

HONDA MOTOR CO LTD  
Form 20-F  
June 20, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F**

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended March 31, 2014**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from                      to**

**OR**

.. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report**

**Commission file number 1-7628**

**HONDA GIKEN KOGYO KABUSHIKI KAISHA**

(Exact name of Registrant as specified in its charter)

**HONDA MOTOR CO., LTD.**

(Translation of Registrant's name into English)

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**JAPAN**

(Jurisdiction of incorporation or organization)

**No. 1-1, Minami-Aoyama 2-chome, Minato-ku, Tokyo 107-8556, Japan**

(Address of principal executive offices)

**Narushi Yazaki, Honda North America, Inc.,**

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

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock*</b>	<b>New York Stock Exchange</b>

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

**None**

(Title of class)

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

**None**

(Title of class)

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

<b>Title of each class</b>	<b>Outstanding as of March 31, 2014</b>
<b>Common Stock</b>	<b>1,802,291,196**</b>

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act, Yes ☒ No ☐

If this report is an annual or transmission report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or, a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S.GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

\* Not for trading purposes, but only in connection with the registration of American Depositary Shares, each representing one share of Common Stock.

\*\* Shares of Common Stock include 55,964,204 shares represented by American Depositary Shares.

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

***Item 1. Identity of Directors, Senior Management and Advisers***

Not applicable.

***Item 2. Offer Statistics and Expected Timetable***

Not applicable.

***Item 3. Key Information******A. Selected Financial Data***

The selected consolidated financial data set out below for each of the five fiscal years ended March 31, 2014 have been derived from our consolidated financial statements that were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

You should read the U.S. GAAP selected consolidated financial data set out below together with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements contained in this Annual Report.

	Fiscal years ended March 31, Yen (millions)				
	2010	2011	2012	2013	2014
<b>Income statement data:</b>					
Net sales and other operating revenue	¥ 8,579,174	¥ 8,936,867	¥ 7,948,095	¥ 9,877,947	¥ 11,842,451
Research and development	463,354	487,591	519,818	560,270	634,130
Operating income	363,775	569,775	231,364	544,810	750,281
Income before income taxes and equity in income of affiliates	336,198	630,548	257,403	488,891	728,940
Equity in income of affiliates	93,282	139,756	100,406	82,723	132,471
Net income	282,611	563,477	222,074	392,638	608,749
Net income attributable to Honda Motor Co., Ltd.	268,400	534,088	211,482	367,149	574,107

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**Balance sheet data:**

Total assets	¥ 11,629,115	¥ 11,577,714	¥ 11,787,599	¥ 13,635,357	¥ 15,622,031
Long-term debt, excluding current portion	2,313,035	2,043,240	2,235,001	2,710,845	3,234,066
Honda Motor Co., Ltd. shareholders' equity	4,328,640	4,439,587	4,398,249	5,043,500	5,918,979
Total equity	4,456,430	4,572,524	4,525,583	5,205,423	6,113,398
Common stock	86,067	86,067	86,067	86,067	86,067

**Cash flow data:**

Depreciation excluding property on operating leases	¥ 401,743	¥ 377,272	¥ 345,105	¥ 335,536	¥ 442,318
Depreciation of property on operating leases	227,931	212,143	209,762	254,933	352,402
Total depreciation	629,674	589,415	554,867	590,469	794,720
Capital expenditures	392,062	318,543	397,218	626,879	774,006
Purchase of operating lease assets	544,027	798,420	683,767	793,118	1,127,840
Total capital expenditures	936,089	1,116,963	1,080,985	1,419,997	1,901,846

**Table of Contents****Weighted average number of shares outstanding**

	2010	2011	(Thousands of shares) 2012	2013	2014
Weighted average number of common shares outstanding	1,814,605	1,806,360	1,802,300	1,802,298	1,802,294

**Net income attributable to Honda Motor Co., Ltd. per common share**

	2010	2011	(Yen) 2012	2013	2014
Basic	¥ 147.91	¥ 295.67	¥ 117.34	¥ 203.71	¥ 318.54
Diluted	147.91	295.67	117.34	203.71	318.54

Net income attributable to Honda Motor Co., Ltd. per common share has been computed by dividing net income attributable to Honda Motor Co., Ltd. available to common shareholders by the weighted average number of common shares outstanding during each year.

**Dividends declared during the period per common share**

	2010	2011	(Yen) 2012	2013	2014
Dividends declared during the period per common share	¥34.00	¥51.00	¥60.00	¥72.00	¥79.00
	(US\$ 0.37)	(US\$ 0.61)	(US\$ 0.73)	(US\$ 0.77)	(US\$ 0.77)

Additionally, a year-end dividend of ¥22 (\$0.21) per common share aggregating ¥39.6 billion (\$385 million) relating to fiscal 2014 was determined by our Board of Directors in April 2014 and approved by our shareholders in June 2014. This dividend will be paid in June 2014.

U.S. dollar amounts for dividends per share are translated from yen at the year-end exchange rate of each period.

**Adjustments of prior years financial data**

As described in note (1)(c) to the accompanying consolidated financial statements, certain adjustments have been made to the consolidated financial statement periods presented above.

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The following table sets out information regarding the noon buying rates for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York expressed in yen per \$1.00 during the periods shown. On May 30, 2014, the noon buying rate was ¥101.77=\$1.00. The average exchange rate for the period shown is the average of the month-end rates during the period.

Years ended March 31,	(Yen)			
	Average	Period end	High	Low
2010	92.49	93.40	100.71	86.12
2011	85.00	82.76	94.68	78.74
2012	78.86	82.41	85.26	75.72
2013	83.26	94.16	96.16	77.41
2014	100.46	102.98	105.25	92.96
2015 (through May 30, 2014)	101.96	101.77	103.94	101.26
Dec-2013			105.25	101.82
Jan-2014			104.87	102.20
Feb-2014			102.71	101.11
Mar-2014			103.38	101.36
Apr-2014			103.94	101.43
May-2014			102.34	101.26

*B. Capitalization and Indebtedness*

Not applicable.

*C. Reason for the Offer and Use of Proceeds*

Not applicable.

*D. Risk Factors*

You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, Honda's business, financial condition or results of operations could be adversely affected. In that event, the trading prices of Honda's common stock and American Depositary Shares could decline, and you may lose all or part of your investment. Additional risks not currently known to Honda or that Honda now deems immaterial may also harm Honda and affect your investment.

**Risks Relating to Honda's Industry**

**Honda may be adversely affected by market conditions**

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

### **Prices for products can be volatile**

Prices for automobiles, motorcycles and power products in certain markets may experience sharp changes over short periods of time. This volatility is caused by various factors, including fierce competition, which is increasing, short-term fluctuations in demand caused by instability in underlying economic conditions, changes in tariffs, import regulations and other taxes, shortages of certain materials and parts, steep rise in material prices and sales incentives. There can be no assurance that such price volatility will not continue for an extended period of time or that price volatility will not occur in markets that to date have not experienced such volatility.

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Overcapacity within the industry has increased and will likely continue to increase if the economic downturn continues in Honda's major markets, leading, potentially, to further increased price volatility. Price volatility in any of Honda's markets could adversely affect Honda's results of operations.

### **Risks Relating to Honda's Business Generally**

#### **Currency and Interest Rate Risks**

##### **Honda's operations are subject to currency fluctuations**

Honda has manufacturing operations throughout the world, including Japan, and exports products and components to various countries.

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

Since Honda exports many products and components, particularly from Japan, and generates a substantial portion of its revenues in currencies other than the Japanese yen, Honda's results of operations would be adversely affected by an appreciation of the Japanese yen against other currencies, in particular the U.S. dollar.

##### **Honda's hedging of currency and interest rate risk exposes Honda to other risks**

Although it is impossible to hedge against all currency or interest rate risks, Honda uses derivative financial instruments in order to reduce the substantial effects of currency fluctuations and interest rate exposure on our cash flows and financial condition. These instruments include foreign currency forward contracts, currency swap agreements and currency option contracts, as well as interest rate swap agreements. Honda has entered into, and expects to continue to enter into, such hedging arrangements. As with all hedging instruments, there are risks associated with the use of such instruments. While limiting to some degree our risk fluctuations in currency exchange and interest rates by utilizing such hedging instruments, Honda potentially forgoes benefits that might result from other fluctuations in currency exchange and interest rates. Honda is also exposed to the risk that its counterparties to hedging contracts will default on their obligations. Honda manages exposure to counterparty credit risk by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. However, any default by such counterparties might have an adverse effect on Honda.

#### **Legal and Regulatory Risks**

**The automobile, motorcycle and power product industries are subject to extensive environmental and other governmental regulations, including with respect to global climate changes**

Regulations regarding vehicle emission levels, fuel economy, noise and safety and noxious substances, as well as levels of pollutants from production plants, are extensive within the automobile, motorcycle and power product industries. These regulations are subject to change, and are often made more restrictive, particularly in recent years, due to an increasing concern with respect to possible global climate changes. The costs to comply with these regulations can be significant to Honda's operations.

**Honda is reliant on the protection and preservation of its intellectual property**

Honda owns or otherwise has rights in a number of patents and trademarks relating to the products it manufactures, which have been obtained over a period of years. These patents and trademarks have been of value in the growth of Honda's business and may continue to be of value in the future. Honda does not regard any of its

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

### **Honda is subject to legal proceedings**

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

### **Risks Relating to Honda's Operations**

#### **Honda's Financial services business conducts business under highly competitive conditions in an industry with inherent risks**

Honda's Financial services business offers various financing plans to its customers designed to increase the opportunity for sales of its products and to generate financing income. However, customers can also obtain financing for the lease or purchase of Honda's products through a variety of other sources that compete with our financing services, including commercial banks and finance and leasing companies. The financial services offered by us also involve credit risk as well as risks relating to lease residual values, cost of capital and access to funding. Competition for customers and/or these risks may affect Honda's results of operations in the future.

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

Honda purchases raw materials and parts from numerous external suppliers, and relies on certain suppliers for some of the raw materials and parts which it uses in the manufacture of its products. Honda's ability to continue to obtain these supplies in an efficient and cost-effective manner is subject to a number of factors, some of which are not within Honda's control. These factors include the ability of its suppliers to provide a continued source of raw materials and parts and Honda's ability to compete with other users in obtaining the supplies. Loss of a key supplier in particular may affect our production and increase our costs.

#### **Honda conducts its operations in various regions of the world**

Honda conducts its businesses worldwide, and in several countries, Honda conducts businesses through joint ventures with local entities, in part due to the legal and other requirements of those countries. These businesses are subject to various regulations, including the legal and other requirements of each country. If these regulations or the business conditions or policies of these local entities change, it may have an adverse affect on Honda's business, financial condition or results of operations.

**Honda may be adversely affected by wars, use of force by foreign countries, terrorism, multinational conflicts and frictions, political uncertainty, natural disasters, epidemics and labor strikes**

Honda conducts its businesses worldwide and such businesses may be affected by events, such as wars, use of force by foreign countries, terrorism, multinational conflicts and frictions, political uncertainty, natural disasters such as earthquakes, tsunami and floods, epidemics and labor strikes, and other events beyond our control, which may delay, disrupt or suspend the purchase of raw materials and parts, the manufacture, sales and distribution of products, the provision of services, etc., in the region where such events occurred. Such events occurring in one region may in turn affect other regions. If such delay, disruption or suspension occurs and continues for a long period of time, Honda's business, financial condition or results of operations may be adversely affected.

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### **Honda may be adversely affected by inadvertent disclosure of confidential information**

Although Honda maintains internal controls through established procedures to keep confidential information including personal information of its customers and relating parties, such information may be inadvertently disclosed. If this occurs, Honda may be subject to, and may be adversely affected by, claims for damages from the customers or parties affected. Also, inadvertent disclosure of confidential business or technical information to third parties may also result in a loss of Honda's competitiveness.

### **Risks Relating to Pension Costs and Other Postretirement Benefits**

Honda has pension plans and provides other post-retirement benefits. The amounts of pension benefits, lump-sum payments and other post-retirement benefits are primarily based on the combination of years of service and compensation. The funding policy is to make periodic contributions as required by applicable regulations. Benefit obligations and pension costs are based on assumptions of many factors, including the discount rate, the rate of salary increase and the expected long-term rate of return on plan assets. Differences in actual expenses and costs or changes in assumptions could affect Honda's pension costs and benefit obligations, including Honda's cash requirements to fund such obligations, which could materially affect our financial condition and results of operations.

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

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

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

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

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

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the

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upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

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

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

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

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

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

### **Cautionary statement with respect to forward looking statements in this Annual Report**

This Annual Report includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward looking statements included in this Annual Report are based on the current assumptions and beliefs of Honda in light of the information currently available to it, and involve known and unknown risks, uncertainties, and other factors. Such risks, uncertainties and other factors may cause Honda's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors are generally set forth in Item 3.D Risk Factors and include, without limitation:

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the political, economic and social conditions in Japan and throughout the world including North America, Europe and Asia, including economic slowdowns, recessions, changes in consumer preferences, rising fuel prices, financial crises and other factors, as well as the relevant governments' specific policies with respect to economic growth, inflation, taxation, currency conversion, imports and sources of supplies and the availability of credit, particularly to the extent such current or future

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conditions and policies affect the automobile, motorcycle and power product industries and markets in Japan and other markets throughout the world in which Honda conducts its business, and the demand, sales volume and sales prices for Honda's automobiles, motorcycles and power products;

the effects of competition in the automobile, motorcycle and power product markets on the demand, sales volume and sales prices for Honda's automobiles, motorcycles and power products;

Honda's ability to finance its working capital and capital expenditure requirements, including obtaining any required external debt or other financing;

the effects of economic stagnation or recession in Honda's principal markets and of exchange rate and interest rate fluctuations on Honda's results of operations; and

the effects of environmental and other governmental regulations and legal proceedings.

Honda undertakes no obligation and has no intention to publicly update any forward looking statement after the date of this Annual Report. Investors are advised to consult any further disclosures by Honda in its subsequent filings pursuant to the Securities and Exchange Act of 1934.

## ***Item 4. Information on the Company***

### ***A. History and Development of the Company***

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

Honda develops, produces, and manufactures a variety of motor products, ranging from small general-purpose engines and scooters to specialty sports cars that incorporate Honda's highly efficient internal combustion engine technology.

Honda's principal executive office is located at 1-1, Minami-Aoyama 2-chome, Minato-ku, Tokyo, 107-8556, Japan. Its telephone number is +81-3-3423-1111.

### ***Principal Capital Investments***

In the fiscal years ended March 31, 2012, 2013 and 2014, Honda's capital expenditures were ¥1,108.1 billion, ¥1,423.5 billion and ¥1,909.8 billion, respectively, on an accrual basis. Also, capital expenditures excluding those with respect to property on operating leases were ¥424.4

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billion, ¥630.4 billion and ¥782.0 billion, respectively, on an accrual basis. For further details of Honda's capital expenditures during fiscal 2014, see "Property, Plants and Equipment" included as "Item 4.D" of this Annual Report.

### *B. Business Overview*

#### ***General***

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

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The following tables show the breakdown of Honda's revenues from external customers by category of activity and by geographical markets based on the location of the customer during the fiscal years ended March 31, 2012, 2013 and 2014:

	Fiscal years ended March 31,		
	2012	2013	2014
	Yen (billions)		
Motorcycle Business	¥ 1,348.8	¥ 1,339.5	¥ 1,663.6
Automobile Business	5,805.9	7,709.2	9,176.3
Financial Services Business	516.1	548.5	698.1
Power Product and Other Businesses	277.1	280.6	304.2
Total	¥ 7,948.0	¥ 9,877.9	¥ 11,842.4

	Fiscal years ended March 31,		
	2012	2013	2014
	Yen (billions)		
Japan	¥ 1,517.9	¥ 1,652.9	¥ 1,912.5
North America	3,480.7	4,586.4	5,567.5
Europe	515.7	534.5	667.1
Asia	1,458.7	2,093.0	2,515.8
Other Regions	974.8	1,010.9	1,179.2
Total	¥ 7,948.0	¥ 9,877.9	¥ 11,842.4

**Motorcycle Business**

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

Honda produces a wide range of motorcycles, with engine displacement ranging from the 50cc class to the 1800cc class. Honda's motorcycles use internal combustion engines developed by Honda that are air- or water-cooled, four-cycle, and are in single, two, four or six-cylinder configurations. Honda's motorcycle line consists of sports (including trial and moto-cross racing), business and commuter models. Honda has also produced all-terrain vehicles (ATVs) since 1984 and multi utility vehicles (MUVs) since 2008.

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The following table sets out unit sales for Honda's Motorcycle business, including motorcycles, and all-terrain vehicles (ATVs) and revenue from Motorcycle business, and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2012, 2013 and 2014:

	Fiscal years ended March 31,			Fiscal years ended March 31,			Fiscal years ended March 31,		
	2012		Revenue Yen	2013		Revenue Yen	2014		Revenue Yen
	Honda Group Unit Sales* Units	Consolidated Unit Sales* Units		Honda Group Unit Sales* Units	Consolidated Unit Sales* Units		Honda Group Unit Sales* Units	Consolidated Unit Sales* Units	
	(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)
Japan	220	220	¥ 72.9	217	217	¥ 72.9	226	226	¥ 79.4
North America	200	200	97.3	250	250	112.1	276	276	141.5
Europe	198	198	96.1	179	179	86.4	166	166	102.6
Asia	12,412	6,001	579.5	13,035	7,051	667.4	14,536	7,858	868.4
Other Regions	2,031	2,031	502.8	1,813	1,813	400.5	1,817	1,817	471.5
Total	15,061	8,650	¥ 1,348.8	15,494	9,510	¥ 1,339.5	17,021	10,343	¥ 1,663.6
Motorcycle revenue as a percentage of total sales revenue			17%			14%			14%

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

Motorcycles are produced by Honda in Japan at its Kumamoto Factory. Honda's motorcycles are also produced by subsidiaries in countries around the world including Thailand, Vietnam, India, Brazil and Argentina.

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

**Automobile Business**

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

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

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Honda's principal automobile products include the following vehicle models:

Passenger cars:

*Accord, Accord Hybrid, Accord Plug-in Hybrid, Accord Tourer, Amaze, Brio, Brio Amaze, Brio Satya, City, Civic, Civic Tourer, CRIDER, CR-Z, Fit/Jazz, Fit/Jazz Hybrid, Fit Shuttle, Fit Shuttle Hybrid, FREED, FREED Hybrid, FREED SPIKE, FREED SPIKE Hybrid, Honda MOBILIO, Insight, JADE, Spirior, Stream, Acura ILX, Acura RLX, Acura TL, Acura TSX*

Light trucks:

*Crosstour, CR-V, Elysion, Odyssey, Pilot, Ridgeline, Step WGN, VEZEL, VEZEL Hybrid, Acura MDX, Acura RDX*

Mini vehicles:

*Acty, Life, N-Box, N-Box +, N-ONE, N-WGN, Vamos*

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The following table sets out Honda's unit sales of automobiles and revenue from Automobile business and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2012, 2013 and 2014:

	2012			2013			2014		
	Honda Group Consolidated			Honda Group Consolidated			Honda Group Consolidated		
	Unit Sales*	Unit Sales*	Revenue	Unit Sales*	Unit Sales*	Revenue	Unit Sales*	Unit Sales*	Revenue
	Units	Units	Yen	Units	Units	Yen	Units	Units	Yen
	(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)	(thousands)	(thousands)	(billions)
Japan	588	580	¥ 1,329.6	692	685	¥ 1,462.6	818	812	¥ 1,714.7
North America	1,323	1,323	2,855.6	1,731	1,731	3,905.2	1,757	1,757	4,717.7
Europe	158	158	355.9	171	171	388.4	169	169	487.6
Asia	837	219	836.3	1,122	523	1,385.4	1,286	529	1,599.0
Other Regions	202	202	428.3	298	298	567.3	293	293	657.0
Total	3,108	2,482	¥ 5,805.9	4,014	3,408	¥ 7,709.2	4,323	3,560	¥ 9,176.3
Automobile revenue as a percentage of total sales revenue			73%			78%			77%

\* Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates accounted for under the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated net sales 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 are accounted for as operating leases in conformity with U.S. generally accepted accounting principles and are not included in consolidated net sales to the external customers in our automobile business. As a result, they are not included in Consolidated Unit Sales, but are included in Honda Group Unit Sales of our automobile business.

Automobiles are produced by Honda at two factories located at three sites in Japan: the Saitama Factory (at the Sayama Plant and the Yorii Plant) and the Suzuka Factory. Our major production sites overseas include those located in Ohio (U.S.A.), Alabama (U.S.A.), Indiana (U.S.A.), Ontario (Canada), Swindon (U.K.), Ayutthaya (Thailand), Greater Noida (India) and Sao Paulo (Brazil). Yachiyo Industry Co., Ltd., one of our consolidated subsidiaries, assembles mini vehicles for the Japanese market.

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

**Financial Services Business**

We offer a variety of financial services to our customers and dealers through finance subsidiaries in countries including Japan, the United States, Canada, the United Kingdom, Germany, Brazil and Thailand, with the aim of providing sales support for our products. The services of these subsidiaries include retail lending, leasing to customers and other financial services, such as wholesale financing to dealers.

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The following table sets out Honda's revenue from Financial services business and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2012, 2013 and 2014:

	Fiscal years ended March 31,		
	2012	2013	2014
	Yen (billions)		
Japan	¥ 28.9	¥ 34.2	¥ 40.3
North America	455.5	484.2	610.8
Europe	8.1	7.2	12.6
Asia	2.8	3.1	8.0
Other Regions	20.6	19.5	26.3
Total	¥ 516.1	¥ 548.5	¥ 698.1
Financial Service revenue as a percentage of total sales revenue	7%	5%	6%

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

**Power Product and Other Businesses**

Honda's Power product business began in 1953 with the introduction of the model the *H*, its first general purpose engine. Since then, Honda has manufactured a variety of power products including tillers, portable generators, general-purpose engines, grass cutters, outboard marine engines, water pumps, snow throwers, power carriers, power sprayers, lawn mowers and lawn tractors (riding lawn mowers). In 2003, Honda introduced a compact home-use cogeneration\* unit.

\* Cogeneration: Cogeneration refers to the multiple applications of energy derived from a single source, such as using the heat supplied during the combustion process that drives an engine for other heating or cooling purposes.

The following table sets out Honda's revenue from Power product and other businesses and the breakdown by geographical markets based on the location of the customer during the fiscal years ended March 31, 2012, 2013 and 2014:

	2012		Fiscal years ended March 31, 2013		2014	
	Honda Group Unit Sales / Consolidated Unit Sales*	Revenue Yen	Honda Group Unit Sales / Consolidated Unit Sales*	Revenue Yen	Honda Group Unit Sales / Consolidated Unit Sales*	Revenue Yen
	(thousands)	(billions)	(thousands)	(billions)	(thousands)	(billions)
Japan	392	¥ 86.4	314	¥ 83.1	314	¥ 77.9
North America	2,314	72.1	2,604	84.6	2,718	97.4

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Europe	1,121	55.4	1,004	52.3	1,032	64.2
Asia	1,472	40.0	1,572	36.9	1,500	40.2
Other Regions	520	23.0	577	23.5	472	24.3
Total	5,819	¥ 277.1	6,071	¥ 280.6	6,036	¥ 304.2
Power Product and Other revenue as a percentage of total sales revenue		3%		3%		3%

\* Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates accounted for under the equity method. Consolidated Unit Sales is the total unit sales of

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completed products corresponding to consolidated net sales to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries. In power product business, there is no discrepancy between Honda Group Unit Sales and Consolidated Unit Sales since no affiliate accounted for under the equity method was involved in the sale of Honda power products.

