

HONDA MOTOR CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Interim Financial Statements
June 30, 2015

HONDA MOTOR CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Position
March 31, 2015 and June 30, 2015

Assets	Note	Yen (millions)	
		March 31, 2015	June 30, 2015
		<u>unaudited</u>	<u>unaudited</u>
Current assets:			
Cash and cash equivalents		¥ 1,471,730	¥ 1,650,933
Trade receivables		820,681	816,436
Receivables from financial services		2,098,951	2,128,927
Other financial assets		92,708	90,208
Inventories		1,498,312	1,457,279
Other current assets		313,758	282,383
Total current assets		<u>6,296,140</u>	<u>6,426,166</u>
Non-current assets:			
Investments accounted for using the equity method		614,975	657,832
Receivables from financial services		3,584,654	3,572,725
Other financial assets		350,579	350,592
Equipment on operating leases	5	3,335,367	3,552,875
Property, plant and equipment	6	3,189,511	3,257,301
Intangible assets		759,535	785,562
Deferred tax assets		138,069	131,847
Other non-current assets		157,007	163,603
Total non-current assets		<u>12,129,697</u>	<u>12,472,337</u>
Total assets		<u>¥18,425,837</u>	<u>¥18,898,503</u>
Liabilities and Equity	Note	Yen (millions)	
		March 31, 2015	June 30, 2015
		<u>unaudited</u>	<u>unaudited</u>
Current liabilities:			
Trade payables		¥ 1,157,738	¥ 1,111,277
Financing liabilities		2,833,563	3,096,771
Accrued expenses		377,372	378,632
Other financial liabilities		109,715	123,600
Income taxes payable		53,654	105,452
Provisions	7	294,281	341,046
Other current liabilities		474,731	460,057
Total current liabilities		<u>5,301,054</u>	<u>5,616,835</u>
Non-current liabilities:			
Financing liabilities		3,926,276	3,854,931
Other financial liabilities		61,147	55,519
Retirement benefit liabilities		592,724	606,631
Provisions	7	182,661	183,252
Deferred tax liabilities		744,410	740,428
Other non-current liabilities		234,744	233,007
Total non-current liabilities		<u>5,741,962</u>	<u>5,673,768</u>
Total liabilities		<u>11,043,016</u>	<u>11,290,603</u>
Equity:			
Common stock		86,067	86,067
Capital surplus		171,118	171,118
Treasury stock		(26,165)	(26,170)
Retained earnings		6,083,573	6,230,039
Other components of equity		794,034	883,951
Equity attributable to owners of the parent		<u>7,108,627</u>	<u>7,345,005</u>
Non-controlling interests		274,194	262,895
Total equity		<u>7,382,821</u>	<u>7,607,900</u>
Total liabilities and equity		<u>¥18,425,837</u>	<u>¥18,898,503</u>

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 June 30, 2014 and 2015

	Note	Yen (millions)	
		June 30,	June 30,
		2014	2015
		<u>unaudited</u>	<u>unaudited</u>
Sales revenue		¥ 3,206,743	¥ 3,704,762
Operating costs and expenses:			
Cost of sales		(2,501,612)	(2,885,646)
Selling, general and administrative		(362,408)	(434,488)
Research and development		(137,216)	(145,342)
Total operating costs and expenses		<u>(3,001,236)</u>	<u>(3,465,476)</u>
Operating profit		205,507	239,286
Share of profit of investments accounted for using the equity method		36,238	38,315
Finance income and finance costs:			
Interest income		6,155	7,792
Interest expense		(4,738)	(4,825)
Other, net		437	1,759
Total finance income and finance costs		<u>1,854</u>	<u>4,726</u>
Profit before income taxes		243,599	282,327
Income tax expense	8	<u>(76,516)</u>	<u>(78,451)</u>
Profit for the period		<u>¥ 167,083</u>	<u>¥ 203,876</u>
Profit for the period attributable to:			
Owners of the parent		155,604	186,037
Non-controlling interests		11,479	17,839
		Yen	
		<u>June 30,</u>	<u>June 30,</u>
		<u>2014</u>	<u>2015</u>
Earnings per share attributable to owners of the parent			
Basic and diluted	11	¥ 86.34	¥ 103.22

