥ 620,730	¥ 2,126,699	¥143,432	¥ 889,906	¥192,888	¥ 3,973,655	¥ —	¥ 3,973,655
Inter-geographic areas	675,383	123,560	75,375	175,886	1,816	1,052,020	(1,052,020)	—
Total	1,296,113	2,250,259	218,807	1,065,792	194,704	5,025,675	(1,052,020)	3,973,655
Operating profit (loss)	¥ 43,382	¥ 49,996	¥ 1,311	¥ 93,162	¥ 2,120	¥ 189,971	¥ (19,824)	¥ 170,147



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

**Notes to Condensed Consolidated Interim Financial Statements**

**For the three months ended December 31, 2019**

	Yen (millions)						Reconciling Items	Consolidated
	Japan	North America	Europe	Asia	Other Regions	Total		
Sales revenue:								
External customers	¥ 502,173	¥ 2,074,816	¥135,220	¥ 855,119	¥180,265	¥ 3,747,593	¥ —	¥ 3,747,593
Inter-geographic areas	542,748	88,038	55,104	161,475	1,589	848,954	(848,954)	—
Total	<u>1,044,921</u>	<u>2,162,854</u>	<u>190,324</u>	<u>1,016,594</u>	<u>181,854</u>	<u>4,596,547</u>	<u>(848,954)</u>	<u>3,747,593</u>
Operating profit (loss)	<u>¥ (43,134)</u>	<u>¥ 101,755</u>	<u>¥ 1,201</u>	<u>¥ 88,633</u>	<u>¥ 27,130</u>	<u>¥ 175,585</u>	<u>¥ (8,936)</u>	<u>¥ 166,649</u>

Explanatory notes:

- Major countries or regions in each geographic area:
 

North America	United States, Canada, Mexico
Europe	United Kingdom, Germany, Belgium, Italy, France
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 December 31, 2018 and 2019 amounted to ¥654,744 million and ¥650,927 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) Equipment on Operating Leases**

The additions to equipment on operating leases for the nine months ended December 31, 2018 and 2019 are ¥1,466,827 million and ¥1,728,200 million, respectively.

The sales or disposals of equipment on operating leases for the nine months ended December 31, 2018 and 2019 are ¥735,138 million and ¥854,013 million, respectively.

**(6) Property, Plant and Equipment**

The additions to property, plant and equipment for the nine months ended December 31, 2018 and 2019 are ¥316,498 million and ¥278,168 million, respectively.

The sales or disposals of property, plant and equipment for the nine months ended December 31, 2018 and 2019 are ¥32,243 million and ¥27,970 million, respectively.

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

**Notes to Condensed Consolidated Interim Financial Statements**

**(7) Provisions**

The components of and changes in provisions for the nine months ended December 31, 2019 are as follows:

	Yen (millions)		
	Product warranties*	Other	Total
Balance as of April 1, 2019	¥ 458,482	¥111,026	¥ 569,508
Provision	¥ 134,227	¥ 30,282	¥ 164,509
Write-offs	(196,052)	(18,639)	(214,691)
Reversal	(10,729)	(1,104)	(11,833)
Exchange differences on translating foreign operations	(5,395)	(1,658)	(7,053)
Balance as of December 31, 2019	<u>¥ 380,533</u>	<u>¥119,907</u>	<u>¥ 500,440</u>

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

	Yen (millions)	
	As of March 31, 2019	As of December 31, 2019
Current liabilities	¥ 348,763	¥ 267,034
Non-current liabilities	220,745	233,406
Total	<u>¥ 569,508</u>	<u>¥ 500,440</u>

Explanatory notes:

- \* Honda recognizes provisions for product warranties to cover future product warranty expenses. Honda recognizes costs for general warranties on products Honda sells and for specific warranty programs, including product recalls. Honda recognizes general estimated warranty costs at the time products are sold to customers. Honda also recognizes specific estimated warranty program costs when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. These provisions are estimated based on historical warranty claim experience with consideration given to the expected level of future warranty costs as well as current information on repair costs. Provision for product warranties are utilized for expenditures based on the demand from customers and dealers.

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

**Notes to Condensed Consolidated Interim Financial Statements**

**(8) Sales Revenue**

As stated in Note 4, Honda has four reportable segments: Motorcycle business, Automobile business, Financial services business and Life creation and other businesses.