For further information on recent operations and a financial review of the Power product and other businesses, see **Operating Results** in **Item 5. Operating and Financial Review and Prospects**.

## ***Marketing and Distribution***

Most of Honda's products are distributed under the Honda trademarks in Japan and/or in overseas markets.

### **Sales in Japan**

Sales of Honda motorcycles, automobiles, and power products in Japan are made through different distribution networks. Honda's products are sold to consumers primarily by independent retail dealers throughout Japan.

Motorcycles are distributed through approximately 6,900 outlets, including approximately 600 **PRO S** shops and approximately 110 Honda Dream authorized dealerships.

As for the automobile distribution network, at present, approximately 740 retail dealers operate approximately 2,200 shops and sell models including the *Accord*, *Accord Hybrid*, *Accord Plug-in Hybrid*, *Accord Tourer*, *CR-Z*, *Fit*, *Fit Hybrid*, *Fit Shuttle*, *Fit Shuttle Hybrid*, *FREED*, *FREED Hybrid*, *FREED SPIKE*, *FREED SPIKE Hybrid*, *Insight*, *Stream*, *CR-V*, *Elysion*, *Odyssey*, *Step WGN*, *VEZEL*, *VEZEL Hybrid*, *Acty*, *Life*, *N-Box*, *N-Box +*, *N-ONE*, *N-WGN*, and *Vamos*.

Power products are distributed in Japan to approximately 1,110 retail dealers throughout Japan, including affiliates of Honda. A number of small engines are also sold to other manufacturers for use in their products.

### **Service and Parts Related Operations in Japan**

Sales of spare parts and after sales services are mainly provided through retail dealers. Training programs on automobile service technicians are provided for dealers regularly by Honda's Automobile Sales Operations (Japan).

### **Overseas Sales**

In fiscal 2014, approximately 97% of Honda's overseas sales were made through its principal foreign sales subsidiaries, which distribute Honda's products to local wholesalers and retail dealers.

In the United States, Honda markets its products through a sales network of approximately 1,040 independent local dealers for motorcycles, approximately 1,310 for automobiles and approximately 8,000 for power products. Many of the motorcycle dealers and some of the automobile dealers also sell Honda's power products. In 1986, Honda opened the first Acura automobile dealerships in the United States. The Acura network in the United States totaled 274 dealerships at the end of fiscal 2014. The Acura network offers *ILX*, *MDX*, *RDX*, *RLX*, *TL* and *TSX* models.

With regard to exports from North America, Honda is currently exporting such North American-built models as the *Accord*, *Civic*, *CR-V*, *Crosstour*, *Odyssey*, *Pilot*, *Ridgeline*, *Acura ILX*, *Acura MDX*, *Acura RDX* and *Acura TL* to other markets. In fiscal 2014, Honda exported approximately 94,600 units from North America to 54 countries throughout the world.

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In Europe, Honda's products are distributed through approximately 1,400 independent local dealers for motorcycles, approximately 1,150 for automobiles and approximately 2,850\* for power products.

\* Total number represents dealers in 12 countries which fall under the management of Honda foreign sales subsidiaries in the region.

In Asia, Honda's products are distributed through approximately 14,070 independent local dealers for motorcycles, approximately 1,580 for automobiles and approximately 3,500\* for power products.

\* Total number represents dealers in six countries where Honda has foreign sales subsidiaries.

The Company exports motorcycle components to 14 countries, including Indonesia, Thailand and Vietnam, where motorcycles are manufactured by its subsidiaries, joint venture firms and licensees. Some of the components used in the production of these vehicles are supplied locally.

The Company exports automobile components to 15 countries, including the United States, China and Canada, where automobiles are manufactured by its subsidiaries, joint venture firms and licensees. Some of the components used in the production of these vehicles are supplied locally.

The Company also exports power product components to six countries, including India, France and China, where power products are manufactured by its subsidiaries, joint venture firms and licensees. Some of the components used in the production of these products are supplied locally.

## **Service and Parts Related Operations Overseas**

Honda provides its overseas operations, joint venture firms, independent distributors and licensees with spare parts and necessary technical information, which they in turn supply to wholesale or retail dealers, either directly or through one or more spare parts distributors.

## ***Components and Parts, Raw Materials and Sources of Supply***

Honda manufactures the major components and parts used in its products, including engines, frames and transmissions. Other components and parts, such as shock absorbers, electrical equipment and tires, are purchased from numerous suppliers. The principal raw materials used by Honda are steel plate, aluminum, special steels, steel tubes, paints, plastics and zinc, which are purchased from several suppliers. The most important raw material purchased is steel plate, accounting for approximately 42% of Honda's total purchases of raw materials.

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No single supplier accounted for more than 5% of the Company's purchases of major components and parts and principal raw materials during the fiscal year ended March 31, 2014.

Ordinarily, Honda does not have and does not anticipate having any difficulty in obtaining its required materials from suppliers and considers its contracts and business relations with the suppliers to be satisfactory. The Company does not believe any of its Japanese domestic suppliers are substantially more dependent on foreign suppliers than Japanese suppliers generally. However, it should be noted that Japanese industry in general is heavily dependent on foreign suppliers for substantially all of its raw materials.

### *Seasonality*

Honda's Motorcycle and Power product businesses have historically experienced some seasonality. However, this seasonality has not generally been material to our financial results.

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### ***Environmental and Safety Regulation***

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

### **Outline of Environmental and Safety Regulation for Automobiles**

#### **1. Emissions**

##### **Japan**

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

In 2010, the Central Environmental Council in the Ministry of Environment reviewed the current JC08 mode for emission testing and began to consider the introduction of the Worldwide harmonized Light vehicle Test Procedure (WLTP).

##### **The United States**

Increasingly stringent emission regulations under the Clean Air Act have been enacted since the 1990s by the U.S. federal government.

Under the Clean Air Act, the State of California is permitted to establish its own emission control standards to the extent they are more stringent than federal standards. Pursuant to this authority, the California Air Resources Board (CARB) adopted the California Low Emission Vehicle Program in 1990, aiming to establish the strictest emission regulation in the world.

In March 2009, the CARB finalized the Zero Emission Vehicle (ZEV) regulation to require 7,500 Fuel Cell Vehicles (FCV) in the entire industry instead of the previous requirement of 2,500 FCV. In addition, manufacturers were required to sell a significant number of Enhanced Advanced Technology Partial Zero Emission Vehicles (Enhanced AT-PZEV) in the market after the 2012 model year.

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

In March 2014, the Environmental Protection Agency (EPA) finalized Tier 3 regulation, the federal emission and fuel standards. Tier 3 requires gasoline fuels at pump to have an average sulfur content of 10 parts-per-million, which is already implemented in Europe and Japan. It also sets exhaust and evaporative emission standards equivalent to California LEV III. In other words, it enables auto manufacturers to sell some of the same vehicles they sell in California in states that have not adopted LEV III.

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### **Europe**

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

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

Euro 6 will be implemented from September 2014. Emission limits for diesel vehicles will be lowered even more than the Euro 5 levels for HC and NOx. Additionally, Euro 6 will require limits on particle numbers from gasoline vehicles with direct injection engines.

### **Russia**

The Euro 4 regulation has been in effect from January 2010. Additionally, the Euro 5 regulation was implemented in January 2014.

### **China**

China adopted Step 3 and Step 4 emission regulations for light-duty vehicles in 2005. These regulations are similar to European regulations (such as Euro 3 and Euro 4). Step 3 was implemented in 2007 and Step 4 was implemented in July 2010. In addition, China has promulgated rules to implement Step 5 emission regulations in 2018, based on Euro 5.

In the city of Beijing, Step 4 was implemented in March 2008 and Step 5 was implemented in February 2013. In addition, the city of Beijing is considering the introduction of Step 6 emission regulations in 2016.

### **Other Regions**

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

Australia implemented Euro 4-equivalent regulations in July 2008. In addition, Australia introduced Euro 5-equivalent regulations from November 2013.

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

### **Japan**

In 2005, discussions about the POST-2010 standard took place among the applicable ministries and industries. In February 2007, the final POST-2010 target, or the 2015 standard, was announced. Fuel consumption will be reduced by 29.2% compared to the 2010 target for passenger cars.

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

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Fuel specifications for E10 fuel, which is gasoline blended with 10% ethanol, were revised and included in the April 2012 announcement setting forth the details of safety standards under the Road Transport Vehicle Law. Ethanol blended fuel is a biomass fuel. Biomass fuel is regarded as an effective countermeasure for CO<sub>2</sub> reduction. CO<sub>2</sub> emissions after burning ethanol fuel produced with biomass resources (such as plants or wood) are not counted as CO<sub>2</sub> emissions under the Kyoto Protocol.

## **The United States**

The Federal Motor Vehicle Information and Cost Savings Act requires automobile manufacturers to comply with the CAFE standards. Under the CAFE standards, manufacturers are subject to substantial penalties if automobiles produced by them in any model year do not meet the average standards for each category.

In March 2009, the National Highway Traffic Safety Administration (NHTSA) issued the CAFE regulation standard for passenger cars and light trucks for the 2011 model year. The CAFE standard calculation of passenger cars and light trucks for the 2011 model year use a footprint prescribed in the CAFE regulation issued in 2006. The industry-wide combined average for the 2011 model year was estimated to be 27.3 mpg.

The EPA and the NHTSA jointly finalized the U.S. federal Green House Gas (GHG) regulation from the 2012 model year in accordance with President Obama's announcement. The standard for the 2016 model year is 250 g-CO<sub>2</sub>/mile, or 35.5 mpg over the industry average. In addition, a manufacturer is also deemed to comply with CARB GHG regulation if the manufacturer complies with EPA-GHG, based on an agreement among the White House, the CARB and the industry.

In March 2008, the EPA denied California's GHG regulation waiver request. On January 26, 2009, President Obama announced that he had directed the EPA to review California's waiver request. The EPA approved the waiver on July 8, 2009 because the CARB promised that a manufacturer was also deemed to comply with CARB GHG regulation if the manufacturer complied with EPA-GHG from the 2012 through 2016 model years.

On May 21, 2010, President Obama ordered the NHTSA and the EPA to extend the National Program for cars and light-duty trucks to the 2017 model year and beyond with the support of the CARB. On October 1, 2010, the NHTSA, the EPA, and the CARB gave the notice of their intent to conduct joint rulemaking to establish 2017 and later model year fuel economy and greenhouse gas standards. The NHTSA and EPA issued a regulation on August 2012 regarding GHG / CAFE regulations from the 2017 through 2025 model years. The standard for the 2025 model year is 163 g-CO<sub>2</sub>/mile or 54.4 mpg over the industry average. The CARB also issued a regulation that is almost equivalent to the EPA's GHG regulations on August 2012. On December 2012, the CARB amended its GHG regulation so that a manufacturer is also deemed to comply with CARB GHG regulations if it complies with EPA-GHG from the 2017 through 2025 model years.

## **Europe**

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

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

In 2014, a new regulation was issued, requiring more stringent regulation that targets 95 g/km of CO<sub>2</sub> for 2020.

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### **China**

China adopted a fuel consumption regulation for passenger vehicles in 2004. Step 1 of this regulation was implemented in 2005 and Step 2 was implemented in 2008. Step 3 was implemented in 2012. It will be a Corporate Average Fuel Consumption regulation from Step 3. In addition, China is considering the introduction of Step 4 in 2016.

### **Other Regions**

India has promulgated rules to introduce fuel economy / CO<sub>2</sub> regulations in 2015 and 2020 in a phased manner.

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

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

Mexico finalized rules in June 2013 to introduce fuel economy / CO<sub>2</sub> regulations for the 2014 through 2016 model years.

## **3. Recycling / End-of-Life Vehicles (ELV) / REACH**

### **Japan**

Japan enacted the Automobile Recycling Law in July 2002, which required manufacturers to take back air bags, fluorocarbon and shredder residue derived from end-of-life vehicles (ELV), which became effective on January 1, 2005. ELV processing costs are collected from owners of cars currently in use and purchasers of new cars.

### **Europe**

On December 30, 2006, the European Union adopted the Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), which became effective on June 1, 2007. From June 1, 2008, any manufacturer or importer of chemical substances is required to submit a registration to the European Chemicals Agency, based on annual production or import quantity levels. Submitting a pre-registration between June 1 and December 1, 2008 will allow the manufacturer or importer to extend the deadline for submitting the registration for existing chemical substances. The list of Substances of Very High Concern (SVHC) is amended periodically to include new substances. Currently, 73 substances are in the SVHC list. Upon a request by a consumer, a supplier of a product containing SVHC must provide the consumer with sufficient information, including at least the name of the substance, within 45 days.

On February 18, 2011, the first set of substances which require authorization for use after specified dates were announced. Manufacturers using these substances in Europe must either be authorized for use after submitting an application or use substitute substances. Substances which require authorization will be added periodically. Currently, 14 substances require authorization.

#### **Other Regions**

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

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### **4. Safety**

#### **Japan**

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

Japan Automobile Standards Internationalization Center (JASIC), which is organized by the MLIT and Japan Automobile Manufacturers Association (JAMA), among others, has started to review a proposal for the unification of Safety/Environment Standards, vehicle categories and certification in order to promote further internationalization of standards and certifications. JASIC made the proposal to other contracting parties of the 58 / 98 Agreement in 2009 and aims at reaching an agreement among the contracting parties by 2015.

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

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

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

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

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

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

#### **The United States**

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In June 2008, the NHTSA issued a final rule to revise some performance requirements and phase-in compliance schedules in upgraded side impact occupant protection standards. For both the moving deformable barrier test and the oblique side pole impact test, manufacturers must comply with the revised requirements for 20% of all vehicles produced by 2010, 40% by 2011, 60% by 2012, 80% by 2013 and 100% by 2014.

In May 2009, the NHTSA issued a final rule to upgrade the vehicle roof crush standard. The rule newly introduces the Two-sided Roof Test, which imposes strength tests for both sides of the vehicle roof and increases the maximum applied load. For vehicles with a gross vehicle weight rating (GVWR) of 2,722 kg or less, manufacturers must comply with the upgraded requirements for 25% of all vehicles produced by 2012, 50% by 2013, 75% by 2014, and 100% by 2015. For heavier vehicles, manufacturers must comply with the standards on and after September 2016.

In January 2011, the NHTSA issued a final rule to prevent the ejection of occupants in rollover accidents. The rule requires ejection mitigation countermeasure (e.g. advanced glazing or head protection side airbag) equipment which meet with performance requirements. Manufacturers must comply with the new requirements for 25% of all vehicles produced by 2013, 50% by 2014, 75% by 2015, 100% (with carryover credit) by 2016, and all vehicles by 2017.

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In February 2012, the NHTSA issued a proposed Driver Distraction Guideline. The purpose of the guideline is to reduce the number of crashes and resulting deaths and injuries that occur due to distracted driving while performing non-driving activities with integrated in-vehicle electronic devices. Compliance with this guideline is voluntary, but the NHTSA believes that manufacturers will take the initiative to implement these guidelines in an effort to improve safety.

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

In December 2012, the NHTSA issued a proposed regulation that mandates installation of an event data recorder (EDR) in vehicles. The purpose of this regulation is to allow for effective collision research as well as to share important data for the performance analysis of safety devices (e.g. advanced restraint devices) through the mandatory installation of EDRs. On or after September 2014, the NHTSA plans to require manufacturers to install EDRs which comply with specified performance requirements.

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

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

## **Europe**

The European Commission issued a new regulation for type approval requirements for the General Safety Regulation (GSR). It includes an installation requirement for the advanced safety system (Electronic Stability Control System (ESC) and Tire Pressure Monitoring Systems (TPMS)) and a tire performance requirement in order to improve the safety and environmental performance of vehicles.

In February 2011, the United Nations issued a revised ECE regulation relating to the installation of lighting devices, requiring automatic switching of dipped-beam headlamps. For M1 and N1 vehicles, the dipped-beam headlamps shall be switched on and off automatically relative to the ambient light conditions, if a vehicle is equipped with daytime running lamps on and after January 30, 2015.

Legislation regarding a new system called eCall is under consideration in the EU and the Customs Union, which is organized by Russia, Kazakhstan and Belarus. eCall is a system that can automatically transmit vehicle status (e.g., Supplemental Restraint System (SRS) deployment, location, direction and other information) to conventional infrastructures simultaneously with voice messages when accidents occur. Some relevant draft standards have been published in the EU. The effective date of the EU eCall for new vehicles is scheduled for the end

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of the first quarter in 2015. On the other hand, final standards were published in the Customs Union. The effective date of eCall for the Customs Union (ERA-GLONASS) is on and after January 1, 2015 for new vehicle types.

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### **5. New Car Assessment Program (NCAP)**

Programs that provide customers with assessments of car safety functions and promote the development of car safety by automobile manufacturers are conducted in countries such as the United States, Japan, Australia, the EU, Korea, China and Malaysia. The principal items assessed in these programs are passenger protection and braking power, which are typically assessed with stricter standards or criteria than those required by statute.

### **Outline of Environmental and Safety Regulation for Motorcycles**

#### **1. Emissions**

##### **Japan**

Japan has emissions regulations for motorcycles applicable to all classes of engine displacement. Some aspects of these requirements, such as standards for hydro-carbon levels and durability, are stricter than the current European regulations, namely the Euro 3 regulations.

Japan is planning to implement Phase 3 emission requirements by the end of 2016, which may involve consideration of simultaneous application of the fuel evaporative gas regulation as well as mandatory installation of the On-Board Diagnostics (OBD) system.

##### **The United States**

Emissions regulations regarding off-road motorcycles and ATVs were introduced in 2006. In addition, the EPA adopted the current California emissions standards regarding on-road motorcycles on a national basis, two years behind the schedule of California. The EPA regulations include fuel permeation requirements rather than traditional evaporative emission standards. California is considering new evaporative emission standards.

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

##### **Europe**

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

### **Other Regions**

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

Japan, China, Korea, and India are considering new exhaust emission standards based on the next European WVTA.

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

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### **2. Recycling / REACH**

#### **Europe**

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

#### **Other Regions**

Vietnam and India each have a plan to implement motorcycle recycling laws in the near future.

### **3. Safety**

#### **Japan**

In November 2007, the MLIT issued safety standards which are applicable from July 1, 2012, for vehicles which use high voltage electric power such as electric vehicles or hybrid electric vehicles, to avoid electric shocks during normal operations and accidents. Further, in 2011, it adopted ECE R100, which was amended to incorporate the Japanese electrical safety standard.

The Japan Automobile Standards Internationalization Center (JASIC), which is organized by the MLIT and JAMA, among others, has started to review a proposal for the unification of Safety/Environment Standards, vehicle categories and certification in order to promote further internationalization of standards and certifications. JASIC made the proposal to other contracting parties of the 58 / 98 Agreement in 2009 and aims to reach an agreement among the contracting parties by 2015.

In February 2013, the MLIT established a homologation system for ultra-compact mobility vehicles. These are vehicles which are easy to maneuver in a small space compared to automobiles, have superior environmental performance and can be utilized as a means of simple mobility for 1 or 2 passengers in a regional area. The system permits ultra-compact mobility vehicles to be run on public roads by adding features pertaining to such vehicles and relaxing certain standards without degrading the safety or environmental performances of the vehicles.

Japan has implemented the EMC requirement (UNECE R10) as of August 1, 2011. The amended version (R10.04) will become applicable to new type vehicles from August 1, 2016 and to all vehicles from October 28, 2016.

Japan is also planning to adopt requirements for lighting devices (UN ECE R50) and symmetry front beams (UNECE R113) in 2014, and control/tell-tales (UNECE R60) in 2017.

## **The United States**

The NHTSA adopted the global technical regulation for braking systems (GTR 3) into the federal standard (FMVSS 122) as part of standard harmonization activities. The new standard will be applicable to the vehicles produced on and after September 1, 2014.

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

## **Europe**

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

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The EU Commission finalized Delegated Regulations concerning environmental and propulsion unit performance (EU Regulation No. 134/2014), vehicle functional safety (EU Regulation No. 3/2014), vehicle construction and general requirements (EU Regulation No. 44/2014). The Implementing Regulation is expected to be published by July 2014 and the new regulations establishing the new EU WVTA system will be completed afterwards.

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

## **Other regions**

The Brazilian government issued a new regulation regarding anti-theft devices, which requires installations of an immobilizer and a vehicle tracking system on vehicles and motorcycles sold or registered from August 1, 2009. However, this regulation has not been implemented yet because the Prosecutors Office claimed it was unconstitutional and asked the courts to overturn it. Several amendments are scheduled to go into effect on the effective date (currently set for September 2014) in accordance with the phase-in application schedule, but the date of the actual implementation of this regulation is still unclear because of a court decision holding this regulation to be unconstitutional. Brazil is also considering issuing a new standard concerning motorcycle braking based on the UN ECE Brake regulation (R78.03) as well as a new regulation mandating ABS/CBS installation.

The Gulf Cooperation Council (GCC) is considering introducing a motorcycle certification system which is scheduled to become effective as of July 2014. The GCC Standardization Organization (GSO) is currently discussing the applicable requirements and test methods.

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

## **Outline of Environmental and Safety Regulation for Power Products**

### **1. Emissions**

#### **The United States**

The EPA introduced more stringent exhaust standards and new evaporative emission standards for fuel tanks and fuel lines used in small non-road engines. The regulations applied starting in the 2011 model year for Class II engines (above 225 cc), in the 2012 model year for Class I engines (less than 225 cc and used in non-handheld applications) and generally in 2010 for handheld products. The EPA also adopted a more stringent level of emission standards for outboard and personal watercraft engines starting with the 2010 model year. This new regulation includes standards to control evaporative emissions for all vessels using marine spark-ignition engines.

**Canada**

The Canadian federal government has introduced emissions regulations generally equivalent to the U.S. EPA regulations for outboard and personal watercraft engines from the 2012 model year. These new regulations include controls for evaporative emissions from the 2015 model year.

**China**

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

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### **Europe**

European Committee started to consider the stage 3 regulation. Its requirement will follow U.S. EPA phase 3 and the effective date will be 2019 or 2020.

### **Japan**

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

### **India**

The Ministry of Environment issued a revised regulation for emission/noise standards applicable to gasoline/kerosene engine generators. The exhaust emission limits are very stringent. In particular, the CO level limit is less than half the limit allowed by U.S. EPA Phase 3. The effective date is June 2015.

## **2. Recycling /RoHS / WEEE / REACH**

### **Europe**

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

### **Other regions**

Turkey and several Asian countries have adopted regulations which are similar to the European regulations (such as RoHS and WEEE).

## **3. Safety**

## **Japan**

The Institute of Agricultural Machinery amended the safety standard of backward speed requirements for walk-behind equipment from 3.6 km/h to 1.8 km/h, and the interpretation of splash protection guard requirements for brush cutters. New models have had to comply with the standard from April 2010 and all models will need to comply with it from April 2015.

## **The United States**

Based on the Consumer Product Safety Improvement Act of 2008, walk-behind lawn mowers have had to comply with certificate requirements from November 11, 2008. The CPSC has enhanced the recall system by this Act.