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 June 30, 2014 and 2015

	Note	Yen (millions)	
		June 30, 2014	June 30, 2015
		unaudited	unaudited
Profit for the period		¥167,083	¥203,876
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		(6,917)	—
Net changes in revaluation of financial assets measured at fair value through other comprehensive income		8,886	2,578
Share of other comprehensive income of investments accounted for using the equity method		(644)	364
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(38,132)	79,612
Share of other comprehensive income of investments accounted for using the equity method		(1,075)	7,716
Total other comprehensive income, net of tax		(37,882)	90,270
Comprehensive income for the period		¥129,201	¥294,146
Comprehensive income for the period attributable to:			
Owners of the parent		121,850	276,033
Non-controlling interests		7,351	18,113

See accompanying notes to condensed consolidated interim financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Equity

For the three months ended June 30, 2014 and 2015

	Yen (millions)								
	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Note	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total		
Balance as of April 1, 2014 (unaudited)		¥ 86,067	¥171,117	¥ (26,149)	¥5,831,140	¥ 273,359	¥6,335,534	¥ 223,394	¥6,558,928
Comprehensive income for the period									
Profit for the period					155,604		155,604	11,479	167,083
Other comprehensive income, net of tax						(33,754)	(33,754)	(4,128)	(37,882)
Total comprehensive income for the period					155,604	(33,754)	121,850	7,351	129,201
Reclassification to retained earnings					(6,916)	6,916			
Transactions with owners and other									
Dividends paid	12				(39,650)		(39,650)	(12,300)	(51,950)
Purchases of treasury stock					(2)		(2)		(2)
Equity transactions and others								(428)	(428)
Total transactions with owners and other					(2)	(39,650)	(39,652)	(12,728)	(52,380)
Balance as of June 30, 2014 (unaudited)		¥ 86,067	¥171,117	¥ (26,151)	¥5,940,178	¥ 246,521	¥6,417,732	¥ 218,017	¥6,635,749

	Yen (millions)								
	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Note	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total		
Balance as of April 1, 2015 (unaudited)		¥ 86,067	¥171,118	¥ (26,165)	¥6,083,573	¥ 794,034	¥7,108,627	¥ 274,194	¥7,382,821
Comprehensive income for the period									
Profit for the period					186,037		186,037	17,839	203,876
Other comprehensive income, net of tax						89,996	89,996	274	90,270
Total comprehensive income for the period					186,037	89,996	276,033	18,113	294,146
Reclassification to retained earnings					79	(79)			
Transactions with owners and other									
Dividends paid	12				(39,650)		(39,650)	(26,812)	(66,462)
Purchases of treasury stock					(5)		(5)		(5)
Equity transactions and others								(2,600)	(2,600)
Total transactions with owners and other					(5)	(39,650)	(39,655)	(29,412)	(69,067)
Balance as of June 30, 2015 (unaudited)		¥ 86,067	¥171,118	¥ (26,170)	¥6,230,039	¥ 883,951	¥7,345,005	¥ 262,895	¥7,607,900

See accompanying notes to condensed consolidated interim financial statements.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