The sales revenue disaggregated by geographical markets based on the location of the customer and the reconciliation of the disaggregated revenue with the four reportable segments for the nine months ended December 31, 2018 and 2019 are as follows:

**For the nine months ended December 31, 2018**

	Yen (millions)				Total
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	
Revenue arising from Contracts with Customers					
Japan	¥ 60,864	¥ 1,147,678	¥ 65,160	¥ 69,094	¥ 1,342,796
North America	138,977	4,578,382	742,391	97,340	5,557,090
Europe	115,353	305,019	—	39,015	459,387
Asia	1,070,666	1,804,174	31	34,519	2,909,390
Other Regions	224,274	382,815	—	14,312	621,401
Total	<u>¥ 1,610,134</u>	<u>¥ 8,218,068</u>	<u>¥ 807,582</u>	<u>¥ 254,280</u>	<u>¥ 10,890,064</u>
Revenue arising from the other sources*	606	10,051	938,703	76	949,436
Total	<u>¥ 1,610,740</u>	<u>¥ 8,228,119</u>	<u>¥ 1,746,285</u>	<u>¥ 254,356</u>	<u>¥ 11,839,500</u>

Explanatory notes:

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

**For the nine months ended December 31, 2019**

	Yen (millions)				Total
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	
Revenue arising from Contracts with Customers					
Japan	¥ 57,997	¥ 1,087,118	¥ 92,262	¥ 60,831	¥ 1,298,208
North America	147,413	4,348,702	862,848	96,105	5,455,068
Europe	111,561	276,983	—	33,956	422,500
Asia	1,034,494	1,646,400	11	31,654	2,712,559
Other Regions	233,052	329,760	—	11,216	574,028
Total	<u>¥ 1,584,517</u>	<u>¥ 7,688,963</u>	<u>¥ 955,121</u>	<u>¥ 233,762</u>	<u>¥ 10,462,363</u>
Revenue arising from the other sources*	1,253	2,156	1,006,831	346	1,010,586
Total	<u>¥ 1,585,770</u>	<u>¥ 7,691,119</u>	<u>¥ 1,961,952</u>	<u>¥ 234,108</u>	<u>¥ 11,472,949</u>

Explanatory notes:

\* Revenue arising from the other sources primarily includes lease revenues recognized under IFRS 16 and interest recognized under IFRS 9.

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

**Notes to Condensed Consolidated Interim Financial Statements**

**For the three months ended December 31, 2018**

	Yen (millions)				Total
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	
Revenue arising from Contracts with Customers					
Japan	¥ 20,489	¥ 401,580	¥ 21,226	¥ 28,825	¥ 472,120
North America	41,242	1,572,603	214,558	34,406	1,862,809
Europe	25,946	104,466	—	11,446	141,858
Asia	350,974	595,769	—	10,215	956,958
Other Regions	77,258	128,933	—	5,720	211,911
<b>Total</b>	<b>¥ 515,909</b>	<b>¥ 2,803,351</b>	<b>¥ 235,784</b>	<b>¥ 90,612</b>	<b>¥ 3,645,656</b>
Revenue arising from the other sources*	605	2,797	324,521	76	327,999
<b>Total</b>	<b>¥ 516,514</b>	<b>¥ 2,806,148</b>	<b>¥ 560,305</b>	<b>¥ 90,688</b>	<b>¥ 3,973,655</b>

Explanatory notes:

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

**For the three months ended December 31, 2019**

	Yen (millions)				Total
	Motorcycle Business	Automobile Business	Financial Services Business	Life Creation and Other Businesses	
Revenue arising from Contracts with Customers					
Japan	¥ 16,659	¥ 284,519	¥ 33,001	¥ 21,394	¥ 355,573
North America	48,655	1,479,388	243,960	31,054	1,803,057
Europe	30,790	93,825	—	9,847	134,462
Asia	355,430	556,876	2	11,390	923,698
Other Regions	78,689	107,602	—	4,153	190,444
<b>Total</b>	<b>¥ 530,223</b>	<b>¥ 2,522,210</b>	<b>¥ 276,963</b>	<b>¥ 77,838</b>	<b>¥ 3,407,234</b>
Revenue arising from the other sources*	4	939	339,355	61	340,359
<b>Total</b>	<b>¥ 530,227</b>	<b>¥ 2,523,149</b>	<b>¥ 616,318</b>	<b>¥ 77,899</b>	<b>¥ 3,747,593</b>

Explanatory notes:

- \* Revenue arising from the other sources primarily includes lease revenues recognized under IFRS 16 and interest recognized under IFRS 9.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Condensed Consolidated Interim Financial Statements****(9) Fair Value***(a) Definition of Fair Value Hierarchy*

Honda uses a three-level hierarchy when measuring fair value. The following is a description of the three hierarchy levels:

- |         |  |
|---------|--|
| Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly               |
| Level 3 | Unobservable inputs for the assets or liabilities  |

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest input that is significant to the fair value measurement in its entirety. Honda recognizes the transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

*(b) Method of Fair Value Measurement*

The fair values of assets and liabilities are determined based on relevant market information and through the use of an appropriate valuation method.

The measurement methods and assumptions used in the measurement of assets and liabilities are as follows:

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

The fair values approximate their carrying amounts due to their short-term maturities.

*(Receivables from financial services)*

The fair value of receivables from financial services is measured primarily by discounting future cash flows using the current interest rates applicable for these receivables of similar remaining maturities. Fair value measurement for receivables from financial services is classified as Level 3.

*(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.

**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Condensed Consolidated Interim Financial Statements**

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.

The fair values of foreign currency forward exchange contracts and foreign currency option contracts are measured by using market observable inputs such as spot exchange rates, discount rates and implied volatility. The fair values of currency swap agreements and interest rate swap agreements are measured by discounting future cash flows using market observable inputs such as LIBOR rates, swap rates, and foreign exchange rates. Fair value measurements for these derivatives are classified as Level 2.