## **Europe**

The Machinery Directive was changed and a new directive has been effective from December 29, 2009. The main changes were to clarify the scope of the directive (for example, whether it covered partly completed machinery, such as engine units), add a concrete description of market surveys and create an obligation to establish a penalty description for member states.

## **China**

The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) has issued a draft safety regulation for spark-ignition engines including a wide variety of requirements such as machinery safety, thermal protection, electrical safety, and others. It is expected to come into force in 2014.

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### ***Preparing for the Future***

Honda aims to achieve global growth by further encouraging and strengthening innovation and creativity and creating quality products that please the customers and exceed their expectations.

Honda will focus all its energies on the tasks set out below as it pursues the vision toward 2020 of providing good products to customers with speed, affordability, and low CO<sub>2</sub> emissions.

#### **1. Research and Development**

In connection with its efforts to develop the most effective safety and environmental technologies, Honda will continue to be innovative in advanced technology and products. Honda aims to create and introduce new value-added products to quickly respond to specific needs in various markets around the world. Honda will also continue its efforts to conduct research on experimental technologies for the future.

#### **2. Production Efficiency**

Honda will establish and enhance efficient and flexible production systems at its global production bases and supply high quality products, with the aim of meeting the needs of its customers in each region. Learning from the experience of disasters such as the Great East Japan Earthquake and the Thai floods, Honda will work at improving its global supply chain, implementing disaster prevention measures at each place of business and devising more effective business continuity plans (BCPs).

#### **3. Sales Efficiency**

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

#### **4. Product Quality**

In response to increasing customer demand, Honda will upgrade its quality control by enhancing the functions of and coordination among the development, purchasing, production, sales and service departments.

#### **5. Safety Technologies**

Honda is working to develop safety technologies that enhance accident prediction and prevention, technologies to help reduce the risk of injuries to passengers and pedestrians from car accidents, and technologies that enhance compatibility between large and small vehicles, as well as expand its lineup of products incorporating such technologies. Honda will reinforce and continue to advance its contribution to traffic safety in motorized societies in Japan and abroad. Honda also intends to remain active in a variety of traffic safety programs, including advanced driving and motorcycling training programs provided by local dealerships.

## 6. The Environment

Honda will step up its efforts to create better, cleaner and more fuel-efficient engine technologies and to further improve recyclables throughout its product lines. Honda has now set a target to reduce CO<sub>2</sub> emissions from its global products by 30% by the end of 2020 compared to year 2000 levels. In addition to reducing CO<sub>2</sub> emissions during production and supply chain, Honda will strengthen its efforts to realize reductions in CO<sub>2</sub> emissions through its entire corporate activities. Furthermore, Honda will strengthen its efforts in advancing technologies in the area of total energy management, to reduce CO<sub>2</sub> emissions through mobility and people's everyday lives.

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

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

Through these company-wide activities, Honda will strive to be a company that its shareholders, investors, customers and society want to exist.

*C. Organizational Structure*

As of March 31, 2014, the Company had 92 Japanese subsidiaries and 273 overseas subsidiaries. The following table sets out for each of the Company's principal subsidiaries, the country of incorporation, function and percentage ownership and voting interest held by Honda.

Company	Country of Incorporation	Function	Percentage Ownership and Voting Interest
Honda R&D Co., Ltd.	Japan	Research & Development	100.0
Honda Engineering Co., Ltd.	Japan	Manufacturing and Sales of machine tools, equipment and production techniques	100.0
Yachiyo Industry Co., Ltd.	Japan	Manufacturing	50.5
Honda Finance Co., Ltd.	Japan	Finance	100.0
American Honda Motor Co., Inc.	U.S.A.	Sales	100.0
Honda North America, Inc.	U.S.A.	Coordination of Subsidiaries Operation	100.0
Honda of America Mfg., Inc.	U.S.A.	Manufacturing	100.0
American Honda Finance Corporation	U.S.A.	Finance	100.0
Honda Manufacturing of Alabama, LLC	U.S.A.	Manufacturing	100.0
Honda Manufacturing of Indiana, LLC	U.S.A.	Manufacturing	100.0
Honda Transmission Mfg. of America, Inc.	U.S.A.	Manufacturing	100.0
Honda R&D Americas, Inc.	U.S.A.	Research & Development	100.0
Honda Canada Inc.	Canada	Manufacturing and Sales	100.0
Honda Canada Finance Inc.	Canada	Finance	100.0
Honda de Mexico, S.A. de C.V.	Mexico	Manufacturing and Sales	100.0
Honda Motor Europe Limited	U.K.	Coordination of Subsidiaries Operation and Sales	100.0
Honda of the U.K. Manufacturing Ltd.	U.K.	Manufacturing	100.0
Honda Finance Europe plc	U.K.	Finance	100.0
Honda Bank GmbH	Germany	Finance	100.0
Honda Motor (China) Investment Co., Ltd.	China	Coordination of Subsidiaries Operation and Sales	100.0
Honda Auto Parts Manufacturing Co., Ltd.	China	Manufacturing	100.0
Honda Automobile (China) Co., Ltd.	China	Manufacturing	65.0
Honda Motorcycle & Scooter India (Private) Ltd.	India	Manufacturing and Sales	100.0
Honda Cars India Limited	India	Manufacturing and Sales	100.0
P.T. Honda Precision Parts Manufacturing	Indonesia	Manufacturing	100.0

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P.T. Honda Prospect Motor	Indonesia	Manufacturing and Sales	51.0
Honda Taiwan Co., Ltd.	Taiwan	Sales	100.0
Asian Honda Motor Co., Ltd.	Thailand	Coordination of Subsidiaries Operation and Sales	100.0

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<b>Company</b>	<b>Country of Incorporation</b>	<b>Function</b>	<b>Percentage Ownership and Voting Interest</b>
Honda Leasing (Thailand) Co., Ltd.	Thailand	Finance	100.0
Honda Automobile (Thailand) Co., Ltd.	Thailand	Manufacturing and Sales	89.0
Thai Honda Manufacturing Co., Ltd.	Thailand	Manufacturing	60.0
Honda Vietnam Co., Ltd.	Vietnam	Manufacturing and Sales	70.0
Honda Motor de Argentina S.A.	Argentina	Manufacturing and Sales	100.0
Honda South America Ltda.	Brazil	Coordination of Subsidiaries Operation	100.0
Banco Honda S.A.	Brazil	Finance	100.0
Honda Automoveis do Brasil Ltda.	Brazil	Manufacturing and Sales	100.0
Moto Honda da Amazonia Ltda.	Brazil	Manufacturing and Sales	100.0
Honda Turkiye A.S.	Turkey	Manufacturing and Sales	100.0
Honda Australia Pty. Ltd.	Australia	Sales	100.0

*D. Property, Plants and Equipment*

The following table sets out information, as of March 31, 2014, with respect to Honda's principal manufacturing facilities, all of which are owned by Honda:

<b>Location</b>	<b>Number of Employees</b>	<b>Principal Products Manufactured</b>
Sayama, Saitama, Japan	5,049	Automobiles
Hamamatsu, Shizuoka, Japan	2,298	Power products and transmissions
Suzuka, Mie, Japan	6,492	Automobiles
Ohzu-machi, Kikuchi-gun, Kumamoto, Japan	2,600	Motorcycles, all-terrain vehicles, power products and engines
Marysville, Ohio, U.S.A.	5,660	Automobiles
Anna, Ohio, U.S.A.	2,544	Engines
East Liberty, Ohio, U.S.A.	2,201	Automobiles
Lincoln, Alabama, U.S.A.	4,614	Automobiles and engines
Greensburg, Indiana, U.S.A.	2,289	Automobiles
Alliston, Ontario, Canada	4,009	Automobiles and engines
El Salto, Mexico	3,756	Motorcycles and automobiles
Swindon, Wiltshire, U.K.	3,155	Automobiles and engines
Guangzhou, China	845	Automobiles
Gurgaon, India	5,929	Motorcycles
Greater Noida, India	3,200	Automobiles
Karawang, Indonesia	2,048	Automobiles and engines
Ayutthaya, Thailand	3,975	Automobiles
Bangkok, Thailand	3,524	Motorcycles and power products
Phuc Yen, Vietnam	4,127	Motorcycles and automobiles
Buenos Aires, Argentina	1,350	Motorcycles and automobiles
Sumare, Brazil	3,454	Automobiles
Manaus, Brazil	7,957	Motorcycles and power products
Gebze, Turkey	747	Automobiles

In addition to its manufacturing facilities, the Company's properties in Japan include sales offices and other sales facilities in major cities, repair service facilities, and R&D facilities.

As of March 31, 2014, the Company's property, with a net book value of approximately ¥58.5 billion, was subject to specific mortgages securing indebtedness.

**Table of Contents*****Capital Expenditures***

Capital expenditures in fiscal 2014 were applied to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities.

Total capital expenditures for the year amounted to ¥1,854.0 billion, increased by ¥467.2 billion from the previous year. Also, total capital expenditures, excluding property on operating leases, for the year amounted to ¥726.1 billion, increased by ¥132.5 billion from the previous year. Spending by business segment is shown below.

	Fiscal years ended March 31,		
	2013	2014 Yen (millions)	Increase (Decrease)
Motorcycle Business	¥ 73,513	¥ 55,575	¥ (17,938)
Automobile Business	505,045	656,412	151,367
Financial Services Business	793,669	1,128,460	334,791
Financial Services Business (Excluding Property on Operating Leases)	551	620	69
Power Product and Other Businesses	14,519	13,580	(939)
Total	¥ 1,386,746	¥ 1,854,027	¥ 467,281
Total (Excluding Property on Operating Leases)	¥ 593,628	¥ 726,187	¥ 132,559

Intangible assets are not included in the table above.

In Motorcycle business, we made capital expenditures of ¥55,575 million in the fiscal year ended March 31, 2014. Funds were allocated to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities.

In Automobile business, we made capital expenditures of ¥656,412 million in the fiscal year ended March 31, 2014. Funds were allocated to the introduction of new models, as well as the improvement, streamlining and modernization of production facilities, and improvement of sales and R&D facilities. A new auto plant in Yorii-machi, Osato-gun, Saitama, Japan completed construction of its facilities for production in July 2013. A second auto plant of Honda De Mexico, S.A. de C.V., which is one of the Company's consolidated subsidiaries, completed construction of facilities for production in February 2014. A second auto plant of Honda Cars India Limited, which is one of the Company's consolidated subsidiaries, completed construction of facilities for production in February 2014.

In Financial services business, capital expenditures excluding property on operating leases amounted to ¥620 million in the fiscal year ended March 31, 2014, while capital expenditures for property on operating leases were ¥1,127,840 million. Capital expenditures in Power products and other businesses in the fiscal year ended March 31, 2014, totaling ¥13,580 million, were deployed to upgrade, streamline, and modernize manufacturing facilities for power products, and to improve R&D facilities for power products.

***Plans after fiscal 2014***

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During the fiscal year ended March 31, 2014, we modified our capital expenditure plans which were originally set out in the prior fiscal year. The modified plans are as follows:

The scale of a test course in a new R&D facility, which is under construction in Sakura-shi, Tochigi, Japan, has been changed. Also, a mega-solar power plant will be built on its property.

Managements mainly consider economic trends of each region, demand trends, situation of competitors and our business strategy such as introduction plans of new models in determining the future of projects.

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The estimated amounts of capital expenditures for fiscal year ending March 31, 2015 are shown below.

	<b>Fiscal year ending March 31, 2015 Yen (millions)</b>
Motorcycle Business	¥ 77,400
Automobile Business	559,900
Financial Services Business	900
Power Product and Other Businesses	11,800
<b>Total</b>	<b>¥ 650,000</b>

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

Intangible assets are not included in the table above.

***Item 4A. Unresolved Staff Comments***

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

***Item 5. Operating and Financial Review and Prospects******A. Operating Results******Overview*****Business Environment**

Economic conditions in the U.S. continued to improve during the fiscal year ended March 31, 2014. This recovery in the U.S. was underscored by the job market improving, personal consumption increasing gradually, and strong housing investment. Economic conditions in Europe began showing signs of a recovery, despite negative GDP growth, high unemployment rates and other lingering weaknesses in the economy. As for conditions in Asia, the economy continued to expand in China, while the pace of economic expansion slowed in Thailand and became more gradual in India and Indonesia. Meanwhile, the Japanese economy recovered gradually owing, among other positive developments, to the employment situation improving and personal consumption expanding.

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

### **Overview of Fiscal Year 2014 Operating Performance**

Honda's consolidated net sales and operating revenues for the fiscal year ended March 31, 2014, increased from the fiscal year ended March 31, 2013, due mainly to increased net sales in Automobile business and Motorcycle business operations as well as favorable foreign currency translation effects. Operating income increased from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and model mix as well as favorable foreign currency translation effects, which was partially offset by increased selling, general and administrative expenses, in addition to increased research and development expenses.

### **Motorcycle Business**

Honda's consolidated unit sales of motorcycles totaled 10,343 thousand units in fiscal year 2014, an increase of 8.8% from the previous fiscal year, mainly due to the introduction of new models in India, among other countries.

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### **Automobile Business**

Honda's consolidated unit sales of automobiles totaled 3,560 thousand units in fiscal year 2014, an increase of 4.5% from the previous fiscal year. This growth was supported mainly by an increase in sales in Japan and North America as a result of new model introductions and full model changes.

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

Honda's consolidated unit sales of power products totaled 6,036 thousand units in fiscal year 2014, a decrease of 0.6% from the previous fiscal year. This minor setback was the result of diminishing sales in Asia and Other Regions which offset an increase in sales - mainly in North America.

### ***Fiscal Year 2014 Compared with Fiscal Year 2013***

### **Net Sales and Other Operating Revenue**

Honda's consolidated net sales and other operating revenue (hereafter, "net sales") for the fiscal year ended March 31, 2014, increased by ¥1,964.5 billion, or 19.9%, to ¥11,842.4 billion from the fiscal year ended March 31, 2013, due mainly to increased net sales in Automobile business and Motorcycle business operations as well as positive foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have increased by approximately ¥458.4 billion, or 4.6%, compared to the increase as reported of ¥1,964.5 billion, which includes positive foreign currency translation effects.

### **Operating Costs and Expenses**

Operating costs and expenses increased by ¥1,759.0 billion, or 18.8%, to ¥11,092.1 billion from the previous fiscal year. Cost of sales increased by ¥1,415.9 billion, or 19.3%, to ¥8,761.0 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased consolidated unit sales in Automobile business and Motorcycle business, and negative foreign currency effects. Selling, general and administrative expenses increased by ¥269.2 billion, or 18.9%, to ¥1,696.9 billion from the previous fiscal year, due mainly to increased product warranty expenses and increase in selling expenses attributable to increased consolidated unit sales in Automobile business and Motorcycle business. R&D expenses increased by ¥73.8 billion, or 13.2%, to ¥634.1 billion from the previous fiscal year, due mainly to improving safety and environmental technologies and enhancing of the attractiveness of the products.

### **Operating Income**

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Operating income increased by ¥205.4 billion, or 37.7%, to ¥750.2 billion from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and positive foreign currency effects, which was partially offset by increased selling, general and administrative expenses and increased R&D expenses. Excluding positive foreign currency effects of ¥288.7 billion, Honda estimates operating income decreased by ¥83.2 billion.

With respect to the discussion above of the changes, management identified factors and used what it believes to be a reasonable method to analyze the respective changes in such factors. Management analyzed changes in these factors at the levels of the Company and its material consolidated subsidiaries. Foreign currency effects consist of translation adjustments, which come from the translation of the currency of foreign subsidiaries financial statements into Japanese yen, and foreign currency adjustments, which result from foreign-currency-denominated sales. With respect to foreign currency adjustments, management analyzed foreign currency adjustments primarily related to the following currencies: U.S. dollar, Euro, Japanese yen and others at the level of the Company and its material consolidated subsidiaries.

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### **Income before Income Taxes and Equity in Income of Affiliates**

Income before income taxes and equity in income of affiliates increased by ¥240.0 billion, or 49.1%, to ¥728.9 billion. The main factors behind this increase, except factors relating operating income, are as follows:

Unrealized gains and losses related to derivative instruments had a positive impact of ¥74.4 billion. Other income (expenses) excluding unrealized gains and losses related to derivative instruments had a negative impact of ¥39.8 billion, due mainly to an increase in foreign currency transaction losses.

### **Income Tax Expense**

Income tax expense increased by ¥73.6 billion, or 41.2%, to ¥252.6 billion from the previous fiscal year. The effective tax rate decreased 1.9 percentage points to 34.7% from the previous fiscal year. The decrease in the effective tax rate was due mainly to a decrease in a portion of unrecognized tax benefits related to transfer pricing matters of overseas transactions between the Company and foreign affiliates.

### **Equity in Income of Affiliates**

Equity in income of affiliates increased by ¥49.7 billion, or 60.1%, to ¥132.4 billion, due mainly to an increase in income attributable to increased net sales at affiliates in Asia and a recognition of impairment loss on certain investments in affiliates, which was included in the previous fiscal year.

### **Net Income**

Net income increased by ¥216.1 billion, or 55.0%, to ¥608.7 billion from the previous fiscal year.

### **Net Income attributable to Noncontrolling Interests**

Net income attributable to noncontrolling interests increased by ¥9.1 billion, or 35.9%, to ¥34.6 billion from the previous fiscal year.

### **Net Income attributable to Honda Motor Co., Ltd.**

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Net income attributable to Honda Motor Co., Ltd. increased by ¥206.9 billion, or 56.4%, to ¥574.1 billion from the previous fiscal year.

### Business Segments

#### Motorcycle Business

Honda's consolidated unit sales of motorcycles and all-terrain vehicles (ATVs) totaled 10,343 thousand units, increased by 8.8% from the previous fiscal year, due mainly to an increase in consolidated unit sales in Asia.

Revenue from external customers increased by ¥324.0 billion, or 24.2%, to ¥1,663.6 billion from the previous fiscal year, due mainly to increased consolidated unit sales and positive foreign currency translation effects. The impact of price changes was immaterial. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have increased by approximately ¥124.9 billion, or 9.3%, compared to the increase as reported of ¥324.0 billion, which includes positive foreign currency translation effects.

Operating costs and expenses increased by ¥268.7 billion, or 21.9%, to ¥1,498.0 billion from the previous fiscal year. Cost of sales increased by ¥218.5 billion, or 22.7%, to ¥1,181.5 billion, due mainly to an increase in costs attributable to increased consolidated unit sales and negative foreign currency effects. Selling, general and administrative expenses increased by ¥43.5 billion, or 21.8%, to ¥243.3 billion, due mainly to an increase in selling expenses attributable to increased consolidated unit sales and negative foreign currency effects. R&D expenses increased by ¥6.6 billion, or 10.0%, to ¥73.0 billion.

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Operating income increased by ¥55.3 billion, or 50.2%, to ¥165.6 billion from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and positive foreign currency effects, which was partially offset by increased selling, general and administrative expenses and increased R&D expenses.

### ***Japan***

Total industry demand for motorcycles in Japan\* was approximately 470 thousand units in fiscal year 2014, an increase of roughly 7% from the previous fiscal year. This was attributable to an increase in sales of scooters and small to lightweight motorcycles, with engines ranging from 50cc to 250cc, due mainly to a spike in demand ahead of an increase in Japan's consumption tax rate.

Honda's consolidated unit sales in Japan were 226 thousand units in fiscal year 2014, up 4.1% from the previous fiscal year, owing to the launch of models such as the *DUNK* 50cc scooter and the *GROM* sporty motorcycle.

\* Source: JAMA (Japan Automobile Manufacturers Association)

### ***North America***

Total demand for motorcycles and all-terrain vehicles (ATVs) in the United States\*, the principal market within North America, increased approximately 1% from the previous year to approximately 690 thousand units in calendar year 2013. Unit sales growth reflected an improvement in consumer sentiment in line with falling unemployment rates.

Under these circumstances, Honda's consolidated unit sales in North America increased 10.4% from the previous fiscal year to 276 thousand units in fiscal year 2014, mainly due to steady sales of models such as the *CB500* series of middleweight road machines and the *CRF250L* on/off-road model, as well as favorable effects from the introductions of the all new sporty model, *GROM* and full model changes of utility ATVs such as *TRX420* and *TRX500* in the United States.

\* Source: MIC (Motorcycle Industry Council)

### ***Europe***

Total demand for motorcycles in Europe\* declined around 11% from the previous fiscal year, to approximately 690 thousand units in calendar year 2013. Weak consumer sentiment due to continually high unemployment rates adversely affected demand.

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Under these circumstances, Honda's consolidated unit sales in Europe decreased 7.3% from the previous fiscal year to 166 thousand units in fiscal year 2014, mainly reflecting the lackluster market as a whole. This was despite brisk sales of the *CB500* series of middleweight road machines, and a positive impact from the introduction of the sporty *MSX125* model.

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

### *Asia*

Total demand for motorcycles in Asia\* declined around 1% from the previous year to approximately 40,980 thousand units in calendar year 2013.

Looking at market conditions by country, demand in India increased roughly 3% from the previous fiscal year to approximately 14,300 thousand units, while demand in China decreased around 9% from the previous year to approximately 11,510 thousand units. Indonesia saw demand increase around 8% from the previous year to approximately 7,740 thousand units, and Vietnam saw demand decline roughly 13% to approximately 2,700 thousand units. Demand in Thailand declined around 9% to approximately 1,930 thousand units.

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Despite these circumstances, Honda's consolidated unit sales in Asia increased 11.4% from the previous fiscal year to 7,858 thousand units in fiscal year 2014. This was due mainly to brisk sales of the *ACTIVA* scooter and *DREAM Yuga* small motorcycle, as well as the introduction of the *DREAM Neo* small motorcycle, in India.

Honda's consolidated unit sales do not include sales by P.T. Astra Honda Motor in Indonesia, which is an affiliate accounted for under the equity method. P.T. Astra Honda Motor's unit sales for fiscal year 2014 increased around 15% from the previous fiscal year to approximately 4,700 thousand units. This was due mainly to consumer sentiment improving in line with incomes rising in Indonesia.

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

## ***Other Regions***

Total demand for motorcycles in Brazil\*, the principal market within Other Regions, declined roughly 7% from the previous year to approximately 1,510 thousand units in calendar year 2013, mainly due to stricter lending standards for retail loans.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales increased 0.2% from the previous fiscal year to 1,817 thousand units in fiscal year 2014, mainly due to increased sales in South American countries other than Brazil. This, however, was partly offset by a decline in sales of small motorcycles such as the *CG125 Fan* and *CG150 Fan*, due mainly to the negative effects from stricter lending standards for retail loans in Brazil.

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

## **Automobile Business**

Honda's consolidated unit sales of automobiles totaled 3,560 thousand units, increased by 4.5% from the previous fiscal year, due mainly to an increase in consolidated unit sales in Japan and North America.

Revenue from external customers increased by ¥1,467.1 billion, or 19.0%, to ¥9,176.3 billion from the previous fiscal year, due mainly to increased consolidated unit sales and positive foreign currency translation effects. The impact of price changes was immaterial. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have increased by approximately ¥304.4 billion, or 3.9%, compared to the increase as reported of ¥1,467.1 billion, which includes positive foreign currency translation effects. Revenue including intersegment sales increased by ¥1,471.3 billion, or 19.0%, to ¥9,194.9 billion from the previous fiscal year.