For the three months ended June 30, 2014 and 2015

	Note	Yen (millions)	
		June 30,	June 30,
		2014	2015
		unaudited	unaudited
Cash flows from operating activities:			
Profit before income taxes		¥ 243,599	¥ 282,327
Depreciation, amortization and impairment losses excluding equipment on operating leases		147,220	161,009
Share of profit of investments accounted for using the equity method		(36,238)	(38,315)
Finance income and finance costs, net		(5,568)	(2,239)
Interest income and interest costs from financial services, net		(43,486)	(39,099)
Changes in assets and liabilities			
Trade receivables		13,649	(18,337)
Inventories		33,824	67,768
Trade payables		(83,206)	3,799
Accrued expenses		(36,972)	(16,245)
Provisions and retirement benefit liabilities		9,303	36,858
Receivables from financial services		22,205	104,402
Equipment on operating leases		(117,954)	(158,340)
Other assets and liabilities		(20,039)	(31,714)
Other, net		(8,430)	(3,166)
Dividends received		15,469	17,833
Interest received		58,269	57,923
Interest paid		(19,854)	(20,811)
Income taxes paid, net of refunds		(38,678)	12,243
Net cash provided by operating activities		133,113	415,896
Cash flows from investing activities:			
Payments for additions to property, plant and equipment		(173,634)	(187,191)
Payments for additions to and internally developed intangible assets		(45,548)	(61,641)
Proceeds from sales of property, plant and equipment and intangible assets		10,331	11,832
Payments for acquisitions of other financial assets		(21,447)	(44,388)
Proceeds from sales and redemptions of other financial assets		20,231	38,425
Other, net		328	(749)
Net cash used in investing activities		(209,739)	(243,712)
Cash flows from financing activities:			
Proceeds from short-term financing liabilities		2,059,611	1,935,856
Repayments of short-term financing liabilities		(1,889,976)	(1,917,912)
Proceeds from long-term financing liabilities		195,723	249,458
Repayments of long-term financing liabilities		(309,254)	(215,950)
Dividends paid to owners of the parent		(39,650)	(39,650)
Dividends paid to non-controlling interests		(9,057)	(10,334)
Purchases and sales of treasury stock, net		(2)	(5)
Other, net		(11,380)	(13,064)
Net cash provided by financing activities		(3,985)	(11,601)
Effect of exchange rate changes on cash and cash equivalents		(6,580)	18,620
Net change in cash and cash equivalents		(87,191)	179,203
Cash and cash equivalents at beginning of year		1,193,584	1,471,730
Cash and cash equivalents at end of period		¥ 1,106,393	¥ 1,650,933

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, 2015, 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 judgements and estimations as those applied and described in the Company’s consolidated financial statements for the fiscal year ended March 31, 2015.

(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, 2015.

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 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 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) 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 three months ended June 30, 2014 and 2015 is as follows:

As of and for the three months ended June 30, 2014

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 426,475	¥2,338,214	¥ 364,406	¥ 77,648	¥ 3,206,743	¥ —	¥ 3,206,743
Intersegment	—	19,063	2,549	5,642	27,254	(27,254)	—
Total	426,475	2,357,277	366,955	83,290	3,233,997	(27,254)	3,206,743
Segment profit (loss)	¥ 41,666	¥ 110,839	¥ 49,626	¥ 3,376	¥ 205,507	¥ —	¥ 205,507
Segment assets	¥1,257,393	¥6,776,803	¥8,014,881	¥337,192	¥16,386,269	¥(449,321)	¥15,936,948
Depreciation and amortization	15,905	125,630	104,514	2,837	248,886	—	248,886
Capital expenditures	14,637	165,729	384,396	2,099	566,861	—	566,861

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

As of and for the three months ended June 30, 2015

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 472,703	¥2,675,887	¥ 473,672	¥ 82,500	¥ 3,704,762	¥ —	¥ 3,704,762
Intersegment	—	30,187	3,189	5,698	39,074	(39,074)	—
Total	472,703	2,706,074	476,861	88,198	3,743,836	(39,074)	3,704,762
Segment profit (loss)	¥ 55,570	¥ 130,754	¥ 52,442	¥ 520	¥ 239,286	¥ —	¥ 239,286
Segment assets	¥1,478,203	¥7,847,973	¥9,560,216	¥352,962	¥19,239,354	¥(340,851)	¥18,898,503
Depreciation and amortization	17,916	139,107	147,039	3,086	307,148	—	307,148
Capital expenditures	16,522	207,662	519,708	2,709	746,601	—	746,601

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 June 30, 2014 and 2015 amounted to ¥253,224 million and ¥337,414 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 in order to provide financial statements users with useful information:

Supplemental geographical information based on the location of the Company and its subsidiaries

As of and for the three months ended June 30, 2014

	Yen (millions)							Reconciling Items	Consolidated
	Japan	North America	Europe	Asia	Other Regions	Total			
Sales revenue:									
External customers	¥ 544,682	¥ 1,629,914	¥172,255	¥ 620,265	¥239,627	¥ 3,206,743	¥ —	¥ 3,206,743	
Inter-geographic areas	440,949	99,178	20,350	133,399	645	694,521	(694,521)	—	
Total	985,631	1,729,092	192,605	753,664	240,272	3,901,264	(694,521)	3,206,743	
Operating profit (loss)	¥ 62,850	¥ 66,668	¥ 1,790	¥ 68,989	¥ 8,537	¥ 208,834	¥ (3,327)	¥ 205,507	
Assets	¥3,928,172	¥ 8,715,171	¥657,733	¥2,040,626	¥763,327	¥16,105,029	¥(168,081)	¥15,936,948	
Non-current assets other than financial instruments and deferred tax assets	¥2,033,973	¥ 3,182,757	¥131,152	¥ 610,660	¥199,295	¥ 6,157,837	¥ —	¥ 6,157,837	