The credit risk of the counterparties is considered in the valuation of derivatives.

*(Financing liabilities)*

The fair value of financing liabilities is measured by discounting future cash flows using interest rates currently available for liabilities of similar terms and remaining maturities. Fair value measurement of financing liabilities is mainly classified as Level 2.

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

**Notes to Condensed Consolidated Interim Financial Statements**

*(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, 2019 and December 31, 2019 consist of the following:

<b>As of March 31, 2019</b>	<b>Yen (millions)</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Other financial assets:</b>				
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
<b>Total</b>	<b>¥129,969</b>	<b>¥88,443</b>	<b>¥103,595</b>	<b>¥322,007</b>
<b>Other financial liabilities:</b>				
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
<b>Total</b>	<b>¥ —</b>	<b>¥69,491</b>	<b>¥ —</b>	<b>¥ 69,491</b>

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2019.

<b>As of December 31, 2019</b>	<b>Yen (millions)</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Other financial assets:</b>				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥13,105	¥ —	¥ 13,105
Interest rate instruments	—	32,894	—	32,894
Total	—	45,999	—	45,999
Debt securities	22,197	34,960	5,223	62,380
Financial assets measured at fair value through other comprehensive income:				
Debt securities	—	8,969	—	8,969
Equity securities	114,702	—	102,200	216,902
<b>Total</b>	<b>¥136,899</b>	<b>¥89,928</b>	<b>¥107,423</b>	<b>¥334,250</b>
<b>Other financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥23,711	¥ —	¥ 23,711
Interest rate instruments	—	37,289	—	37,289
Total	—	61,000	—	61,000
<b>Total</b>	<b>¥ —</b>	<b>¥61,000</b>	<b>¥ —</b>	<b>¥ 61,000</b>

There were no transfers between Level 1 and Level 2 for the nine months ended December 31, 2019.

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

**Notes to Condensed Consolidated Interim Financial Statements**

There were no significant effects of the measurements on profit or loss or other comprehensive income in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended December 31, 2019.

*(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, 2019 and December 31, 2019 are as follows:

	Yen (millions)			
	As of March 31, 2019		As of December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from financial services	¥5,405,250	¥5,417,297	¥5,325,753	¥5,362,234
Debt securities	54,964	54,952	72,118	72,116
Financing liabilities	7,331,120	7,355,632	7,337,126	7,390,321

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 Condensed Consolidated Interim Financial Statements****(10) Contingent Liabilities***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.

For the related civil lawsuits mainly in the United States, 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.

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

**Notes to Condensed Consolidated Interim Financial Statements**

**(11) Earnings Per Share**

Earnings per share attributable to owners of the parent for the nine months ended December 31, 2018 and 2019 are calculated based on the following information. There were no dilutive potential common shares outstanding for the nine months ended December 31, 2018 and 2019.

	2018	2019
Profit for the period attributable to owners of the parent (millions of yen)	¥ 623,339	¥ 485,288
Weighted average number of common shares outstanding, basic (shares)	1,765,309,719	1,757,434,612
Basic earnings per share attributable to owners of the parent (yen)	¥ 353.10	¥ 276.13

Earnings per share attributable to owners of the parent for the three months ended December 31, 2018 and 2019 are calculated based on the following information. There were no dilutive potential common shares outstanding for the three months ended December 31, 2018 and 2019.

	2018	2019
Profit for the period attributable to owners of the parent (millions of yen)	¥ 168,238	¥ 116,432
Weighted average number of common shares outstanding, basic (shares)	1,759,562,385	1,754,227,903
Basic earnings per share attributable to owners of the parent (yen)	¥ 95.61	¥ 66.37

**(12) Dividend**

*(a) Dividend payout*

**For the nine months ended December 31, 2018**

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

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

**Notes to Condensed Consolidated Interim Financial Statements**

**For the nine months ended December 31, 2019**

Resolution	The Board of Directors Meeting on May 8, 2019
Type of shares	Common shares
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

Resolution	The Board of Directors Meeting on August 2, 2019
Type of shares	Common shares
Total amount of dividends (millions of yen)	49,287
Dividend per share (yen)	28.00
Record date	June 30, 2019
Effective date	August 30, 2019

Resolution	The Board of Directors Meeting on November 8, 2019
Type of shares	Common shares
Total amount of dividends (millions of yen)	49,287
Dividend per share (yen)	28.00
Record date	September 30, 2019
Effective date	November 29, 2019

*(b) Dividends payable of which record date was in the nine months ended December 31, 2019, effective after the period*

Resolution	The Board of Directors Meeting on February 7, 2020
Type of shares	Common shares
Resource for dividend	Retained earnings
Total amount of dividends (millions of yen)	48,932
Dividend per share (yen)	28.00
Record date	December 31, 2019
Effective date	March 4, 2020

**(13) Approval of Release of Condensed Consolidated Interim Financial Statements**

The release of the condensed consolidated interim 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 February 12, 2020.