Operating costs and expenses increased by ¥1,353.6 billion, or 18.2%, to ¥8,791.2 billion from the previous fiscal year. Cost of sales increased by ¥1,086.8 billion, or 18.5%, to ¥6,955.1 billion, due mainly to an increase in costs attributable to increased consolidated unit sales and

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negative foreign currency effects. Selling, general and administrative expenses increased by ¥199.3 billion, or 18.0%, to ¥1,304.6 billion, due mainly to increased product warranty expenses, an increase in selling expenses attributable to increased consolidated unit sales and negative foreign currency effects. R&D expenses increased by ¥67.3 billion, or 14.5%, to ¥531.4 billion, due mainly to improving safety and environmental technologies and enhancing of the attractiveness of the products.

Operating income increased by ¥117.7 billion, or 41.2%, to ¥403.7 billion from the previous fiscal year, due mainly to continuing cost reduction and positive foreign currency effects, which was partially offset by increased selling, general and administrative expenses and increased R&D expenses.

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Proportion of retail unit sales by vehicle category:

	Fiscal year ended March 31,	
	2013	2014
Passenger cars:	60%	58%
<i>Accord, Accord Hybrid, Accord Plug-in Hybrid, Accord Tourer, Amaze, Brio, Brio Amaze, Brio Satya, City, Civic, Civic Tourer, CRIDER, CR-Z, Fit/Jazz, Fit/Jazz Hybrid, Fit Shuttle, Fit Shuttle Hybrid, FREED, FREED Hybrid, FREED SPIKE, FREED SPIKE Hybrid,</i>		
<i>Honda MOBILIO, Insight, JADE, Spirior, Stream,</i>		
<i>Acura ILX, Acura RLX, Acura TL, Acura TSX</i>		
Light trucks:	31%	32%
<i>Crosstour, CR-V, Elysion, Odyssey, Pilot, Ridgeline, Step WGN, VEZEL, VEZEL Hybrid, Acura MDX, Acura RDX</i>		
Mini vehicles:	9%	10%
<i>Acty, Life, N-Box, N-Box +, N-ONE, N-WGN, Vamos</i>		

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

In general, the contribution margin of the light trucks category tends to be higher relative to the total weighted average contribution margin because the sales price is higher, while the contribution margin of the mini vehicles category tends to be relatively lower because the sales price is lower, although the level of contribution margin varies from model to model. For example, in Japan and the United States, which are the main sales markets for our automobiles, the contribution margin of our light trucks category was approximately 40% higher, our passenger cars category was approximately 10% lower and our mini vehicles category was approximately 40% lower than total weighted average contribution margin for the fiscal year ended March 31, 2014. It should be noted that we define contribution margin as an amount per unit of net sales minus material cost, which is thought to increase in almost direct proportion to net sales volume.

**Japan**

Total demand for automobiles in Japan<sup>\*1</sup> rose around 9% from the previous fiscal year to approximately 5,690 thousand units in fiscal year 2014. This was mainly due to sales receiving a boost in the second half of the fiscal year from a last-minute rise in demand before an increase in Japan's consumption tax rate. Gains were offset in part by a backlash from the termination of eco-car subsidies.

Honda's consolidated unit sales in Japan rose 18.5% from the previous fiscal year to 812 thousand units<sup>\*2</sup>. This result was attributable to the introduction of the *N-WGN* and *VEZEL* and full model changes of the *Fit* and *Odyssey*.

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In production activities, Honda's unit production of automobiles increased 6.9% from the previous fiscal year to 936 thousand units in fiscal year 2014, mainly due to higher sales in Japan, despite the shift of some production overseas.

The Saitama Factory's Yorii automobile plant, which had been under construction in Yorii-machi, Osato-gun, Saitama, began operation in July 2013. The manufacturing capacity of the Yorii Plant, which mainly produces the *Fit* and *VEZEL*, is 250 thousand units per year.

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

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<sup>\*2</sup>: Certain sales of automobiles that are financed with residual value-type auto loans by our Japanese finance subsidiaries are accounted for as operating leases in conformity with U.S. generally accepted accounting principles and are not included in consolidated net sales to the external customers in our automobile business. As a result, they are not included in consolidated unit sales.

### ***North America***

Total industry demand for automobiles in the United States<sup>\*</sup>, the principal market within North America, rose around 8% from the previous year to approximately 15,600 thousand units in calendar year 2013. This was mainly attributable to improvements in employment conditions and upswings in consumer sentiment that led to a substantial increase in light truck sales and also a rise in small passenger car sales.

Under these circumstances, Honda's consolidated unit sales in North America increased 1.5% from the previous fiscal year to 1,757 thousand units in fiscal year 2014. This was mainly due to strong sales of the *Accord*, *Civic*, *CR-V* and other models, as well as a full model change of the *ACURA MDX*.

In production activities, Honda manufactured 1,777 thousand units, up 5.3% from the previous fiscal year.

Honda de Mexico, S.A. de C.V., a consolidated subsidiary in Mexico, built a new plant with an annual production capacity of 200 thousand units in order to meet expected market expansion for small cars in North America. This new plant went into operation in February 2014.

\* Source: WardsAuto

### ***Europe***

Total demand for automobiles in Europe<sup>\*1</sup> decreased roughly 2% from the previous year to approximately 12,300 thousand units in calendar year 2013. The market diminished as a whole due mainly to unemployment rates remaining high and the weakness of the real economy in the eurozone, excluding the U.K. The market's decline was offset in part by an economic recovery in the U.K., resulting in a pocket of growth in demand for automobiles. On the other hand, total demand for automobiles in Russia<sup>\*2</sup> decreased around 5% from the previous year to approximately 2,770 thousand units.

Honda's consolidated unit sales in Europe decreased 1.2% from the previous year to 169 thousand units in fiscal year 2014. This was mainly due to a decline in unit sales of the *Civic* which offset sales generated by the launch of a new diesel engine equipped *CR-V*.

On the production front, unit output at Honda's U.K. plant declined 21.6% from the previous fiscal year to 133 thousand units in fiscal year 2014.

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\*1: Source: ACEA (Association des Constructeurs Européens d'Automobiles (the European Automobile Manufacturers Association)) New passenger car registrations cover 27 EU countries and three EFTA countries, excluding Russia.

\*2: Source: AEB (The Association of European Businesses)

### *Asia*

Total demand for automobiles in Asia decreased around 2% from the previous year to approximately 8,730 thousand units<sup>\*1</sup> in the 2013 calendar year. This was mainly due to the market shrinking as a consequence of a slowdown in the economy in India and the backlash from a termination of government subsidies in Thailand. Total demand for automobiles in China increased roughly 14% from the previous year to approximately 21,980 thousand units<sup>\*2</sup>.

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Honda's consolidated unit sales in Asia outside Japan increased 1.1% from the previous fiscal year to 529 thousand units in fiscal year 2014. This increase was mainly attributable to strong sales of the *Amaze* and introduction of the *City* in India, and a boost from the introduction of the *Honda MOBILIO* in Indonesia.

Honda's consolidated unit sales do not include unit sales of Dongfeng Honda Automobile Co., Ltd. and Guangqi Honda Automobile Co., Ltd., both of which are affiliates accounted for under the equity method in China. That said, unit sales in China increased 26.3% from the previous fiscal year to 757 thousand units in fiscal year 2014. The increase was mainly attributable to a full model change of the *Accord* and introduction of the *Crider* and *Jade* models.

Honda's unit production by consolidated subsidiaries in Asia increased 2.0% from the previous fiscal year to 591 thousand units<sup>#3</sup> in fiscal year 2014.

Meanwhile, unit production by Chinese equity-method affiliates Dongfeng Honda Automobile Co., Ltd. and Guangqi Honda Automobile Co., Ltd. increased 29.8% from the previous fiscal year to 764 thousand units in fiscal year 2014.

Honda Malaysia SDN BHD, a consolidated subsidiary in Malaysia, built a second production line with an annual capacity of 50 thousand units. This line went in to operation in October 2013.

In addition, P.T. Honda Prospect Motor, a consolidated subsidiary in Indonesia, constructed a new automobile plant with an annual production capacity of 120 thousand units that went into operation in January 2014.

Moreover, Honda Cars India Ltd., a consolidated subsidiary in India, constructed a new automobile plant with an annual production capacity of 120 thousand units that went into operation in February 2014.

\*1: The total is based on Honda research and includes the following 10 countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Singapore, Taiwan, South Korea, India and Pakistan.

\*2: Source: China Association of Automobile Manufacturers

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

## ***Other Regions***

Total industry demand for automobiles in Brazil\*, one of the principal markets among the Other Regions, decreased around 1% to approximately 3,570 thousand units in calendar year 2013.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales decreased 1.7% from the previous fiscal year to 293 thousand units in fiscal year 2014. This result was due to a decrease in sales mainly in Australia, which were partly offset by increased sales of the *Civic* and other models mainly in Brazil.

On the production front, Honda's unit production in Brazil increased 0.3% from the previous fiscal year to 136 thousand units in fiscal year 2014.

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

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

Honda's consolidated unit sales of power products totaled 6,036 thousand units, decreased by 0.6% from the previous fiscal year, due mainly to a decrease in consolidated unit sales in Asia and Other Regions, which was partially offset by an increase in unit sales in North America.

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Revenue from external customers increased by ¥23.5 billion, or 8.4%, to ¥304.2 billion from the previous fiscal year, due mainly to positive foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥10.4 billion, or 3.7%, compared to the increase as reported of ¥23.5 billion, which includes positive foreign currency translation effects. Revenue including intersegment sales increased by ¥26.5 billion, or 9.1%, to ¥318.1 billion from the previous fiscal year.

Operating costs and expenses increased by ¥18.7 billion, or 6.2%, to ¥319.9 billion from the previous fiscal year. Cost of sales increased by ¥12.2 billion, or 5.7%, to ¥227.1 billion, due mainly to negative foreign currency effects. Selling, general and administrative expenses increased by ¥6.5 billion, or 11.6%, to ¥63.1 billion. R&D expenses decreased by ¥0.1 billion, or 0.4%, to ¥29.6 billion.

Operating loss was ¥1.7 billion, an improvement of ¥7.7 billion from the previous fiscal year, due mainly to positive foreign currency effects.

### ***Japan***

Honda's consolidated unit sales of power product and other businesses in Japan remained about the same as the previous fiscal year at 314 thousand units in fiscal year 2014. This was mainly due to a decline in sales of portable power generators which offset an increase in sales of OEM\* general-purpose engines and snow throwers.

\* OEM (Original Equipment Manufacturer): refers to the manufacturers of products and components sold under a third-party brand.

### ***North America***

Honda's consolidated unit sales in North America increased 4.4% from the previous fiscal year to 2,718 thousand units in fiscal year 2014. This was mainly attributable to an increase in sales of OEM engines which offset a decline in sales of portable power generators.

### ***Europe***

Honda's consolidated unit sales in Europe increased 2.8% from the previous fiscal year to 1,032 thousand units in fiscal year 2014. This was mainly due to an increase in sales of OEM engines which offset a decline in sales of lawn mowers and snow throwers.

### ***Asia***

Honda's consolidated unit sales in Asia decreased 4.6% from the previous fiscal year to 1,500 thousand units in fiscal year 2014. This was mainly attributable to a decline in sales of OEM engines in Thailand and portable power generators in India which offset an increase in sales of OEM

engines and pumps in China.

***Other Regions***

Honda's consolidated unit sales in Other Regions (including South America, the Middle East, Africa, Oceania and other areas) decreased 18.2% from the previous fiscal year to 472 thousand units in fiscal year 2014. This was mainly due to a decrease in sales of pumps and OEM engines in the Middle East.

**Financial Services Business**

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

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Total amount of finance subsidiaries-receivables and property on operating leases of finance subsidiaries increased by ¥1,144.2 billion, or 19.5%, to ¥7,018.4 billion from the previous fiscal year. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, total amount of finance subsidiaries-receivables and property on operating leases of finance subsidiaries as of the end of the year would have increased by approximately ¥641.4 billion, or 10.9%, compared to the increase as reported of ¥1,144.2 billion, which includes positive foreign currency translation effects.

Revenue from external customers in Financial services business increased by ¥149.6 billion, or 27.3%, to ¥698.1 billion from the previous fiscal year, due mainly to an increase in operating lease revenues and positive foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, revenue for the year would have increased by approximately ¥39.4 billion, or 7.2%, compared to the increase as reported of ¥149.6 billion, which includes positive foreign currency translation effects. Revenue including intersegment sales increased by ¥148.3 billion, or 26.5%, to ¥708.5 billion from the previous fiscal year.

Operating costs and expenses increased by ¥123.7 billion, or 30.8%, to ¥525.8 billion from the previous fiscal year. Cost of sales increased by ¥103.9 billion, or 30.9%, to ¥440.1 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased operating lease revenues and negative foreign currency effects. Selling, general and administrative expenses increased by ¥19.7 billion, or 30.0%, to ¥85.6 billion from the previous fiscal year.

Operating income increased by ¥24.5 billion, or 15.6%, to ¥182.7 billion from the previous fiscal year, due mainly to positive foreign currency effects, which was partially offset by increased selling, general and administrative expenses.

## **Geographical Information**

### ***Japan***

In Japan, revenue from domestic and export sales increased by ¥298.7 billion, or 7.7%, to ¥4,192.2 billion from the previous fiscal year, due mainly to an increase in revenue in Automobile business and Motorcycle business. Operating income increased by ¥35.6 billion, or 20.0%, to ¥214.0 billion from the previous fiscal year, due mainly to positive foreign currency effects, which was partially offset by increased R&D expenses and increased selling, general and administrative expenses.

### ***North America***

In North America, which mainly consists of the United States, revenue increased by ¥1,112.8 billion, or 22.9%, to ¥5,969.9 billion from the previous fiscal year, due mainly to an increase in revenue in Automobile business and positive foreign currency translation effects. Operating income increased by ¥81.9 billion, or 39.2%, to ¥290.9 billion from the previous fiscal year, due mainly to continuing cost reduction and positive foreign currency effects, which was partially offset by increased selling, general and administrative expenses.

### ***Europe***

In Europe, revenue increased by ¥133.1 billion, or 20.7%, to ¥775.2 billion from the previous fiscal year, due mainly to positive foreign currency translation effects, which was partially offset by a decrease in revenue in Motorcycle business and Automobile business. Operating loss was ¥17.1 billion, a decrease of ¥17.5 billion of operating income from the previous fiscal year, due mainly to a decrease in income attributable to decreased net sales and model mix, which was partially offset by decreased selling, general and administrative expenses and positive foreign currency effects.

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### ***Asia***

In Asia, revenue increased by ¥521.2 billion, or 22.6%, to ¥2,826.9 billion from the previous fiscal year, due mainly to an increase in revenue in Motorcycle business and positive foreign currency translation effects. Operating income increased by ¥71.1 billion, or 48.5%, to ¥217.9 billion from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and model mix and positive foreign currency effects, which was partially offset by increased selling, general and administrative expenses.

### ***Other Regions***

In Other Regions, revenue increased by ¥129.0 billion, or 14.4%, to ¥1,025.5 billion from the previous fiscal year, due mainly to an increase in revenue in Motorcycle business and positive foreign currency translation effects. Operating income increased by ¥9.2 billion, or 25.8%, to ¥44.9 billion from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and model mix, which was partially offset by increased selling, general and administrative expenses.

### ***Fiscal Year 2013 Compared with Fiscal Year 2012***

#### **Net Sales and Other Operating Revenue**

Honda's consolidated net sales and other operating revenue (hereafter, "net sales") for the fiscal year ended March 31, 2013, increased by ¥1,929.8 billion, or 24.3%, to ¥9,877.9 billion from the fiscal year ended March 31, 2012, due mainly to increased net sales in Automobile business by recovery from the impact of the Great East Japan Earthquake and the floods in Thailand and positive foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have increased by approximately ¥1,773.9 billion, or 22.3%, compared to the increase as reported of ¥1,929.8 billion, which includes positive foreign currency translation effects.

#### **Operating Costs and Expenses**

Operating costs and expenses increased by ¥1,616.4 billion, or 20.9%, to ¥9,333.1 billion from the previous fiscal year. Cost of sales increased by ¥1,425.5 billion, or 24.1%, to ¥7,345.1 billion from the previous fiscal year, due mainly to an increase in costs attributable to increased consolidated unit sales in Automobile business and negative foreign currency effects. Selling, general and administrative expenses increased by ¥150.4 billion, or 11.8%, to ¥1,427.7 billion from the previous fiscal year, due mainly to an increase in selling expenses attributable to increased consolidated unit sales in Automobile business and increased product warranty expenses. R&D expenses increased by ¥40.4 billion, or 7.8%, to ¥560.2 billion from the previous fiscal year, due mainly to improving safety and environmental technologies and enhancing of the attractiveness of the products.

#### **Operating Income**

Operating income increased by ¥313.4 billion, or 135.5%, to ¥544.8 billion from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and continuing cost reduction, which was partially offset by increased selling, general and administrative expenses and increased R&D expenses. Excluding positive foreign currency effects of ¥35.8 billion, Honda estimates operating income increased by ¥277.6 billion.

With respect to the discussion above of the changes, management identified factors and used what it believes to be a reasonable method to analyze the respective changes in such factors. Management analyzed changes in these factors at the levels of the Company and its material consolidated subsidiaries. Foreign currency effects consist of translation adjustments, which come from the translation of the currency of foreign subsidiaries financial statements into Japanese yen, and foreign currency adjustments, which result from foreign-currency-denominated sales. With respect to foreign currency adjustments, management analyzed foreign currency adjustments primarily related to the following currencies: U.S. dollar, Euro, Japanese yen and others at the level of the Company and its material consolidated subsidiaries.

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### **Income before Income Taxes and Equity in Income of Affiliates**

Income before income taxes and equity in income of affiliates increased by ¥231.4 billion, or 89.9%, to ¥488.8 billion. The main factors behind this increase, except factors relating operating income, are as follows:

Unrealized gains and losses related to derivative instruments had a negative impact of ¥36.8 billion. Other income (expenses) excluding unrealized gains and losses related to derivative instruments had a negative impact of ¥45.0 billion, due mainly to an increase in foreign currency transaction losses.

### **Income Tax Expense**

Income tax expense increased by ¥43.2 billion, or 31.9%, to ¥178.9 billion from the previous fiscal year. The effective tax rate decreased 16.1 percentage points to 36.6% from the previous fiscal year. The decrease in the effective tax rate was due mainly to a decrease in adjustments for the change in income tax laws in Japan and a decrease in impact on recognition of valuation allowance.

### **Equity in Income of Affiliates**

Equity in income of affiliates decreased by ¥17.6 billion, or 17.6%, to ¥82.7 billion, due mainly to a recognition of impairment loss on certain investments in affiliates and a decrease in income attributable to decreased net sales at affiliates in Asia.

### **Net Income**

Net income increased by ¥170.5 billion, or 76.8%, to ¥392.6 billion from the previous fiscal year.

### **Net Income attributable to Noncontrolling Interests**

Net income attributable to noncontrolling interests increased by ¥14.8 billion, or 140.6%, to ¥25.4 billion from the previous fiscal year.

### **Net Income attributable to Honda Motor Co., Ltd.**

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Net income attributable to Honda Motor Co., Ltd. increased by ¥155.6 billion, or 73.6%, to ¥367.1 billion from the previous fiscal year.

### Business Segments

#### Motorcycle Business

Honda's consolidated unit sales of motorcycles and all-terrain vehicles (ATVs) totaled 9,510 thousand units, increased by 9.9% from the previous fiscal year, due mainly to an increase in consolidated unit sales in Asia.

Revenue from external customers decreased by ¥9.2 billion, or 0.7%, to ¥1,339.5 billion from the previous fiscal year, due mainly to negative foreign currency translation effects, which was partially offset by increased consolidated unit sales. The impact of price changes was immaterial. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have increased by approximately ¥45.2 billion, or 3.4%, compared to the decrease as reported of ¥9.2 billion, which includes negative foreign currency translation effects.

Operating costs and expenses increased by ¥23.0 billion, or 1.9%, to ¥1,229.3 billion from the previous fiscal year. Cost of sales increased by ¥24.0 billion, or 2.6%, to ¥963.0 billion, due mainly to an increase in costs attributable to increased consolidated unit sales, which was partially offset by positive foreign currency effects. Selling, general and administrative expenses decreased by ¥4.0 billion, or 2.0%, to ¥199.8 billion, due mainly to decreased product warranty expenses and positive foreign currency effects, which was partially offset by an increase in selling expenses attributable to increased consolidated unit sales. R&D expenses increased by ¥3.1 billion, or 4.9%, to ¥66.4 billion.

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Operating income decreased by ¥32.3 billion, or 22.7%, to ¥110.2 billion from the previous fiscal year, due mainly to negative foreign currency effects, which was partially offset by continuing cost reduction.

### ***Japan***

Total industry demand for motorcycles in Japan\* in fiscal year 2013 was approximately 440 thousand units, mostly unchanged from the previous fiscal year. Although the number of licensed riders declined in line with the continued decline in the population of young people in Japan, unit sales growth was driven by higher demand for scooters and small motorcycles.

Honda's consolidated unit sales in Japan in fiscal year 2013 were 217 thousand units, down 1.4% from the previous fiscal year. This result reflects lower unit sales of the *TODAY* model scooter and other models. The lower unit sales were partly offset by the positive impact of the launch of the large *NC700S* and *Integra* models, as well as the new *PCX150* model scooter featuring enhanced fuel economy. Another positive factor was increased unit sales of the *SUPER CUB* series.

\* Source: JAMA (Japan Automobile Manufacturers Association)

### ***North America***

Total demand for motorcycles and all-terrain vehicles (ATVs) in the United States\*, the principal market within North America, during calendar year 2012 increased approximately 2% from the previous year to approximately 680 thousand units, although demand has yet to fully recover. Unit sales growth reflected stronger consumer sentiment in line with improvement in the unemployment rate and income levels.

Under these circumstances, Honda's consolidated unit sales in North America for fiscal year 2013 increased 25.0% from the previous fiscal year to 250 thousand units. Of this, consolidated unit sales of motorcycles increased 43.0% from the previous fiscal year to 153 thousand units, mainly due to steady sales of models such as the newly introduced large *NC700X* model featuring outstanding fuel economy and the *PCX* model scooter. Consolidated unit sales of ATVs rose 4.3% to 97 thousand units, mainly due to brisk sales of utility ATVs such as the *TRX420* in the United States.

\* Source: MIC (Motorcycle Industry Council)

### ***Europe***

Total demand for motorcycles in Europe\* during calendar year 2012 declined approximately 10% from the previous year to approximately 770 thousand units. Weak consumer sentiment due to growing economic instability adversely affected demand.

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Under these circumstances, Honda's consolidated unit sales in Europe for fiscal year 2013 decreased 9.6% from the previous fiscal year to 179 thousand units, mainly reflecting the lackluster market as a whole. This was despite increased sales of newly introduced large models *NC700X*, *NC700S* and *Integra* featuring outstanding fuel economy.

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

### *Asia*

Total demand for motorcycles in Asia\* during calendar year 2012 declined approximately 3% from the previous year to approximately 41,490 thousand units.

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Looking at market conditions by country, demand in India increased approximately 5% from the previous year, to approximately 13,840 thousand units while demand in China decreased approximately 10% from the previous year, to approximately 12,630 thousand units. Indonesia saw demand decline approximately 12% from the previous year, to approximately 7,140 thousand units and Vietnam saw demand decline approximately 7% from the previous year, to approximately 3,100 thousand units. Demand in Thailand rose approximately 8% from the previous year, to approximately 2,130 thousand units.