As of and for the three months ended June 30, 2015

	Yen (millions)							Reconciling Items	Consolidated
	Japan	North America	Europe	Asia	Other Regions	Total			
Sales revenue:									
External customers	¥ 463,069	¥ 2,104,532	¥152,007	¥ 745,165	¥239,989	¥ 3,704,762	¥ —	¥ 3,704,762	
Inter-geographic areas	453,490	87,084	18,804	153,766	614	713,758	(713,758)	—	
Total	916,559	2,191,616	170,811	898,931	240,603	4,418,520	(713,758)	3,704,762	
Operating profit (loss)	¥ 27,810	¥ 109,023	¥ (956)	¥ 95,570	¥ 4,504	¥ 235,951	¥ 3,335	¥ 239,286	
Assets	¥4,166,091	¥10,892,516	¥651,735	¥2,583,144	¥718,636	¥19,012,122	¥(113,619)	¥18,898,503	
Non-current assets other than financial instruments and deferred tax assets	¥2,312,171	¥ 4,346,423	¥120,860	¥ 767,435	¥212,452	¥ 7,759,341	¥ —	¥ 7,759,341	

Explanatory notes:

- Major countries or regions in each geographic area:

North America	United States, Canada, Mexico
Europe	United Kingdom, Germany, France, Belgium, Russia
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 June 30, 2014 and 2015 amounted to ¥253,224 million and ¥337,414 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

(5) Equipment on Operating Leases

The additions to equipment on operating leases for the three months ended June 30, 2014 and 2015 are ¥383,491 million and ¥518,873 million, respectively.

The sales or disposals of equipment on operating leases for the three months ended June 30, 2014 and 2015 are ¥161,352 million and ¥212,820 million, respectively.

(6) Property, Plant and Equipment

The additions to property, plant and equipment for the three months ended June 30, 2014 and 2015 are ¥138,955 million and ¥169,558 million, respectively.

The sales or disposals of property, plant and equipment for the three months ended June 30, 2014 and 2015 are ¥12,688 million and ¥12,192 million, respectively.

(7) Provisions

The components of and changes in provisions for the three months ended June 30, 2015 are as follows:

	Yen (millions)		
	Product warranties*	Other	Total
Balance as of March 31, 2015	¥421,523	¥55,419	¥476,942
Provision	¥ 87,334	¥ 9,200	¥ 96,534
Charge-offs	(45,847)	(7,917)	(53,764)
Reversal	(3,584)	(497)	(4,081)
Exchange differences on translating foreign operations	7,121	1,546	8,667
Balance as of June 30, 2015	<u>¥466,547</u>	<u>¥57,751</u>	<u>¥524,298</u>

Current liabilities and non-current liabilities of provisions as of March 31, 2015 and June 30, 2015 are as follows:

	Yen (millions)	
	As of March 31, 2015	As of June 30, 2015
Current liabilities	¥ 294,281	¥ 341,046
Non-current liabilities	182,661	183,252
Total	<u>¥ 476,942</u>	<u>¥ 524,298</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 provides for general estimated warranty costs at the time products are sold to customers. Honda also provides for 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 used for expenditures based on the demand from customers and dealers.

(8) Income Taxes

For the three months ended June 30, 2015, the lawsuit related to transfer pricing involving the Company's foreign transactions with certain Brazilian subsidiaries was concluded, and it was ruled that the Company shall receive a tax refund plus interest in Japan. As a result, income tax expense decreased by ¥19,145 million for the three months ended June 30, 2015.

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.

The subsidiary's auction rate securities are AAA rated and are insured by qualified guarantee agencies, and reinsured by the Secretary of Education and 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.

HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

Price book-value ratio (PBR) of a comparable company are used as a significant unobservable input in the fair value measurement of equity securities classified as Level 3. The fair value increases (decreases) as PBR of a comparable company rise (decline). Such fair value measurements are conducted in accordance with the group accounting policy approved by the appropriate person of authority and based upon valuation methods determined by a valuator.