Under these circumstances, Honda's consolidated unit sales in Asia for fiscal year 2013 increased 17.5% from the previous fiscal year to 7,051 thousand units. Sales rose on growth in sales of the *Activa* scooter and the small *Dream Yuga* motorcycle in India. In Thailand, which was impacted by floods in the previous year, sales growth was supported by brisk sales of the *Wave* Cub-type motorcycle, the *Click 125i* scooter and certain other models.

Honda's consolidated unit sales do not include unit sales of P.T. Astra Honda Motor in Indonesia, which is an affiliate accounted for under the equity method. P.T. Astra Honda Motor's unit sales for fiscal year 2013 decreased 4.3% from the previous fiscal year to 4,091 thousand units mainly due to the impact of Indonesian government's regulations concerning down payments on two-wheeled vehicles.

\* Based on Honda research: this only included the following eight countries Thailand, Indonesia, Malaysia, the Philippines, Vietnam, India, Pakistan and China.

## ***Other Regions***

Total demand for motorcycles in Brazil\*, the principal market within Other Regions, declined roughly 15% from the previous year to approximately 1,630 thousand units, mainly due to stricter lending standards for retail loans.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), Honda's consolidated unit sales in fiscal year 2013 decreased 10.7% from the previous fiscal year to 1,813 thousand units, mainly due to lower sales of the small motorcycle *CG125 Fan*, *CG150 Fan* and other models. These sales declines primarily reflected stricter lending standards for retail loans in Brazil.

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

## **Automobile Business**

Honda's consolidated unit sales of automobiles totaled 3,408 thousand units, increased by 37.3% from the previous fiscal year, due mainly to an increase in consolidated unit sales in all regions by recovery from the impact of the Great East Japan Earthquake and the floods in Thailand.

Revenue from external customers increased by ¥1,903.2 billion, or 32.8%, to ¥7,709.2 billion from the previous fiscal year, due mainly to increased consolidated unit sales and positive foreign currency translation effects. The impact of price changes was immaterial. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have increased by

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approximately ¥1,721.4 billion, or 29.6%, compared to the increase as reported of ¥1,903.2 billion, which includes positive foreign currency translation effects. Revenue including intersegment sales increased by ¥1,900.8 billion, or 32.6%, to ¥7,723.5 billion from the previous fiscal year.

Operating costs and expenses increased by ¥1,537.6 billion, or 26.1%, to ¥7,437.5 billion from the previous fiscal year. Cost of sales increased by ¥1,349.6 billion, or 29.9%, to ¥5,868.2 billion, due mainly to an increase in costs attributable to increased consolidated unit sales and negative foreign currency effects. Selling, general and administrative expenses increased by ¥151.8 billion, or 15.9%, to ¥1,105.3 billion, due mainly to an increase in selling expenses attributable to increased consolidated unit sales and increased product warranty expenses. R&D expenses increased by ¥36.1 billion, or 8.5%, to ¥464.0 billion, due mainly to improving safety and environmental technologies and enhancing of the attractiveness of the products.

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Operating income was ¥285.9 billion, an increase of ¥363.1 billion of operating income from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and continuing cost reduction, which was partially offset by increased selling, general and administrative expenses and increased R&D expenses.

Proportion of retail unit sales by vehicle category:

	Fiscal year ended March 31,	
	2012	2013
Passenger cars:	62%	60%
<i>Accord, Accord Plug-in Hybrid, Accord Tourer, Brio, Brio Amaze, City, Civic, CR-Z, Fit/Jazz, Fit/Jazz Hybrid, Fit Shuttle, Fit Shuttle Hybrid, FREED, FREED Hybrid, FREED SPIKE, FREED SPIKE Hybrid, Insight, Inspire, Legend, Stream, Acura ILX, Acura RLX, Acura TL, Acura TSX</i>		
Light trucks:	33%	31%
<i>Crosstour, CR-V, Elysion, Odyssey, Pilot, Ridgeline, Step WGN, Acura MDX, Acura RDX, Acura ZDX</i>		
Mini vehicles:	5%	9%
<i>Acty, Life, N Box, N Box +, N-ONE, Vamos, Zest</i>		

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

In general, the contribution margin of the light trucks category tends to be higher relative to the total weighted average contribution margin because the sales price is higher, while the contribution margin of the mini vehicles category tends to be relatively lower because the sales price is lower, although the level of contribution margin varies from model to model. For example, in Japan and the United States, which are the main sales markets for our automobiles, the contribution margin of our light trucks category was approximately 30% higher, our passenger cars category was approximately 10% lower and our mini vehicles category was approximately 30% lower than total weighted average contribution margin for the fiscal year ended March 31, 2013. It should be noted that we define contribution margin as an amount per unit of net sales minus material cost, which is thought to increase in almost direct proportion to net sales volume.

**Japan**

Total demand for automobiles in Japan\*<sup>1</sup> rose approximately 10% from the previous fiscal year, to approximately 5,210 thousand units in fiscal year 2013. Automobile sales held firm thanks to the pump-priming effect of government stimulus policies that provided tax breaks and subsidies for purchasing eco-cars in the first half of the fiscal year. Another contributing factor was the recovery from the Great East Japan Earthquake.

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Honda's consolidated unit sales in Japan rose 18.1% from the previous fiscal year to 685 thousand units<sup>\*2</sup>. This result was mainly due to strong sales of the *N Box* mini vehicle and *Step WGN*, along with the positive impact of the launch of the new mini vehicle *N Box +* and *N-ONE*.

In production activities, Honda's unit production of automobiles in Japan for fiscal year 2013 increased 0.6% from the previous fiscal year to 876 thousand units, mainly due to higher sales in Japan, despite the shift of some production overseas.

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

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<sup>\*2</sup>: Certain sales of automobiles that are financed with residual value-type auto loans by our Japanese finance subsidiaries are accounted for as operating leases in conformity with U.S. generally accepted accounting principles and are not included in consolidated net sales to the external customers in our automobile business. As a result, they are not included in consolidated unit sales.

### ***North America***

In calendar year 2012, total industry sales of automobiles in the United States\*, the principal market within North America, rose approximately 13% from the previous year to approximately 14,490 thousand units. The main contributing factors were an upswing in consumer sentiment, an improvement in the unemployment rate, and firm sales of passenger cars, in particular.

Under these circumstances, Honda's consolidated unit sales in North America increased 30.8% from the previous fiscal year to 1,731 thousand units. This was mainly due to the positive impact of the launch of the all-new *Accord*, as well as strong sales of the *Civic*, *CR-V* and other models.

In production activities, Honda manufactured 1,687 thousand units, up 37.3% from the previous fiscal year.

Honda Manufacturing of Alabama, LLC, a consolidated subsidiary, ramped up its production capacity by 40 thousand units in fiscal year 2013, bringing its annual production capacity to 340 thousand units.

Honda Manufacturing of Indiana, LLC, a consolidated subsidiary, ramped up its production capacity by 50 thousand units in fiscal year 2013, bringing its annual production capacity to 250 thousand units.

\* Source: WardsAuto

### ***Europe***

Total demand for automobile in Europe<sup>\*1</sup> decreased roughly 8% from the previous year, to approximately 12,520 thousand units in calendar year 2012. The market contracted as a whole, mainly due to weak consumer sentiment accompanying growing concerns about the economy, despite signs of a market recovery in the U.K. On the other hand, in Russia, total demand<sup>\*2</sup> increased approximately 11% from the previous year to approximately 2,930 thousand units.

Honda's consolidated unit sales in Europe increased 8.2% from the previous fiscal year to 171 thousand units. The main contributing factors were the launch of the all-new *CR-V* model, and the rollout of a *Civic* model fitted with a new diesel engine.

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On the production front, unit output at Honda's U.K. plant in fiscal year 2013 increased 62.8% from the previous fiscal year to 170 thousand units.

\*1: Source: ACEA (Association des Constructeurs Europeens d Automobiles (the European Automobile Manufacturers Association)) New passenger car registrations cover 27 EU countries and three EFTA countries., excluding Russia

\*2: Source: AEB (The Association of European Businesses)

### *Asia*

In Asia, in calendar year 2012, total demand increased approximately 13% from the previous year to approximately 8,920 thousand units\*1, mainly due to market expansion in Indonesia and India. Another factor was growth in Thailand's sub-compact segment of the market, which is eligible for government subsidies. Total demand in China rose around 4% from the previous year to approximately 19,300 thousand units\*2.

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Honda's consolidated unit sales in Asia outside Japan increased 138.8% from the previous fiscal year to 523 thousand units. Sales grew atop a recovery from the damage caused by the floods in Thailand, as well as the positive impact of the launch of *Brio Amaze* and higher sales of *City* and other models.

Honda's consolidated unit sales do not include unit sales of Dongfeng Honda Automobile Co., Ltd. and Guangqi Honda Automobile Co., Ltd., both of which are affiliates accounted for under the equity method in China. However, unit sales for fiscal year 2013 decreased 3.0% from the previous fiscal year to 599 thousand units, reflecting the challenging sales conditions faced by Japanese automakers in the country during the fiscal year.

On the production front, Honda's unit production increased 40.0% to 1,167 thousand units<sup>\*3</sup>. In Asia, excluding China, production was 550 thousand units, while output in China was 617 thousand units.

\*1: The total is based on Honda research and includes the following 10 countries: Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Singapore, Taiwan, South Korea, India and Pakistan.

\*2: Source: China Association of Automobile Manufacturers

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

## ***Other Regions***

Total industry demand for automobiles in Brazil\*, one of the principal markets among the Other Regions, increased approximately 6% from the previous year to approximately 3,630 thousand units in calendar year 2012. This growth mainly reflected government policies such as tax breaks for automobile purchases.

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas), consolidated unit sales in fiscal year 2013 increased 47.5% from the previous fiscal year to 298 thousand units. This result was mainly due to the positive impact of the launch of the all-new *Civic* in Brazil.

On the production front, Honda's unit production in Brazil increased 67.8% from the previous fiscal year to 135 thousand units in fiscal year 2013.

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

## **Power Product and Other Businesses**

Honda's consolidated unit sales of power products totaled 6,071 thousand units, increased by 4.3% from the previous fiscal year, due mainly to an increase in consolidated unit sales in North America and Asia.

Revenue from external customers increased by ¥3.5 billion, or 1.3%, to ¥280.6 billion from the previous fiscal year, due mainly to increased consolidated unit sales of power products and positive foreign currency translation effects, which was partially offset by decreased sales of Other business. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, net sales for the year would have decreased by approximately ¥1.2 billion, or 0.4%, compared to the increase as reported of ¥3.5 billion, which includes positive foreign currency translation effects. Revenue including intersegment sales increased by ¥1.9 billion, or 0.7%, to ¥291.6 billion from the previous fiscal year.

Operating costs and expenses increased by ¥7.4 billion, or 2.5%, to ¥301.2 billion from the previous fiscal year. Cost of sales increased by ¥6.2 billion, or 3.0%, to ¥214.8 billion, due mainly to an increase in costs attributable to increased net sales of Power products business and negative foreign currency effects. Selling, general and administrative expenses increased by ¥0.08 billion, or 0.1%, to ¥56.6 billion. R&D expenses increased by ¥1.1 billion, or 4.1%, to ¥29.7 billion.

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Operating loss was ¥9.5 billion, an increase of ¥5.5 billion from the previous fiscal year, due mainly to increased costs including R&D expenses.

### ***Japan***

Honda's consolidated unit sales in fiscal year 2013 decreased 19.9% from the previous fiscal year to 314 thousand units, mainly due to lower exports of general-purpose engines for OEM\* use and decreased sales of generators and certain other products. These declines were partly offset by higher sales of lawn mowers, snow blowers and certain other products.

\* OEM (Original Equipment Manufacturer): refers to the manufacturers of products and components sold under a third-party brand.

### ***North America***

Honda's consolidated unit sales in fiscal year 2013 increased 12.5% from the previous fiscal year to 2,604 thousand units. Although sales of snow blowers and certain other products declined, increased sales of general-purpose engines for OEM use in lawn mowers, construction machinery and other products contributed to the increase.

### ***Europe***

Honda's consolidated unit sales in fiscal year 2013 decreased 10.4% from the previous fiscal year to 1,004 thousand units, despite strong sales of brush cutters and certain other products. The main reason for the decrease was lower sales of general-purpose engines for OEM use in construction machinery and agricultural equipment, as well as decreased sales of small tillers.

### ***Asia***

Honda's consolidated unit sales in fiscal year 2013 increased 6.8% from the previous fiscal year to 1,572 thousand units, mainly due to higher sales of pumps and certain other products in Thailand, despite lower sales of general-purpose engines for OEM use in India.

### ***Other Regions***

In Other Regions (including South America, the Middle East, Africa, Oceania and other areas) Honda's consolidated unit sales in fiscal year 2013 rose 11.0% from the previous fiscal year to 577 thousand units. Sales growth was fueled by higher sales of general-purpose engines for OEM use, pumps and certain other products in the Middle East and Africa. This growth was tempered by lower sales of lawn mowers and certain other products in Australia.

## Financial Services Business

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

Total amount of finance subsidiaries-receivables and property on operating leases of finance subsidiaries increased by ¥955.3 billion, or 19.4%, to ¥5,874.2 billion from the previous fiscal year. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, total amount of finance subsidiaries-receivables and property on operating leases of finance subsidiaries as of the end of the year would have increased by approximately ¥281.0 billion, or 5.7%, compared to the increase as reported of ¥955.3 billion, which includes positive foreign currency translation effects.

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Revenue from external customers in Financial services business increased by ¥32.3 billion, or 6.3%, to ¥548.5 billion from the previous fiscal year, due mainly to an increase in operating lease revenues and positive foreign currency translation effects. Honda estimates that by applying Japanese yen exchange rates of the previous fiscal year to the current fiscal year, revenue for the year would have increased by approximately ¥8.4 billion, or 1.6%, compared to the increase as reported of ¥32.3 billion, which includes positive foreign currency translation effects. Revenue including intersegment sales increased by ¥33.6 billion, or 6.4%, to ¥560.2 billion from the previous fiscal year.

Operating costs and expenses increased by ¥45.5 billion, or 12.8%, to ¥402.0 billion from the previous fiscal year. Cost of sales increased by ¥42.9 billion, or 14.7%, to ¥336.2 billion from the previous fiscal year, due mainly to an increase in costs related to lease residual values and negative foreign currency effects. Selling, general and administrative expenses increased by ¥2.5 billion, or 4.0%, to ¥65.8 billion from the previous fiscal year.

Operating income decreased by ¥11.8 billion, or 7.0%, to ¥158.1 billion from the previous fiscal year, due mainly to an increase in costs related to lease residual values.

## **Geographical Information**

### ***Japan***

In Japan, revenue from domestic and export sales increased by ¥530.5 billion, or 15.8%, to ¥3,893.5 billion from the previous fiscal year, due mainly to an increase in revenue in Automobile business. Operating income was ¥178.4 billion, an increase of ¥288.2 billion of operating income from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and model mix and positive foreign currency effects, which was partially offset by increased R&D expenses and increased selling, general and administrative expenses.

### ***North America***

In North America, which mainly consists of the United States, revenue increased by ¥1,142.3 billion, or 30.8%, to ¥4,857.1 billion from the previous fiscal year, due mainly to an increase in revenue in Automobile business and positive foreign currency translation effects. Operating income decreased by ¥14.3 billion, or 6.4%, to ¥208.9 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses, which was partially offset by an increase in income attributable to increased net sales, model mix and continuing cost reduction.

### ***Europe***

In Europe, revenue increased by ¥61.3 billion, or 10.6%, to ¥642.1 billion from the previous fiscal year, due mainly to an increase in revenue in the Automobile business. Operating income was ¥0.4 billion, an increase of ¥12.5 billion of operating income from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and model mix, which was partially offset by increased selling, general and administrative expenses.

*Asia*

In Asia, revenue increased by ¥815.1 billion, or 54.7%, to ¥2,305.6 billion from the previous fiscal year, due mainly to an increase in revenue in Automobile business and Motorcycle business. Operating income increased by ¥69.8 billion, or 90.9%, to ¥146.7 billion from the previous fiscal year, due mainly to an increase in income attributable to increased net sales and model mix and continuing cost reduction, which was partially offset by increased selling, general and administrative expenses.

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### ***Other Regions***

In Other Regions, revenue increased by ¥3.3 billion, or 0.4%, to ¥896.4 billion from the previous fiscal year, due mainly to an increase in revenue in Automobile business, which was partially offset by a decrease in revenue in Motorcycle business and negative foreign currency translation effects. Operating income decreased by ¥21.2 billion, or 37.3%, to ¥35.6 billion from the previous fiscal year, due mainly to increased selling, general and administrative expenses and negative foreign currency effects.

### **Application of Critical Accounting Policies**

Critical accounting policies are those which require us to apply the most difficult, subjective or complex judgments, often requiring us to make estimates about the effect of matters that are inherently uncertain and which may change in subsequent periods, or for which the use of different estimates that could have reasonably been used in the current period would have had a material impact on the presentation of our financial condition and results of operations. Further changes in the economic environment surrounding us, effects by market conditions, effects of currency fluctuations or other factors have combined to increase the uncertainty inherent in such estimates and assumptions.

The following is not intended to be a comprehensive list of all our accounting policies. Our significant accounting policies are more fully described in note (1) to the accompanying consolidated financial statements.

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

### **Product Warranty**

We warrant our products for specific periods of time. We also provide specific warranty programs, including product recalls, as needed.

Product warranties vary depending upon the nature of the product, the geographic location of their sales and other factors.

We recognize costs for general warranties on products we sell and for specific warranty programs, including product recalls. We provide for general estimated warranty costs at the time products are sold to customers. We also provide for specific estimated warranty program costs at the time those costs for new warranty programs are deemed to be probable and can be reasonably estimated. Estimated warranty costs are provided based on historical warranty claim experience with consideration given to the expected level of future warranty costs, including current sales trends, the expected number of units to be affected and the estimated average repair cost per unit for warranty claims. Our products contain certain parts manufactured by third party suppliers. Since suppliers typically warrant these parts, the expected receivables from warranties of these suppliers are deducted from our estimates of accrued warranty obligations.

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We believe our accrued warranty liability is a critical accounting estimate because changes in the calculation can materially affect net income attributable to Honda Motor Co., Ltd., and require us to estimate the frequency and amounts of future claims, which are inherently uncertain.

Our policy is to continuously monitor warranty cost accruals to determine the adequacy of the accrual. Therefore, warranty expense accruals are maintained at an amount we deem adequate to cover estimated warranty expenses.

Actual claims incurred in the future may differ from the original estimates, which may result in material revisions to the warranty expense accruals.

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The changes in the accrued liabilities for those product warranties and net sales and other operating revenue for each of the years in the three-year period ended March 31, 2014 are as follows:

	Yen (millions)		
	2012	2013	2014
Accrued Liabilities for product warranties			
Balance at beginning of year	¥ 213,943	¥ 170,562	¥ 208,033
Warranty claims paid during the period	(82,547)	(64,942)	(104,090)
Liabilities accrued for warranties issued during the period <sup>*1</sup>	60,004	97,108	153,898
Changes in liabilities for pre-existing warranties during the period <sup>*2</sup>	(17,697)	(8,583)	397
Foreign currency translation	(3,141)	13,888	11,382
Balance at end of year	¥ 170,562	¥ 208,033	¥ 269,620
Net sales and other operating revenue	¥ 7,948,095	¥ 9,877,947	¥ 11,842,451

<sup>\*1</sup> Liabilities accrued for warranties issued during the period for the fiscal year ended March 31, 2014, was ¥153.8 billion, due mainly to the future warranty costs for product recalls in Automobile business.

<sup>\*2</sup> Changes in liabilities for pre-existing warranties during the period for the fiscal year ended March 31, 2012, was ¥17.6 billion, due mainly to the change of the expected level of future warranty costs, including the expected number of units to be affected and estimated average repair cost per unit for product recalls.

**Credit Losses**

Our finance subsidiaries provide retail lending and leasing to customers and wholesale financing to dealers primarily to support sales of our products. Honda classifies retail and direct financing lease receivables (consumer finance receivables) derived from those services as finance subsidiaries-receivables. Operating leases are classified as property on operating leases. Certain finance receivables related to sales of inventory are included in trade accounts and notes receivable and other assets in the consolidated balance sheets.

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

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

Credit risk on dealer loans is affected primarily by the financial strength of the dealers within the portfolio, the value of collateral securing the financings, and economic factors that could affect the creditworthiness of dealers. Exposure to credit risk in dealer financing is managed by

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performing comprehensive reviews of dealers prior to establishing financing arrangements and continuously monitoring the payment performance and creditworthiness of dealers with existing financing arrangements.

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

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

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

We believe our allowance for credit losses and impairment losses on operating leases is a critical accounting estimate because it requires significant judgment about inherently uncertain items. We regularly review the adequacy of the allowance for credit losses and impairment losses on operating leases. The estimates are based on information available as of each reporting date. However actual losses may differ from the original estimates as a result of actual results varying from those assumed in our estimates.

As an example of the sensitivity of the allowance calculation, the following scenario demonstrates the impact that a deviation in one of the primary factors estimated as a part of our allowance calculation would have on the provision and allowance for credit losses. If we had experienced a 10% increase in net credit losses during fiscal 2014, the provision for fiscal 2014 and the allowance balance at the end of fiscal 2014 would have increased by approximately ¥4.1 billion and ¥2.4 billion, respectively. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2014.

*Additional Narrative of the Change in Credit Loss*

The following tables summarize our allowance for credit losses on finance receivables:

	Yen (billions)			
	Retail	Direct financing lease	Wholesale	Total
<b>For the year ended March 31, 2012</b>				
Allowance for credit losses				
Balance at beginning of year	¥ 25.5	¥ 1.4	¥ 1.4	¥ 28.4
Provision	10.3	0.3	0.0	10.8
Charge-offs	(21.1)	(0.7)	(0.0)	(21.9)
Recoveries	6.6	0.1	0.0	6.8
Adjustments from foreign currency translation	(0.9)	(0.0)	(0.0)	(1.0)
Balance at end of year	¥ 20.4	¥ 1.1	¥ 1.4	¥ 23.0
Ending receivable balance	¥ 3,328.1	¥ 380.3	¥ 301.3	¥ 4,009.8
Average receivable balance, net	¥ 3,233.1	¥ 366.1	¥ 243.7	¥ 3,843.0

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Net Charge-offs as a % of average receivable balance	0.45%	0.16%	0.03%	0.39%
Allowance as a % of ending receivable balance	0.62%	0.30%	0.46%	0.57%

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	Yen (billions)			
	Retail	Direct financing lease	Wholesale	Total
<b>For the year ended March 31, 2013</b>				
Allowance for credit losses				
Balance at beginning of year	¥ 20.4	¥ 1.1	¥ 1.4	¥ 23.0
Provision	8.7	0.3	0.0	9.1
Charge-offs	(20.8)	(0.9)	(0.2)	(22.0)
Recoveries	8.1	0.1	0.0	8.2
Adjustments from foreign currency translation	1.1	0.0	0.0	1.3
Balance at end of year	¥ 17.6	¥ 0.7	¥ 1.2	¥ 19.7
Ending receivable balance	¥ 3,865.4	¥ 448.6	¥ 431.9	¥ 4,746.0
Average receivable balance, net	¥ 3,429.8	¥ 394.5	¥ 334.1	¥ 4,158.4
Net Charge-offs as a % of average receivable balance	0.37%	0.21%	0.08%	0.33%
Allowance as a % of ending receivable balance	0.46%	0.18%	0.30%	0.42%

	Yen (billions)			
	Retail	Direct financing lease	Wholesale	Total
<b>For the year ended March 31, 2014</b>				
Allowance for credit losses				
Balance at beginning of year	¥ 17.6	¥ 0.7	¥ 1.2	¥ 19.7
Provision	18.6	0.3	1.4	20.4
Charge-offs	(27.5)	(0.5)	(0.4)	(28.5)
Recoveries	11.6	0.0	0.0	11.7
Adjustments from foreign currency translation	1.2	0.0	0.2	1.4
Balance at end of year	¥ 21.6	¥ 0.6	¥ 2.5	¥ 24.8
Ending receivable balance	¥ 4,678.7	¥ 422.9	¥ 497.3	¥ 5,599.0
Average receivable balance, net	¥ 4,358.0	¥ 457.1	¥ 446.6	¥ 5,261.8
Net Charge-offs as a % of average receivable balance	0.36%	0.10%	0.09%	0.32%
Allowance as a % of ending receivable balance	0.46%	0.15%	0.52%	0.44%

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

	Yen (billions)		
	2012	2013	2014
Provision for credit losses on past due rental payments	¥ 1.1	¥ 1.1	¥ 1.7
Impairment losses on operating leases due to early termination	¥ 1.5	¥ 4.7	¥ 3.3

**Fiscal Year 2014 Compared with Fiscal Year 2013**

The provision for credit losses on finance receivables increased by ¥11.2 billion, or 122.9%, and net charge-offs increased by ¥2.9 billion, or 21.6%. The increase in net charge-offs was primarily due to the increase in finance receivables and declines in used vehicle prices which reduced recoveries on repossessed collateral in North America. Impairment losses on operating leases due to early termination decreased by ¥1.4 billion, or 29.8%.

*Fiscal Year 2013 Compared with Fiscal Year 2012*

The provision for credit losses on finance receivables decreased by ¥1.6 billion, or 15.3%, and net charge-offs decreased by ¥1.3 billion, or 9.0%. The decline in net charge-offs is due mainly to the improved credit

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quality of our North American portfolio. Impairment losses on operating leases due to early termination increased by ¥3.2 billion, or 213.3%. The increase was primarily attributable to the increase in the volume of operating lease assets in North America.

### **Losses on Lease Residual Values**

Our finance subsidiaries in North America determine contractual residual values of lease vehicles at lease inception based on expectations of future used vehicle values, taking into consideration external industry data and our own historical experience. Lease customers have the option at the end of the lease term to return the vehicle to the dealer or to buy the vehicle for the contractual residual value (or if purchased prior to lease maturity, at the outstanding contractual balance). Returned lease vehicles can be purchased by the grounding dealer for the contractual residual value (or if purchased prior to lease maturity, at the outstanding contractual balance) or through market based pricing programs. Returned lease vehicles that are not purchased by the grounding dealers are sold through online and physical auctions. We are exposed to risk of loss on the disposition of returned lease vehicles when the proceeds from the sale of the vehicles are less than the contractual residual values at the end of the lease term.

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

We also review our investment in operating leases for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. If impairment conditions are met, impairment losses are measured by the amount carrying values exceed their fair values. There were no events or circumstances that indicated that the carrying values of our operating leases would not be recoverable during the fiscal years ended March 31, 2012, 2013, and 2014.

We believe that our estimated losses on lease residual values and impairment losses is a critical accounting estimate because it is highly susceptible to market volatility and requires us to make assumptions about future economic trends and lease residual values, which are inherently uncertain. We believe that the assumptions used are appropriate. However actual losses incurred may differ from original estimates as a result of actual results varying from those assumed in our estimates.

If future auction values for all Honda and Acura vehicles in our North American operating lease portfolio as of March 31, 2014, were to decrease by approximately ¥10,000 per unit from our present estimates, holding all other assumption constant, the total impact would be an increase in depreciation expense by approximately ¥4.6 billion, which would be recognized over the remaining lease terms. Similarly, if future return rates for our existing portfolio of all Honda and Acura vehicles were to increase by one percentage point from our present estimates, the total impact would be an increase in depreciation expense by approximately ¥0.6 billion, which would be recognized over the remaining lease terms. With the same prerequisites shown above, if future auction values in our North American direct financing lease portfolio were to decrease by approximately ¥10,000 per unit from our present estimates, the total impact would be an increase in losses on lease residual values by approximately ¥0.1 billion. And if future return rates were to increase by one percentage point from our present estimates, the total impact would be slight. Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions in fiscal 2014. Also, declines in auction values are likely to have a negative effect on return rates which could affect the sensitivities.



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### ***Fiscal Year 2014 Compared with Fiscal Year 2013***

Losses on lease residual values on direct financing leases declined by ¥0.4 billion, or 51.4%. The decrease in losses on lease residual values was due to an improvement in used vehicle prices in North America compared with fiscal year 2013.

### ***Fiscal Year 2013 Compared with Fiscal Year 2012***

Losses on lease residual values on direct financing leases declined by ¥0.6 billion, or 47.4%. Incremental depreciation on operating leases increased by ¥6.7 billion, due mainly to declines in used vehicle prices in North America compared with fiscal year 2012 which showed near historical high.

## **Pension and Other Postretirement Benefits**

We have various pension plans covering substantially all of our employees in Japan and certain employees in foreign countries. Benefit obligations and pension costs are based on assumptions of many factors, including the discount rate, the rate of salary increase and the expected long-term rate of return on plan assets. The discount rate is determined mainly based on the rates of high quality corporate bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. The salary increase assumptions reflect our actual experience as well as near-term outlook. Honda determines the expected long-term rate of return based on the investment policies. Honda considers the eligible investment assets under investment policies, historical experience, expected long-term rate of return under the investing environment, and the long-term target allocations of the various asset categories. Our assumed discount rate and rate of salary increase as of March 31, 2014 were 1.5% and 2.2%, respectively, and our assumed expected long-term rate of return for the year ended March 31, 2014 was 3.0% for Japanese plans. Our assumed discount rate and rate of salary increase as of March 31, 2014 were 4.6~4.8% and 2.5~3.9%, respectively, and our assumed expected long-term rate of return for fiscal 2014 was 6.0~7.4% for foreign plans.

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

Actual results may differ from our assumptions, and the difference is accumulated and amortized over future periods. Therefore, the difference generally will be reflected as our recognized expenses in future periods. We believe that the assumptions currently used are appropriate, however, differences in actual expenses or changes in assumptions could affect our pension costs and obligations, including our cash requirements to fund such obligations.

The following table shows the effect of a 0.5% change in the assumed discount rate and the expected long-term rate of return on our funded status, equity, and pension expense.

## **Japanese Plans**

Assumptions	Percentage point change (%)	Yen (billions)		Pension expense
		Funded status	Equity	
Discount rate	+0.5/-0.5	-89.7/+100.8	+59.5/-66.9	-1.8/+2.3
Expected long-term rate of return	+0.5/-0.5			-4.2/+4.2

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Assumptions	Percentage point change (%)	Yen (billions)		
		Funded status	Equity	Pension expense
Discount rate	+0.5/-0.5	-61.0/+71.0	+44.2/-52.0	-4.4/+4.9
Expected long-term rate of return	+0.5/-0.5			-2.8/+2.8

\*1 Note that this sensitivity analysis may be asymmetric, and are specific to the base conditions at March 31, 2014.

\*2 Funded status for fiscal 2014 is affected by March 31, 2014 assumptions.  
Pension expense for fiscal 2014 is affected by March 31, 2013 assumptions.

**Income Taxes**

Honda is subject to income tax examinations in many tax jurisdictions because Honda conducts its operations in various regions of the world. We recognize the tax benefit from an uncertain tax position based on the technical merits of the position when the position is more likely than not to be sustained upon examination. Benefits from tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is greater than 50% likelihood of being realized upon ultimate resolution. We performed a comprehensive review of any uncertain tax positions.

We believe our accounting for tax uncertainties is a critical accounting estimate because it requires us to evaluate and assess the probability of the outcome that could be realized upon ultimate resolution. Our estimates may change in the future due to new developments.

We believe that our estimates and assumptions of unrecognized tax benefits are reasonable, however, if our estimates of unrecognized tax benefits and potential tax benefits are not representative of actual outcomes, our consolidated financial statements could be materially affected in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution.

Due to the Company's remeasurement based on technical merits regarding transfer pricing matters of overseas transactions between the Company and foreign affiliates, the Company has decreased a portion of unrecognized tax benefits during the year ended March 31, 2014.

**Valuation of Deferred Tax Assets**

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income over the periods in which those temporary differences become deductible and operating loss carryforwards utilized. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

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

Based upon the level of historical taxable income and projections for future taxable income over the periods for which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences and operating loss carryforwards, net of the existing valuation allowances at March 31, 2013 and 2014. The amount of the deferred tax assets considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are

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reduced due to further changes in the economic environment surrounding us, effects by market conditions, effects of currency fluctuations or other factors and our consolidated results of operation could be adversely affected.

### **New Accounting Pronouncements Not Yet Adopted**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers, which amends the revenue recognition requirements in the FASB Accounting Standards Codification (ASC). This statement requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The statement shall be applied using one of two methods: retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying this statement recognized at the date of initial application. The Company has not yet determined which method it will apply. This statement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. Honda is currently evaluating the impact of this statement on the Company's consolidated financial position or results of operations.

### *B. Liquidity and Capital Resources*

#### **Overview of Capital Requirements, Sources and Uses**

The policy of Honda is to support its business activities by maintaining sufficient capital resources, a sufficient level of liquidity and a sound balance sheet.

Honda's main business is the manufacturing and sale of motorcycles, automobiles and power products. To support this business, it also provides retail financing and automobile leasing services for customers, as well as wholesale financing services for dealers.

Honda requires working capital mainly to purchase parts and raw materials required for production, as well as to maintain inventory of finished products and cover receivables from dealers and for providing financial services. Honda also requires funds for capital expenditures, mainly to introduce new models, upgrade, rationalize and renew production facilities, as well as to expand and reinforce sales and R&D facilities.

Honda meets its working capital requirements primarily through cash generated by operations and bank loans. Honda believes that its working capital is sufficient for the Company's present requirements. The year-end balance of liabilities associated with the Company and its subsidiaries funding for non-financial services businesses was ¥565.3 billion as of March 31, 2014. In addition, the Company's finance subsidiaries fund financial programs for customers and dealers primarily from medium-term notes, bank loans, securitization of finance receivables, commercial paper, corporate bonds, and intercompany loans. The year-end balance of liabilities associated with these finance subsidiaries' funding for Financial services business was ¥5,838.2 billion as of March 31, 2014.

### **Cash Flows**

*Fiscal Year 2014 Compared with Fiscal Year 2013*

Consolidated cash and cash equivalents on March 31, 2014 decreased by ¥37.2 billion from March 31, 2013, to ¥1,168.9 billion. The reasons for the increases or decreases for each cash flow activity, when compared with the previous fiscal year, are as follows:

Net cash provided by operating activities amounted to ¥1,229.1 billion of cash inflows. Cash inflows from operating activities increased by ¥428.4 billion compared with the previous fiscal year, due mainly to an increase in cash received due to increased unit sales in Automobile business, which was partially offset by increased payments for parts and raw materials.

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Net cash used in investing activities amounted to ¥1,708.7 billion of cash outflows. Cash outflows from investing activities increased by ¥638.9 billion compared with the previous fiscal year, due mainly to an increase in acquisitions of finance subsidiaries-receivables and purchases of operating lease assets, which was partially offset by an increase in collections of finance subsidiaries-receivables.

Net cash provided by financing activities amounted to ¥370.5 billion of cash inflows. Cash inflows from financing activities increased by ¥250.9 billion compared with the previous fiscal year, due mainly to an increase in proceeds from debt, which was partially offset by an increase in dividends paid.

### ***Fiscal Year 2013 Compared with Fiscal Year 2012***

Consolidated cash and cash equivalents on March 31, 2013 decreased by ¥40.9 billion from March 31, 2012, to ¥1,206.1 billion. The reasons for the increases or decreases for each cash flow activity, when compared with the previous fiscal year, are as follows:

Net cash provided by operating activities amounted to ¥800.7 billion of cash inflows. Cash inflows from operating activities increased by ¥39.2 billion compared with the previous fiscal year, due mainly to an increase in cash received due to increased unit sales in Automobile business, which was partially offset by increased payments for parts and raw materials primarily caused by an increase in automobile production.

Net cash used in investing activities amounted to ¥1,069.7 billion of cash outflows. Cash outflows from investing activities increased by ¥396.6 billion compared with the previous fiscal year, due mainly to an increase in capital expenditure, acquisitions of finance subsidiaries-receivables and purchase of operating lease assets.

Net cash provided by financing activities amounted to ¥119.5 billion of cash inflows. Cash inflows from financing activities increased by ¥187.7 billion compared with the previous fiscal year, due mainly to an increase in proceeds from debt, which was partially offset by an increase in dividends paid.

## **Liquidity**

The ¥1,168.9 billion in cash and cash equivalents at the end of the fiscal year 2014 corresponds to approximately 1.2 months of net sales, and Honda believes it has sufficient liquidity for its business operations.

At the same time, Honda is aware of the possibility that various factors, such as recession-induced market contraction and financial and foreign exchange market volatility, may adversely affect liquidity. For this reason, finance subsidiaries that carry total short-term borrowings of ¥1,566.8 billion have committed lines of credit equivalent to ¥965.0 billion that serve as alternative liquidity for the commercial paper issued regularly to replace debt. Honda believes it currently has sufficient credit limits, extended by prominent international banks, as of the date of the filing of Honda's Form 20-F.

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Honda's short- and long-term debt securities are rated by credit rating agencies, such as Moody's Investors Service, Inc., Standard & Poor's Rating Services, and Rating and Investment Information, Inc. The following table shows the ratings of Honda's unsecured debt securities by Moody's, Standard & Poor's and Rating and Investment Information as of March 31, 2014.

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

The above ratings are based on information provided by Honda and other information deemed credible by the rating agencies. They are also based on the agencies' assessment of credit risk associated with designated

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securities issued by Honda. Each rating agency may use different standards for calculating Honda's credit rating, and also makes its own assessment. Ratings can be revised or nullified by agencies at any time. These ratings are not meant to serve as a recommendation for trading in or holding Honda's unsecured debt securities.

### *C. Research and Development*

Honda and its consolidated subsidiaries use the most-advanced technologies and conduct R&D activities with the goal of creating distinctive products that are internationally competitive. To attain this goal, the Honda's main R&D divisions operate independently as subsidiaries, allowing engineers to pursue their tasks with significant freedom. Product-related R&D is spearheaded by Honda R&D Co., Ltd. in Japan; Honda R&D Americas, Inc. in the United States; and Honda R&D Asia Pacific Co., Ltd. in Thailand. R&D on production technologies centers around Honda Engineering Co., Ltd. in Japan and Honda Engineering North America, Inc. in the United States. All of these entities work in close association with our other entities and businesses in their respective regions.

Total consolidated R&D expenses amounted to ¥634.1 billion in the fiscal year ended March 31, 2014.

### **Motorcycle Business**

In the motorcycle business segment, Honda is aiming to deliver appealing products in a timely manner that offer outstanding environmental performance and that will enable customers to experience the joy of ownership. To this end, we prioritized initiatives designed to bolster product appeal, strengthen cost competitiveness, quicken the pace of product and technology development, and respond to the demands of a low-carbon society.

Among major technological achievements, the *CTX1300*, *CBR650F* and *CB650F* models were launched globally. The *CTX1300* is the new flagship model of the *CTX* series with "Comfort Technology Experience" as its development concept. The *CBR* and *CB* models were equipped with a newly developed DOHC parallel four-cylinder 650cc water-cooled four-stroke engine.

In Japan, the *CBR400R*, *CB400F* and *400X* sports models equipped with a newly developed DOHC parallel twin-cylinder 400cc water-cooled four-stroke engine were launched. In addition, a new-model *DUNK* scooter equipped with a newly developed OHC single-cylinder 50cc water-cooled four-stroke "eSP" engine was also introduced.

R&D expenses in this segment amounted to ¥73.0 billion in the year ended March 31, 2014.

In terms of major race results, Honda won the rider, constructor and team divisions to become a triple-crown champion in MotoGP-class motorcycle racing.

## Automobile Business

In the automobile business segment, Honda's aim is to become the premier manufacturer of interesting, cleverly designed cars that enable customers to experience the joy of driving. The overall strategic direction is to develop great products speedily, at affordable prices and with low CO<sub>2</sub> emissions.

Among major technological achievements in the automobile business segment, Honda developed and launched the all new *N-WGN* and *N-WGN Custom* models equipped with safety enhancements, including six airbags and a system that prevents the car from drifting sideways in reaction to abrupt turns of the steering wheel. In addition, Honda enhanced fuel economy by developing a new lightweight and compact hybrid system that can operate on one motor in electric vehicle (EV) mode. It was initially installed in the *Fit Hybrid* and the new *VEZEL Hybrid* models.

Moreover, a hybrid system combining a two-motor electric mode CVT powertrain with lithium ion batteries was developed for installation in the *Accord Hybrid* and *Accord Plug-in Hybrid* models. The capacity of the

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lithium ion battery was enlarged for the plug-in hybrid model to enable it to operate entirely in EV mode in most daily driving situations. As a result, a balance between nimble acceleration and fuel economy, which is characteristic of EVs, was realized in these two models.

Furthermore, a new hybrid system combining a three-motor electric mode and V6 engine with direct fuel injection to realize both superb acceleration performance and fuel economy was developed. This proprietary system with two motors mounted in the back is capable of independently controlling the torque to the left and right rear wheels, and will be installed in models to be launched in the near future.

As for other technological achievements, an omnidirectional safety system to assist drivers in avoiding accidents was developed. This system utilizes a microwave radar and a set of cameras to monitor the surroundings of a vehicle, and automatically provides braking and steering assistance to help the driver take evasive action.

R&D expenses in this segment amounted to ¥531.4 billion in the year ended March 31, 2014.

## **Power Product and Other Businesses**

The power product business' overall strategic direction is to proactively propose new and useful ideas that will bring joy to customers worldwide. The segment's core technological initiatives focus primarily on (1) creating new products and technologies for developed countries, and (2) developing products for expanding markets in the emerging countries.

Among key technological achievements, Honda launched the *HSS760n* compact rotary snowblower equipped with an auger (snow-throwing unit) with a concentric, simultaneous forward, reverse mechanism that prevents the machine from riding up on top of hardened snow. Also launched was the *HSL2511* large-sized snowblower equipped with a function for adjusting the angling of the auger, among other features. In the general-purpose engine category, the *GP160H* and *GP200H* engines were developed for sale in emerging markets. These engines were designed to share as many water pump and generator components produced in China as possible in order to lower their price and make them affordable to many more customers.

R&D expenses in this segment amounted to ¥29.6 billion in the year ended March 31, 2014.

## **Fundamental Research**

Major initiatives in the fundamental research area included a joint trial research project for Honda's walking assist device in collaboration with a leading U.S. rehabilitation institute in Chicago. Honda's walking assist devices are being developed to help people who have walking impairments due to illness, injuries or weakened leg muscles due to old age, to regain biopedal mobility.

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Honda also unveiled a *UNI-CUB β* model of its *UNI-CUB* Personal Mobility Device, which enables riders to move at walking speed simply by shifting their weight and leaning in the direction they would like to go. This beta model was developed based on data and user feedback collected from trial demonstrations that began in June 2012.

Please note that expenses incurred in fundamental research are allocated among each business segment.

### ***Patents and Licenses***

As of March 31, 2014, Honda owned more than 20,800 patents in Japan and more than 25,900 patents abroad. Honda also had applications pending for more than 8,800 patents in Japan and for more than 15,700 patents abroad. While Honda considers that, in the aggregate, Honda's patents are important, it does not consider any one of such patents, or any related group of them, to be of such importance that the expiration or termination thereof would materially affect Honda's business.

**Table of Contents***D. Trend Information*

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

*E. Off-Balance Sheet Arrangements**(Guarantee)*

As of March 31, 2014, we guaranteed ¥25.3 billion of employee bank loans for their housing costs. If an employee defaults on his/her loan payments, we are required to perform under the guarantee. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is ¥25.3 billion. As of March 31, 2014, no amount has been accrued for any estimated losses under the obligations, as it was probable that the employees would be able to make all scheduled payments.

*F. Tabular Disclosure of Contractual Obligations*

The following table shows our contractual obligations as of March 31, 2014:

*Contractual Obligations*

		As of March 31, 2014			
		Yen (millions)			
		Payments due by period			
	Total	Within 1 year	1-3 years	3-5 years	Thereafter
Long-term debt	¥ 4,537,530	1,303,464	2,088,658	851,734	293,674
Operating leases	102,180	18,862	27,567	16,027	39,724
Purchase and other commitments <sup>*1</sup>	131,238	93,448	16,452	16,452	4,886
Interest payments <sup>*2</sup>	181,449	79,061	73,865	25,802	2,721
Contributions to defined benefit pension plans <sup>*3</sup>	79,240	79,240			
Total	¥ 5,031,637	1,574,075	2,206,542	910,015	341,005

<sup>\*1</sup> Honda had commitments for purchases of property, plant and equipment as of March 31, 2014.

<sup>\*2</sup> To estimate the schedule of interest payments, the company utilized the balances and average interest rates of borrowings and debts and derivative instruments as of March 31, 2014.

\*3 Since contributions beyond the next fiscal year are not currently determinable, contributions to defined benefit pension plans reflect only contributions expected for the next fiscal year.

If our estimates of unrecognized tax benefits and potential tax benefits are not representative of actual outcomes, our consolidated financial statements could be materially affected in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. Since it is difficult to estimate actual payment in the future related to our uncertain tax positions, unrecognized tax benefit totaled ¥6,983 million is not represented in the table above.

As of March 31, 2014, we had no material capital lease obligations or long-term liabilities reflected on our balance sheet under U.S. GAAP other than those set forth in the table above.

*G. Safe Harbor*

All information disclosed under Item 5. E and F contains forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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Such statements are based on management's assumptions and beliefs taking into account information currently available to it. Therefore, please be advised that Honda's actual results could differ materially from those described in these forward-looking statements as a result of numerous factors, including general economic conditions in Honda's principal markets and foreign exchange rates between the Japanese yen and the U.S. dollar, the Euro and other major currencies, as well as other factors detailed from time to time.

### ***Item 6. Directors, Senior Management and Employees***

#### ***A. Directors and Senior Management***

Honda's articles of incorporation provide for a Board of Directors of not more than 15 Directors and for a Board of Corporate Auditors of not more than seven Corporate Auditors. Directors and Corporate Auditors are elected by resolutions of the general meetings of shareholders. The Corporate Auditors are nominated by the Board of Directors as candidates for election with approval by the Board of Corporate Auditors. The normal term of office of a Director is one year and that of a Corporate Auditor is four years. Directors and Corporate Auditors may serve any number of consecutive terms.