(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.

(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, 2015 and June 30, 2015 consist of the following:

As of March 31, 2015	Yen (millions)			
	Level 1	Level 2	Level 3	Total
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥ 6,199	¥ —	¥ 6,199
Interest rate instruments	—	28,399	—	28,399
Total	—	34,598	—	34,598
Debt securities	17,665	33,481	8,172	59,318
Financial assets measured at fair value through other comprehensive income:				
Equity securities	170,641	—	14,242	184,883
Total	¥188,306	¥68,079	¥22,414	¥278,799
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥33,429	¥ —	¥ 33,429
Interest rate instruments	—	14,099	—	14,099
Total	—	47,528	—	47,528
Total	¥ —	¥47,528	¥ —	¥ 47,528

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2015.

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As of June 30, 2015	Yen (millions)			
	Level 1	Level 2	Level 3	Total
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥ 7,256	¥ —	¥ 7,256
Interest rate instruments	—	24,969	—	24,969
Total	—	32,225	—	32,225
Debt securities	19,054	35,186	8,252	62,492
Financial assets measured at fair value through other comprehensive income:				
Equity securities	174,517	—	14,269	188,786
Total	<u>¥193,571</u>	<u>¥67,411</u>	<u>¥22,521</u>	<u>¥283,503</u>
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥ —	¥30,791	¥ —	¥ 30,791
Interest rate instruments	—	11,051	—	11,051
Total	—	41,842	—	41,842
Total	<u>¥ —</u>	<u>¥41,842</u>	<u>¥ —</u>	<u>¥ 41,842</u>

There were no transfers between Level 1 and Level 2 for the three months ended June 30, 2015.

(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, 2015 and June 30, 2015 are as follows:

	Yen (millions)			
	As of March 31, 2015		As of June 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from financial services	¥5,683,605	¥5,714,504	¥5,701,652	¥5,712,772
Debt securities	18,231	18,235	21,997	21,998
Financing liabilities	6,759,839	6,825,427	6,951,702	7,006,948

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

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(10) Contingent Liabilities*Claims and Lawsuits*

Honda is subject to potential liability under other 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 provides warranty programs with regard to the product recalls and SIC (Safety Improvement Campaign) related 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 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 North America, various class actions related to the above mentioned product recalls and SIC have been filed against Honda since October 2014. The plaintiffs have claimed for properly functioning airbag inflators, compensation of economic losses including for incurred costs and the decline in the value of vehicles, as well as punitive damages. Most of the cases in the United States were transferred to the United States District Court for the Southern District of Florida and consolidated into a multidistrict litigation.

Regarding the above matter, 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. Also, 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 is uncertainty regarding the period when these lawsuits will be concluded.

(11) Earnings Per Share

Earnings per share attributable to owners of the parent for the three months ended June 30, 2014 and 2015 are calculated based on the following information. There were no potentially dilutive common shares outstanding for the three months ended June 30, 2014 and 2015.

	2014	2015
Profit for the period attributable to owners of the parent (millions of yen)	¥ 155,604	¥ 186,037
Weighted average number of common shares outstanding, basic (shares)	1,802,290,925	1,802,286,319
Basic earnings per share attributable to owners of the parent (yen)	¥ 86.34	¥ 103.22

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Notes to Condensed Consolidated Interim Financial Statements

(12) Dividend*(a) Dividend payout***For the three months ended June 30, 2014**

Resolution	The Ordinary General Meeting of Shareholders on June 13, 2014
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	March 31, 2014
Effective date	June 16, 2014

For the three months ended June 30, 2015

Resolution	The Ordinary General Meeting of Shareholders on June 17, 2015
Type of shares	Common shares
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	March 31, 2015
Effective date	June 18, 2015

(b) Dividends payable of which record date was in the three months ended June 30, 2015, effective after the period

Resolution	The Board of Directors Meeting on July 31, 2015
Type of shares	Common shares
Resource for dividend	Retained earnings
Total amount of dividends (millions of yen)	39,650
Dividend per share (yen)	22.00
Record date	June 30, 2015
Effective date	August 25, 2015

(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, Chief Executive Officer and Representative Director and Kohei Takeuchi, Director and Chief Operating Officer for Business Management Operations on August 7, 2015.