The Board of Directors appoints one President and Director and may appoint one Chairman of the Board of Directors and several Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors from among its members. The President represents the Company. In addition, the Board of Directors may appoint, pursuant to its resolutions, Directors who shall each represent the Company. Under the Company Law, a representative director individually has authority to represent the Company generally in the conduct of its affairs. The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company.

Under the Company Law, the Corporate Auditors of the Company have the duty to audit the Director's execution of their duties. Corporate Auditors are not required to be certified public accountants, and may not at the same time be Directors or employees of the Company or any of its subsidiaries. They are required to attend at meetings of the Board of Directors but are not entitled to vote. Corporate Auditors of the Company form the Board of Corporate Auditors, which must consist of at least three Corporate Auditors. Not less than half of the members of the Board of Corporate Auditors must be outside Corporate Auditors, each of whom has never served as a director, accounting councilor, operating officer, manager or employee of the Company or any of its subsidiaries. Corporate Auditors are required to elect from among themselves at least one Full-time Corporate Auditor. Corporate Auditors also have a statutory duty to provide their report to the Board of Corporate Auditors, which must submit its audit report to the Representative Director each year. A Corporate Auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The Board of Corporate Auditors is empowered to establish audit principles, methods of investigation by Corporate Auditors of the status of the corporate affairs and assets of the Company and other matters concerning the performance of the Corporate Auditors' duties. In addition, the Company is required to appoint independent certified public accountants as accounting auditor. Such independent certified public accountants have as their primary statutory duties to audit the consolidated and non-consolidated financial statements of the Company prepared in accordance with the Company Law to be submitted by the Representative Director to general meetings of shareholders and to prepare an accounting audit report thereon and to notify the contents of such report to the specified Corporate Auditor and the specified Director in charge.

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The following table provides the names of all Directors and Corporate Auditors of the Company and the current positions held by such persons.

<b>Name</b>			
<b>(Date of birth)</b>	<b>Current Positions and Biographies with Registrant</b>	<b>Term</b>	<b>Number of Shares Owned</b>
<b>Representative Directors</b>			
<b>Fumihiko Ike</b>	Chairman and Director of the Company,	*3	30,700
(May 26, 1952)	appointed in April 2013 (presently held)		
	Chief Operating Officer for IT Operations,		
	appointed in April 2012		
	Responsible for Government & Industrial Affairs,		
	appointed in April 2012		
	Senior Managing Officer and Director of the Company,		
	appointed in April 2011		
	Chief Operating Officer for Business Management Operations,		
	appointed in April 2011		
	Risk Management Officer,		
	appointed in April 2011		
	General Supervisor, Information Systems,		
	appointed in April 2011		
	Chief Operating Officer for Regional Operations		
	(Asia & Oceania),		
	appointed in April 2008		
	President and Director of Asian Honda Motor Co., Ltd.,		
	appointed in April 2008		
	Managing Director of the Company,		
	appointed in June 2007		
	Chief Operating Officer for Business Management Operations,		
	appointed in April 2006		
	Director of the Company,		
	appointed in June 2003		
	Chief Operating Officer for Power Product Operations,		

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appointed in April 2003

Joined Honda in February 1982

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

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appointed in June 2000

Executive Vice President of Honda R&D Americas, Inc.,

appointed in April 1998

Joined Honda in April 1978

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<b>Name</b>			
<b>(Date of birth)</b>	<b>Current Positions and Biographies with Registrant</b>	<b>Term</b>	<b>Number of Shares Owned</b>
<b>Tetsuo Iwamura</b>	Corporate Brand Officer,	*3	29,800
(May 30, 1951)	appointed in April 2014 (presently held)		
	Chairman of American Honda Motor Co., Inc.,		
	appointed in April 2014 (presently held)		
	Chief Operating Officer for Automobile Operations,		
	appointed in April 2013		
	Risk Management Officer,		
	appointed in April 2013 (presently held)		
	Director of the Company,		
	appointed in June 2012 (presently held)		
	Executive Vice President and Executive Officer,		
	appointed in April 2012 (presently held)		
	Senior Managing Officer of the Company,		
	appointed in June 2011		
	Senior Managing Officer and Director of the Company,		
	appointed in April 2011		
	Senior Managing Director of the Company,		
	appointed in June 2008		

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Chief Operating Officer for Regional Operations (North America),

appointed in April 2007

President and Director of Honda North America, Inc.,

appointed in April 2007

President and Chief Executive Officer of American Honda Motor Co., Inc.,

appointed in April 2007

Managing Director of the Company,

appointed in June 2006

Chief Operating Officer for Regional Operations (Latin

America),

appointed in April 2003

President and Director of Honda South America Ltda.,

appointed in April 2003

President and Director of Moto Honda da Amazonia Ltda.,

appointed in April 2003

President and Director of Honda Automoveis do Brasil Ltda.,

appointed in April 2003

Director of the Company,

appointed in June 2000

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Chief Operating Officer for Parts Operations,

appointed in April 2000

Joined Honda in April 1978

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
(Date of birth)			
<b>Directors</b>			
<b>Takashi Yamamoto</b>	Representative of Automobile Development, Purchasing and Production for Automobile Operations,  appointed in April 2014 (presently held)	*3	21,400
(January 12, 1953)			
	Head of Automobile Production for Automobile Operations,  appointed in April 2014 (presently held)		
	President, Chief Executive Officer and Representative Director of Honda Engineering Co., Ltd.,  appointed in April 2014 (presently held)		
	Chief Production Officer,  appointed in April 2013 (presently held)		
	General Manager of Automobile Production Oversight Unit for Automobile Operations,  appointed in April 2013		
	Director of the Company,  appointed in June 2012 (presently held)		
	Senior Managing Officer of the Company,  appointed in April 2012 (presently held)		
	Chief Operating Officer for Production Operations,  appointed in April 2012		

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Managing Officer of the Company,

appointed in April 2011

General Manager of Automobile Production Planning Office, Production Operations,

appointed in April 2011

President and Director of Yutaka Giken Co., Ltd.,

appointed in June 2009

Managing Officer of the Company,

appointed in June 2007

General Manager of Saitama Factory of Production Operations,

appointed in April 2007

Operating Officer of the Company,

appointed in June 2005

President and Director, Honda Manufacturing of Alabama, LLC,

appointed in April 2005

Responsible for Quality, Certification and Regulation Compliance,

appointed in April 2004

Responsible for Quality, Certification and Regulation Compliance and Service Technology,

appointed in April 2002

Director of the Company,

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appointed in June 2000

General Manager of Automobile Purchasing Division 1 for Purchasing Operations,

appointed in April 2000

Joined Honda in April 1977

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<b>Name</b>			
<b>(Date of birth)</b>	<b>Current Positions and Biographies with Registrant</b>	<b>Term</b>	<b>Number of Shares Owned</b>
<b>Yoshiharu Yamamoto</b>	Chief Operating Officer for IT Operations,	*3	21,400
(March 19, 1953)	appointed in April 2013 (presently held)		
	Senior Managing Officer and Director of the Company,		
	appointed in April 2012 (presently held)		
	Director of the Company,		
	appointed in June 2011		
	Managing Officer of the Company,		
	appointed in April 2011		
	President, Chief Executive Officer and Representative Director of Honda R&D Co., Ltd.,		
	appointed in April 2011 (presently held)		
	Executive Vice President and Director of Honda R&D Co., Ltd.,		
	appointed in June 2010		
	Senior Managing Director of Honda R&D Co., Ltd.,		
	appointed in June 2007		
	Managing Director of Honda R&D Co., Ltd.,		
	appointed in June 2005		
	Joined Honda in April 1973		

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**Toshihiko Nonaka**

Director of the Company,

\*3

21,400

(September 15, 1957)

appointed in June 2014 (presently held)

Chief Operating Officer for Automobile Operations,

appointed in April 2014 (presently held)

Executive in Charge of Product and Brand Strategy for Automobile Operations,

appointed in April 2013

Executive Vice President, Executive Officer and Director of

Honda R&D Co., Ltd.,

appointed in April 2012

Managing Officer of the Company,

appointed in April 2011 (presently held)

Executive in Charge of Production for Automobile Operations,

appointed in April 2011

Senior Managing Officer and Director of Honda R&D Co., Ltd.,

appointed in April 2011

Senior Managing Director of Honda R&D Co., Ltd.,

appointed in June 2010

Joined Honda in April 1978

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<b>Name</b>	<b>Current Positions and Biographies with Registrant</b>	<b>Term</b>	<b>Number of Shares Owned</b>
<b>Masahiro Yoshida</b>	Managing Officer and Director of the Company,	*3	25,200
(March 5, 1957)	appointed in April 2013 (presently held)		
	Compliance Officer,		
	appointed in April 2012 (presently held)		
	Operating Officer and Director of the Company,		
	appointed in April 2011		
	Director of the Company,		
	appointed in June 2010		
	Chief Operating Officer for Business Support Operations,		
	appointed in April 2010 (presently held)		
	General Manager of Hamamatsu Factory of Production Operations,		
	appointed in April 2008		
	Operating Officer of the Company,		
	appointed in June 2007		
	Responsible for Human Resources and Associate Relations,		
	appointed in April 2007		
	(also General Manager of Human Resources Division for Business Support Operations as of April 2006)		
	Joined Honda in April 1979		

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**Nobuo Kuroyanagi**

Senior Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU),

\*3

2,300

(December 18, 1941)

appointed in April 2012 (presently held)

End of tenure as Director of BTMU in March 2012

End of tenure as Director of Mitsubishi UFJ Financial Group, Inc. (MUFG) in June 2010

Director of MUFG,

appointed in April 2010

Director of the Company,

appointed in June 2009 (presently held)

Chairman of BTMU,

appointed in April 2008

President and CEO of MUFG,

appointed in October 2005

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<b>Name</b>			<b>Number of Shares Owned</b>
<b>(Date of birth)</b>	<b>Current Positions and Biographies with Registrant</b>	<b>Term</b>	
<b>Hideko Kunii</b>	Director of the Company,	*3	0
(December 13, 1947)	appointed in June 2014 (presently held)		
	General Manager of Gender Equality Promotion Office, Shibaura Institute of Technology,		
	appointed in October 2013 (presently held)		
	Deputy President, Professor, Shibaura Institute of Technology Graduate School of Engineering Management,		
	appointed in April 2013 (presently held)		
	End of tenure as Chairperson of Ricoh IT Solutions Co., Ltd. in March 2013		
	End of tenure as Associate Director of Ricoh Co., Ltd. in March 2013		
	Professor, Graduate School of Engineering Management, Shibaura Institute of Technology,		
	appointed in April 2012 (presently held)		
	Vice Chairperson of Japan Information Technology Service Industry Association,		
	appointed in June 2011 (presently held)		
	Cabinet Member of Gender Equality Bureau Cabinet Office,		
	appointed in August 2009 (presently held)		
	Member of Committee of Innovation Network Corporation of Japan,		
	appointed in July 2009 (presently held)		

Chairperson of Ricoh IT Solutions Co., Ltd.,

appointed in July 2009

Associate Director of Ricoh Co., Ltd.,

appointed in April 2009

Chairperson of Ricoh Software Co., Ltd. (Current Ricoh IT Solutions Co., Ltd.),

appointed in April 2008

Corporate Senior Vice President of Ricoh Co., Ltd.,

appointed in June 2005

General Manager of Software Research & Development of Ricoh Co., Ltd.,

appointed in October 2002

Corporate Vice President of Ricoh Co., Ltd.,

appointed in June 2000

The University of Texas at Austin, Doctor of Philosophy, May 1983

Joined Ricoh Co., Ltd. in May 1982

San Jose State University, Master of Science Computer and Information Sciences, January 1976

Ochanomizu University, Master of Science Physics, March 1973

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
(Date of birth) <b>Yuji Shiga</b>	Director of the Company,  appointed in June 2012 (presently held)	*3	13,500
(October 7, 1958)	Chief Operating Officer for Power Product Operations,  appointed in April 2012 (presently held)		
	Operating Officer of the Company,  appointed in April 2011 (presently held)		
	Responsible for CIS countries, the Middle & Near East and Africa for Regional Operations,  appointed in April 2011		
	General Manager of Operation Office No. 2 in Regional Operations (Asia & Oceania),  appointed in April 2010		
	General Manager of Operation Office No. 1 in Regional Operations (North America),  appointed in April 2009		
	Joined Honda in April 1982		
<b>Kohei Takeuchi</b>	Director of the Company,  appointed in June 2013 (presently held)	*3	13,100
(February 10, 1960)	Chief Operating Officer for Business Management Operations, appointed in April 2013 (presently held)		

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Operating Officer of the Company,

appointed in April 2011 (presently held)

General Manager of Accounting Division for Business Management  
Operations,

appointed in April 2010

Joined Honda in April 1982

**Shinji Aoyama**

Director of the Company,

\*3

9,300

(December 25, 1963)

appointed in June 2013 (presently held)

Chief Operating Officer for Motorcycle Operations,

appointed in April 2013 (presently held)

Operating Officer of the Company,

appointed in April 2012 (presently held)

General Manager of Motorcycle Business Planning Office for Motorcycle  
Operations,

appointed in April 2011

Joined Honda in April 1986

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
(Date of birth) <b>Noriya Kaihara</b>	Chief Operating Officer for Customer Service Operations,	*3	5,600
(August 4, 1961)	appointed in April 2014 (presently held)		
	Head of Service Supervisory Unit for Automobile Operations,		
	appointed in April 2014 (presently held)		
	Director of the Company,		
	appointed in June 2013 (presently held)		
	Operating Officer of the Company,		
	appointed in April 2013 (presently held)		
	Chief Quality Officer,		
	appointed in April 2013 (presently held)		
	General Manager of Automobile Quality Assurance Division,		
	appointed in April 2012		
	General Manager of Parts Sales and Service Division		
	for Customer Service Operations,		
	appointed in April 2010		
	Joined Honda in April 1984		
<b>Corporate Auditors</b>			
<b>Masaya Yamashita</b>	Corporate Auditor of the Company (full-time),	*5	27,700
(April 5, 1953)	appointed in June 2012 (presently held)		
	Managing Officer of the Company,		

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appointed in June 2011

Managing Officer and Director of the Company,

appointed in April 2011

Managing Director of the Company,

appointed in June 2008

Chief Operating Officer for Purchasing Operations,

appointed in April 2008

General Manager of Kumamoto Factory of Production Operations,

appointed in April 2006

Operating Officer of the Company,

appointed in June 2005

Director of the Company,

appointed in June 2003

General Manager of Automobile Purchasing Division 1 for Purchasing Operations,

appointed in April 2002

Joined Honda in April 1977

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>Kunio Endo</b>  (August 23, 1957)	Corporate Auditor of the Company (full-time),  appointed in June 2013 (presently held)  President and Director of American Honda Finance Corporation,  appointed in November 2010  President and Director of Honda Canada Finance Inc.,  appointed in November 2010  Joined Honda in April 1981	*6	8,800
<b>Hirotake Abe</b>  (November 13, 1944)	Corporate Auditor of the Company,  appointed in June 2011 (presently held)  Established the Certified Public Accountant  Hirotake Abe Office in January 2010 (presently held)  Retired from Deloitte Touche Tohmatsu LLC in December 2009  Senior Adviser of Deloitte Touche Tohmatsu (presently, Deloitte Touche Tohmatsu LLC),  appointed in June 2007  End of tenure as Executive Member of Deloitte Touche Tohmatsu Limited in May 2007  End of tenure as CEO of Tomatsu & Co. (presently, Deloitte Touche Tohmatsu LLC) in May 2007  Executive Member of Deloitte Touche Tohmatsu Limited,  in June 2004  CEO of Tomatsu & Co. (presently, Deloitte Touche Tohmatsu LLC), appointed in June 2001  Registered as certified public accountant in March 1974	*4	1,200

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Name	Current Positions and Biographies with Registrant	Term	Number of Shares Owned
<b>(Date of birth)</b> <b>Tomochika Iwashita</b>	<p>Corporate Auditor of the Company,</p> <p>appointed in June 2011 (presently held)</p> <p>End of tenure as Director of Tokio Marine Holdings, Inc.</p> <p>in June 2010</p> <p>End of tenure as President and Director of Tokio Marine &amp; Nichido Life Insurance Co., Ltd.,</p> <p>in June 2010</p> <p>President and Director of Tokio Marine &amp; Nichido Life Insurance Co., Ltd.,</p> <p>appointed in June 2006</p> <p>End of tenure as Vice President and Director of Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.,</p> <p>in June 2006</p> <p>Vice President and Director of Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.,</p> <p>appointed in June 2005</p> <p>Director of Millea Holdings, Inc. (presently, Tokio Marine Holdings, Inc.),</p> <p>appointed in June 2005</p> <p>Senior Managing Director of Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.,</p> <p>appointed in October 2004</p> <p>Senior Managing Director of Tokio Marine and Fire Insurance Co., Ltd.</p> <p>(presently, Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.),</p> <p>appointed in June 2003</p> <p>Managing Director of Tokio Marine and Fire Insurance Co., Ltd.</p> <p>(presently, Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.),</p> <p>appointed in June 2002</p>	*4	1,200
<b>Toshiaki Hiwatari</b>  (August 4, 1945)	<p>Corporate Auditor of the Company,</p> <p>appointed in June 2012 (presently held)</p> <p>Registered with the Daiichi Tokyo Bar Association</p>	*5	700

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in September 2010

Advisor Attorney to TMI Associates,

appointed in September 2010 (presently held)

Retired from office in June 2010

Prosecutor General appointed in July 2008

\*1. Directors Mr. Nobuo Kuroyanagi and Ms. Hideko Kunii are outside directors.

\*2. Corporate Auditors Mr. Hirotake Abe, Mr. Tomochika Iwashita and Mr. Toshiaki Hiwatari are outside corporate auditors.

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- \*3. The term of office of a Director is one year after his/her election to office at the close of the ordinary general meeting of shareholders on June 13, 2014.
- \*4. The term of office of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 23, 2011.
- \*5. The term of office of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 21, 2012.
- \*6. The term of office of a Corporate Auditor is four years after his/her election to office at the close of the ordinary general meeting of shareholders on June 19, 2013.
- \*7. The Company has introduced an operating officer system to strengthen operations in regions and local workplaces, and implement quick and appropriate decisions. **Executive Officers, Senior Managing Officers, Managing Officers and Operating Officers** under the operating officer system are not statutory positions under the Company Law and do not conform to the definition of Directors and Senior Management as defined in Form 20-F. The Company's Senior Managing Officers, Managing Officers and Operating Officers (excluding officers who also hold the position of Director) under the operating officer system, as voluntarily disclosed in Japan, are as follows:

### **Senior Managing Officers**

**Sho Minekawa** Chief Operating Officer for Regional Operations (Japan)  
Chief Officer of Honda Driving Safety Promotion Center

**Koichi Fukuo** Executive in Charge of Business Unit No. 1 for Automobile Operations

### **Managing Officers**

**Takuji Yamada** Chief Operating Officer for Regional Operations (North America)  
President and Director of Honda North America, Inc.  
President and Chief Executive Officer of American Honda Motor Co., Inc.

**Yoshiyuki Matsumoto** Representative of Development, Purchasing and Production (Asia and Oceania)  
Executive Vice President of Asian Honda Motor Co., Ltd.  
President and CEO of Honda Motor India Private Ltd.

**Ko Katayama** Executive in Charge of Production Strategy for Automobile Operations  
Head of Supply Chain Management Supervisory Unit in Automobile Production for Automobile Operations

**Chitoshi Yokota** Representative of Automobile Development, Purchasing and Production (North America)  
Executive Vice President and Director of Honda North America, Inc.

**Seiji Kuraishi** Chief Operating Officer for Regional Operations (China)  
President of Honda Motor (China) Investment Co., Ltd.  
President of Honda Motor Technology (China) Co., Ltd.

**Toshiaki Mikoshiba** Chief Operating Officer for Regional Operations (Europe Region)  
President and Director of Honda Motor Europe Ltd.

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<b>Yoshi Yamane</b>	Representative of Automobile Development, Purchasing and Production (Japan) Head of Automobile Production, Regional Operations (Japan) Head of Production Supervisory Unit, Automobile Production, Regional Operations (Japan)
<b>Takahiro Hachigo</b>	Representative of Development, Purchasing and Production (China) Vice President of Honda Motor (China) Investment Co., Ltd. Vice President of Honda Motor Technology (China) Co., Ltd.
<b>Operating Officers</b>	
<b>Takashi Sekiguchi</b>	Executive in Charge of Business Unit No.2, Automobile Operations
<b>Michimasa Fujino</b>	President and Director of Honda Aircraft Company, LLC
<b>Soichiro Takizawa</b>	Representative of Development, Purchasing and Production (Europe Region) Executive Vice President and Director of Honda Motor Europe Ltd. Managing Director of Honda of the U.K. Manufacturing Ltd.
<b>Naoto Matsui</b>	Chief Operating Officer for Purchasing Operations Head of Purchasing Supervisory Unit, Automobile Production, Automobile Operations
<b>Mitsugu Matsukawa</b>	Head of Drivetrain Business Unit, Automobile Production, Automobile Operations
<b>Tetsuo Suzuki</b>	Representative of Motorcycle Development, Purchasing and Production, Motorcycle Operations
<b>Issao Mizoguchi</b>	Chief Operating Officer for Regional Operations (Latin America) President and Director of Honda South America Ltda. President and Director of Honda Automoveis do Brazil Ltda. President and Director of Moto Honda da Amazonia Ltda.
<b>Toshihiro Mibe</b>	Executive in Charge of Powertrain Business, Automobile Operations Head of Powertrain Production Supervisory Unit, Automobile Production, Automobile Operations
<b>Yusuke Hori</b>	Head of Regional Unit (Africa and the Middle East)
<b>Tomomi Kosaka</b>	Executive Vice President and Director of Honda North America, Inc. President and Director of Honda of America Mfg., Inc.
<b>Noriaki Abe</b>	Chief Operating Officer for Regional Operations (Asia & Oceania) President and Director of Asian Honda Motor Co., Ltd. President and Director of Honda Automobile (Thailand) Co., Ltd.
<b>Toshiyuki Shimabara</b>	Executive in Charge of Motorcycle Production for Motorcycle Operations General Manager of Kumamoto Factory for Motorcycle Operations Executive in Charge of Power Product Production for Power Product Operations
<b>Yasuhide Mizuno</b>	President of Guangqi Honda Automobile Co., Ltd.

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

*B. Compensation*

Directors and Corporate Auditors receive remuneration, the aggregate maximum amount of which is approved at the annual general meeting of shareholders. The amounts of the remuneration approved to pay to Directors and Corporate Auditors are allocated among them at meeting of the Board of Directors and Corporate Auditors. Also, Directors receive bonuses, the aggregate amount of which is approved at the annual general meeting of shareholders. The amounts of the bonuses approved to pay to Directors are allocated among them at meeting of the Board of Directors. It is based on the Company's performance for each fiscal year, Director's bonuses in the past and other factors. All the Directors and Corporate Auditors contribute a portion of their remuneration to the officer shareholders' association, purchase shares of the Company's Common Stock and keep holding those shares during their services.

The total amount of remuneration paid to the Company's Directors and Corporate Auditors during the fiscal year ended March 31, 2014 was ¥895 million. This amount includes remuneration paid to two Directors and one Corporate Auditor who retired during the fiscal year. The amount of remuneration paid to the Directors includes amount of wages paid to those Directors who were also Directors of subsidiaries of the Company.

The total amount of bonuses paid to the Company's Directors during the fiscal year ended March 31, 2014 was ¥248 million.

The amounts of remuneration and bonuses that were paid during the year ended March 31, 2014 are as follows:

	Directors excluding outside Directors		Outside Directors		Yen (millions) Corporate Auditors excluding outside Corporate Auditors		Outside Corporate Auditors		Total	
	number	amount	number	amount	number	amount	number	amount	number	amount
Remuneration	13	¥ 688	2	¥ 23	3	¥ 135	3	¥ 47	21	¥ 895
Bonus	10	241	2	7					12	248
Total		¥ 929		¥ 30		¥ 135		¥ 47		¥ 1,143

The amount of remuneration paid to Fumihiko Ike during the fiscal year ended March 31, 2014 was ¥74 million. The amount of bonus for Fumihiko Ike accrued for the fiscal year ended March 31, 2014 was ¥33 million.

The amount of remuneration paid to Takanobu Ito during the fiscal year ended March 31, 2014 was ¥102 million. The amount of bonus for Takanobu Ito accrued for the fiscal year ended March 31, 2014 was ¥48 million.

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The amount of remuneration paid to Tetsuo Iwamura during the fiscal year ended March 31, 2014 was ¥112 million. The amount of bonus for Tetsuo Iwamura accrued for the fiscal year ended March 31, 2014 was ¥29 million.

### *C. Board Practices*

See Item 6.A Directors and Senior Management for information concerning the Company's Directors and Corporate Auditors required by this item.

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The following tables list the number of Honda full-time employees as of March 31, 2014, 2013 and 2012.

**As of March 31, 2014**

<b>Total</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Financial Services Business</b>	<b>Power Product and Other Businesses</b>
198,561	42,276	145,585	2,160	8,540

At March 31, 2014, Honda had 198,561 full-time employees, including 132,206 local nationals employed in its overseas operations.

**As of March 31, 2013**

<b>Total</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Financial Services Business</b>	<b>Power Product and Other Businesses</b>
190,338	40,430	138,443	2,157	9,308

At March 31, 2013, Honda had 190,338 full-time employees, including 123,726 local nationals employed in its overseas operations.

**As of March 31, 2012**

<b>Total</b>	<b>Motorcycle Business</b>	<b>Automobile Business</b>	<b>Financial Services Business</b>	<b>Power Product and Other Businesses</b>
187,094	39,954	134,357	2,145	10,638

At March 31, 2012, Honda had 187,094 full-time employees, including 118,923 local nationals employed in its overseas operations.

Most of the Company's regular employees in Japan, except management personnel, are required by the terms of the Company's collective bargaining agreement with its labor union to become members of the Federation of All Honda Workers' Union (AHWU), which is affiliated with the Japan Council of the International Metalworkers' Federation. Approximately 85% of the employees of the Company and its Japanese subsidiaries were members of AHWU as of March 31, 2014.

In Japan, basic wages are negotiated annually and the average increases in wages of the Company's employees in fiscal 2012, 2013 and 2014 were 1.8%, 1.7% and 2.6%, respectively. In addition, in accordance with Japanese custom, each employee is paid a semi-annual bonus. Bonuses are negotiated during wage negotiations and are based on the overall performance of the Company or the applicable subsidiary in the previous year, the outlook for the current year and other factors.

The Company has had labor contracts with its labor union in Japan since 1970. These contracts are renegotiated with respect to basic wages and other working conditions. The regular employees of the Company's Japanese subsidiaries are covered by similar contracts. Since 1957, neither the Company nor any of its subsidiaries has experienced any strikes or other labor disputes that materially affected its business activities. The Company considers labor relations with its employees to be very good.

**Table of Contents***E. Share Ownership*

The total amount of the Company's voting securities owned by its Directors and Corporate Auditors as a group as of June 13, 2014 is as follows.

<b>Title of Class</b>	<b>Amount Owned</b>	<b>% of Class</b>
Common Stock	263,000 shares	0.015%

The Company's full-time employees are eligible to participate in the Honda Employee Shareholders' Association, whereby participating employees contribute a portion of their salaries to the Association and the Association purchases shares of the Company's Common Stock on their behalf. As of March 31, 2014, the Association owned 5,409,170 shares of the Company's common stock.

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

As of March 31, 2014, 1,811,428,430 shares of Honda's Common Stock were issued and 1,802,291,196 shares were outstanding.

The following table shows the shareholders that owned of record 5% or more of the issued shares of Honda's Common Stock as of March 31, 2014:

<b>Name</b>	<b>Shares owned (thousands)</b>	<b>Ownership (%)</b>
Japan Trustee Services Bank, Ltd. (trust account)	117,059	6.46

According to a statement on Schedule 13G (Amendment No. 10) filed by Mitsubishi UFJ Financial Group, Inc. with the Securities and Exchange Commission on February 12, 2014, Mitsubishi UFJ Financial Group, Inc. directly and indirectly held, as of December 31, 2013, 109,893,670 shares, or 6.1% of the then issued shares, of Honda's Common Stock. In addition, according to a statement on the Report of Possession of Large Volume filed by Sumitomo Mitsui Trust Bank, Limited with the Director of the Kanto Local Finance Bureau on January 9, 2014, Sumitomo Mitsui Trust Bank, Limited directly and indirectly held, as of December 31, 2013, 91,179,756 shares, or 5.03% of the then issued shares, of Honda's Common Stock.

None of the above shareholders has voting rights that are different from those of our other shareholders.

ADs representing American Depositary Shares are issued by JPMorgan Chase Bank, N.A., as Depositary. The normal trading unit is 100 American Depositary Shares. Total issued shares of Honda as of the close of business on March 31, 2014 were 1,811,428,430 shares of Common Stock, of which 55,964,204 shares represented by ADs and 268,802,061 shares not represented by ADs were owned by residents of

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the United States. The number of holders of record of the Company's shares of Common Stock in the United States was 256 at March 31, 2014.

To the knowledge of Honda, it is not directly or indirectly owned or controlled by any other corporation, by any government, or by any other natural or legal person or persons severally or jointly. As far as is known to the Company, there are no arrangements, the operation of which may at a subsequent date, result in a change in control of the Company.

### *B. Related Party Transactions*

Honda purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of business, including firms with which Honda is affiliated.

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During the fiscal year ended March 31, 2014, Honda had sales of ¥786.8 billion and purchases of ¥1,028.5 billion with equity affiliates accounted under the equity method. As of March 31, 2014, Honda had receivables of ¥225.3 billion from affiliated companies, and had payables of ¥138.1 billion to affiliated companies.

Honda does not consider the amounts involved in such transactions to be material to its business.

### *C. Interests of Experts and Counsel*

Not applicable.

## ***Item 8. Financial Information***

### *A. Consolidated Statements and Other Financial Information*

#### **1 3. Consolidated Financial Statements**

Honda's audited consolidated financial statements are included under Item 18 Financial Statements .

4. Not applicable.

5. Not applicable.

6. Export Sales

See Information on the Company Marketing and Distribution Overseas Sales .

7. Legal Proceedings

Various legal proceedings are pending against us. We believe that such proceedings constitute ordinary routine litigation incidental to our business. With respect to product liability, personal injury claims or lawsuits, we believe that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by our insurance and accrued liabilities. Punitive damages are claimed in certain of these lawsuits. We are also subject to potential liability under other various lawsuits and claims.

Honda recognizes an accrued liability for loss contingencies when it is probable that an obligation has been incurred and the amount of loss can be reasonably estimated. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recorded 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. 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, results of operations or cash flows.

#### 8. Profit Redistribution Policy

The Company strives to carry out its operations from a global perspective and to increase its corporate value. With respect to the redistribution of profits to its shareholders, which it considers to be one of the most important management issues, its basic policy for dividends is to make distributions after taking into account its long-term consolidated earnings performance.

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

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

The Company determined year-end dividends of ¥22 per share for the year ended March 31, 2014. As a result, total dividends for the year ended March 31, 2014, together with the first quarter dividends of ¥20, the second quarter dividends of ¥20 and the third quarter dividends of ¥20, were ¥82 per share, an increase of ¥6 from the annual dividends paid for the year ended March 31, 2013.

Details of Distribution of Surplus (Record dates of the fiscal year ended March 31, 2014)

	<b>Resolution of the Board of Directors July 31, 2013</b>	<b>Resolution of the Board of Directors October 30, 2013</b>	<b>Resolution of the Board of Directors January 31, 2014</b>	<b>Resolution at General Meeting of Shareholders June 13, 2014</b>
Dividend per Share of Common Stock (yen)	20.00	20.00	20.00	22.00
Total Amount of Dividends (millions of yen)	36,045	36,045	36,045	39,650

**B. Significant Changes**

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

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

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

Since February 11, 1977, American Depositary Shares (each representing one share of Common Stock and evidenced by American Depositary Receipts (ADRs)) have been listed and traded on the New York Stock Exchange (the NYSE), having been traded on the over-the-counter markets in the United States since 1962. In June 1981, Honda's shares were admitted to the official list of the London Stock Exchange. During the fiscal year 2013, Honda delisted its shares from the London Stock Exchange.

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The monthly average turnover of Honda's shares of Common Stock and American Depositary Shares for the fiscal year ended March 31, 2014 was approximately 127,558,058 shares of Common Stock on the TSE and approximately 9,925,268 American Depositary Shares on the NYSE.

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

Fiscal year	Yen per share of Common Stock on the TSE		U.S. dollars per American Depositary Share on the NYSE	
	High	Low	High	Low
2010	¥ 3,410	¥ 2,300	\$ 37.23	\$ 24.83
2011	3,745	2,470	44.54	28.33
2012	3,300	2,127	41.23	27.52
2013				
1st quarter	¥ 3,250	¥ 2,354	\$ 38.96	\$ 30.30
2nd quarter	2,799	2,339	34.81	28.50
3rd quarter	3,185	2,294	37.00	29.26
4th quarter	3,830	3,100	40.00	36.18
2014				
1st quarter	¥ 4,405	¥ 3,350	\$ 42.13	\$ 35.15
2nd quarter	3,945	3,490	39.86	35.86
3rd quarter	4,385	3,680	42.96	37.71
4th quarter	4,320	3,431	41.38	34.24
CY 2013				
Dec	¥ 4,340	¥ 4,055	\$ 42.47	\$ 39.81
CY 2014				
Jan	¥ 4,320	¥ 3,858	\$ 41.38	\$ 37.37
Feb	3,923	3,560	37.37	35.42
Mar	3,848	3,431	37.40	34.24
Apr	3,726	3,292	35.70	32.42
May	3,608	3,292	35.23	32.68

*B. Plan of Distribution*

Not applicable.

*C. Markets*

See Item 9.A, Offer and Listing Details .

*D. Selling Shareholders*

Not applicable.

*E. Dilution*

Not applicable.

*F. Expenses of the Issue*

Not applicable.

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### ***Item 10. Additional Information***

#### ***A. Share Capital***

Not applicable.

#### ***B. Memorandum and Articles of Association***

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

### **General**

Honda's authorized share capital as of the date of the filing of this Form 20-F is 7,086,000,000 shares of Common Stock, of which 1,811,428,430 shares were issued.

The current central clearing system for shares of Japanese listed companies was established in 2009 pursuant to the Law Concerning Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan (including the cabinet order and ministerial ordinances promulgated thereunder; the Book-Entry Law). The shares of all Japanese companies listed on any Japanese financial instruments exchange, including Honda's shares, are subject to the system. Under the Book-Entry Law, all shares are dematerialized and all share certificates for such shares are null and void. At present, the Japan Securities Depository Center, Inc. (JASDEC) is the sole institution that is designated by the relevant authorities as a book-entry transfer institution which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Law. Under the clearing system, in order for any person to hold, sell or otherwise dispose of shares of Japanese listed companies, such person must have an account at an account management institution unless such person has an account directly at JASDEC. Account management institutions are, in general, financial instruments firms engaged in type 1 financial instruments business (i.e., securities brokers/dealers), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Law.

Under the Book-Entry Law, any transfer of shares of Japanese listed companies is effected through book entry, and title to the shares passes to the transferee at the time when the transferred number of the shares is by an application for book entry recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares recorded in such account.

A registered shareholder is generally entitled to exercise its rights as a shareholder, such as voting rights and to receive dividends (if any). Under the Company Law and the Book-Entry Law, in order to assert shareholders' rights against Honda, a shareholder must have its name and address registered in the register of shareholders, except in limited circumstances. Although, in general, holders of an account with shares recorded are to be registered in the register of shareholders on the basis of an all-shareholders notice from JASDEC to Honda at certain prescribed times, in order to exercise minority shareholders' rights (other than those the record dates for which are fixed) against Honda, a holder of an account with

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shares needs to (a) make an application through an account management institution to JASDEC, which will then give a notice of the name and address of such holder, the number of shares held by such holder and other requisite information to Honda, and (b) exercise the rights within four weeks from such notice.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of such standing proxy or mailing address to the relevant account management institution. Such notice will be forwarded to Honda through JASDEC. Japanese financial instruments firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from Honda to non-resident shareholders are delivered to such standing proxies or mailing addresses.

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### **Objects and Purposes**

Article 2 of the articles of incorporation of Honda states that its purpose is to engage in the following businesses:

Manufacture, sale, lease and repair of motor vehicles, ships and vessels, aircrafts and other transportation machinery and equipment.

Manufacture, sale, lease and repair of prime movers, agricultural machinery and appliances, generators, processing machinery and other general machinery and apparatus, electric machinery and apparatus and precision machinery and apparatus.

Manufacture and sale of fiber products, paper products, leather products, lumber products, rubber products, chemical industry products, ceramic products, metal products and other products.

Overland transportation business, marine transportation business, air transportation business, warehousing business, travel business and other transport business and communication business.

Sale of sporting goods, articles of clothing, stationary, daily sundries, pharmaceuticals, drink and foodstuffs and other goods.

Financial business, nonlife insurance agency business, life insurance agency business, construction business including building construction work and real estate business, including real estate brokerage.

Publishing business, advertising business, translation business, interpretation business, management consultancy business, information services including information processing, information and communication and information provision, industrial planning and design, comprehensive security business and labor dispatch services.

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

Electricity generation and supply and sale of electricity.

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

### **Dividends**

Under its articles of incorporation, Honda's financial accounts will be closed on March 31 of each year. The record dates for dividends are June 30, September 30, December 31 and March 31 of each year. In addition, Honda may distribute dividends from surplus by determining any record date.

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Under the Company Law, a company is permitted to make distributions of surplus to the shareholders any number of times per fiscal year pursuant to resolutions of a general meeting of shareholders, subject to certain limitations provided by the Company Law and the Ordinances of the Ministry of Justice thereunder. Distributions of surplus are required, in principle, to be authorized by a resolution of a general meeting of shareholders. However, if the articles of incorporation so provide and certain other requirements under the Company Law are met, distributions of surplus may be made pursuant to a board resolution. Pursuant to the provisions of the Company Law and its articles of incorporation, the Board of Directors of Honda may determine distributions of its surplus.

Distributions of surplus may be made in cash or in-kind in proportion to the number of shares held by each shareholder. If a distribution of surplus is to be made in-kind, a special resolution of a general meeting of shareholders is required, except in the case that a right to receive cash distribution instead of distribution in-kind is granted to shareholders. If such right is granted, distributions in-kind may be made pursuant to an ordinary resolution of a general meeting of shareholders or, as the case may be, a board resolution.

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Under the Company Law, Honda is permitted to prepare non-consolidated extraordinary financial statements consisting of a balance sheet as of any date subsequent to the end of the previous fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. If such extraordinary financial statements are prepared and approved in accordance with the provisions of the Company Law and the Ordinances of the Ministry of Justice thereunder, the results of such extraordinary financial statements may be considered in the calculation of distributable amount.

Under its articles of incorporation, Honda is not obligated to pay any dividends which are left unclaimed for a period of three full years after the date on which they first became payable.

## **Capital and Reserves**

The entire amount of the issue price of the shares to be issued in the future will generally be required to be accounted for as stated capital. However, Honda may account for an amount not exceeding one-half of such issue price as additional paid-in capital by resolution of the Board of Directors in accordance with the Company Law. Honda may at any time reduce the whole or any part of its additional paid-in capital or transfer them to stated capital by resolution of a general meeting of shareholders. The whole or any part of surplus may also be transferred to stated capital, additional paid-in capital or legal reserve by resolution of a general meeting of shareholders.

## **Stock Splits**

Honda may at any time split its shares into a greater number of shares by resolution of the Board of Directors. When the Board of Directors approves a stock split, it may also amend the articles of incorporation of Honda without approval of shareholders to increase the number of its authorized shares to such number as it determines, provided such number is equal to or less than the then-current number multiplied by the ratio of the stock split, so long as Honda does not issue more than one class of shares.

Under the Book-Entry Law, Honda must give notice to JASDEC regarding a stock split at least two weeks prior to the relevant effective date. On the effective date of the stock split, the numbers of shares recorded in all accounts held by its shareholders at account management institutions or at JASDEC will be increased in accordance with the applicable ratio.

## **Consolidation of Shares**

Honda may at any time consolidate its shares into a smaller number of shares by a special resolution of the general meeting of shareholders. A representative director of Honda must disclose the reason for the consolidation of the shares at the general meeting of shareholders.

Under the Book-Entry Law, Honda must give notice to JASDEC regarding a consolidation of shares at least two weeks prior to the relevant effective date. On the effective date of the consolidation of shares, the numbers of shares recorded in all accounts held by its shareholders at account management institutions or at JASDEC will be decreased in accordance with the applicable ratio.

### **Japanese Unit Share System**

Consistent with the requirements of the Company Law, the articles of incorporation of Honda adopts a unit share system called *tan-gen-kabu*, under which 100 shares constitute one voting unit of shares. The Board of Directors of Honda by itself may reduce, but not increase, the number of shares that constitute one voting unit or abolish the unit share system entirely by amendments to the articles of incorporation by a board resolution without approval of shareholders. An increase in the number of shares that constitute one voting unit requires an amendment to the articles of incorporation by a special resolution of a general shareholders' meeting. In any case, the number of shares constituting one voting unit may not exceed 1,000 shares or 0.5% of the total issued shares.

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Under the Book-Entry Law, shares constituting less than one voting unit are transferable. Under the rules of the Japanese financial instruments exchanges, however, shares constituting less than one voting unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese financial instruments exchanges.

The holder of shares constituting less than one voting unit may at any time require Honda to purchase or sell such shares to constitute one voting unit at the market price in accordance with Honda's share handling regulations (see below). Because the transfer of ADRs does not require changes in the ownership of the underlying shares, holders of ADRs evidencing ADSs that constitute less than one voting unit of shares are not affected by these restrictions in their ability to transfer the ADRs. However, because transfers of less than one voting unit of the underlying shares are normally prohibited under the unit share system, under the Deposit Agreement, the right of ADR holders to surrender their ADRs and withdraw the underlying shares for sale in Japan may only be exercised as to whole voting units.

### ***Right of a Holder of Shares Representing Less Than One Voting Unit to Require Honda to Purchase or Sell Its Shares***

A holder of Honda's shares representing less than one voting unit may at any time require Honda to purchase its shares. These shares will be purchased at (a) the closing price of the shares reported by the Tokyo Stock Exchange on the day when the request for purchase reaches the share handling agent, or (b) if no sale takes place on the Tokyo Stock Exchange on that day, then the price at which the first sale of shares is effected on the Tokyo Stock Exchange thereafter. In each case, Honda will request the payment of an amount determined by Honda as an amount equal to the brokerage commission required for the sale and purchase of the shares. A holder of shares representing less than one voting unit may, in accordance with the provisions of Honda's share handling regulations, also make a request to the effect that such number of shares should be sold to it that will, when added to the shares less than one voting unit already held by that shareholder, constitute one voting unit. However, because holders of ADSs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise many shareholder rights as a practical matter.

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

In addition to the right described in the preceding paragraph, a holder of shares representing less than one voting unit also has the rights including the followings and these rights may not be restricted by the articles of incorporation:

rights to receive any consideration for acquisition by a corporation of special shares all of which may be acquired by such corporation (*zembu shutoku joukou tsuki shurui kabushiki*) as provided by Article 171, paragraph 1, item 1 of the Company Law,

rights to receive any cash or other consideration for acquisition by a corporation of shares which may be acquired by such corporation on occurrence of certain event (*shutoku joukou tsuki shurui kabushiki*) as provided by Article 107, paragraph 1, item 3 of the Company Law,

rights to be allocated any shares without consideration as provided by Article 185 of the Company Law,

rights to receive distribution of any residual assets of a corporation, and

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any other rights provided in the relevant Ordinance of the Ministry of Justice, including rights to receive cash or other distribution derived from consolidation of shares, stock split, allocation of stock acquisition rights without consideration, distribution of surplus or reorganization of a corporation.

Other rights of a holder of shares constituting less than one voting unit may be restricted if the articles of incorporation so provide.

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### ***Voting rights under the unit share system***

Under the unit share system, the shareholders shall have one voting right for each voting unit of shares that they hold. A shareholder who owns shares representing less than one voting unit will not be able to exercise voting rights and any other rights relating thereto.

### **Voting Rights**

Honda holds its ordinary general meeting of shareholders in June of each year. In addition, Honda may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice. Under the Company Law, notice of any shareholders' meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with Honda's share handling regulations, at least two weeks prior to the date of the meeting. The record date for an ordinary shareholders' meeting is March 31 of each year.

A shareholder of Honda is generally entitled to one vote per voting unit of shares as described in this paragraph and under "Japanese Unit Share System" above. In general, under the Company Law and the articles of incorporation of Honda, a resolution may be adopted at a meeting of shareholders by a majority of the shares having voting rights represented at the meeting. The Company Law and Honda's articles of incorporation require a quorum for the election of Directors and Corporate Auditors of not less than one-third of the total number of voting rights of all shareholders and the resolution shall be adopted by majority voting. Honda's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder whose voting rights are in turn more than one-quarter directly or indirectly owned by Honda does not have voting rights. Also, Honda does not have voting rights with respect to its own shares.

Shareholders may exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights. Shareholders who intend to be absent from a general meeting of shareholders may exercise their voting rights in writing. In addition, they may exercise their voting rights by electronic means if the Board of Directors decides to accept such means.

Under the Company Law, in order to approve certain significant matters of a corporation, more strict requirement for the quorum or the number of voting rights to approve is provided. The articles of incorporation of Honda provide that such resolution may be adopted at a meeting of shareholders by two thirds of the voting rights of the shareholders present at the meeting representing at least one third of all the shareholders having voting rights. Such significant matters include, but are not limited to:

acquisition of its own shares by Honda from a specific shareholder other than its subsidiary,

acquisition of special shares all of which may be acquired by Honda (*zembu shutoku joukou tsuki shurui kabushiki*),

consolidation of the shares,

reduction of stated capital (with certain exceptions),

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issuance or transfer of new shares or existing shares held by Honda as treasury stock to persons other than the shareholders at a specially favorable price,

issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under specially favorable conditions,

discharge of a part of responsibilities of Directors, Corporate Auditors or accounting auditors,

distribution of surplus by property other than cash (only in the case that no cash distribution is allowed to shareholders),

amendments to the articles of incorporation,

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transfer of whole or important part of business,

dissolution of a corporation,

reorganization of a corporation.

Pursuant to the terms of the Deposit Agreement, upon receipt of notice of any meeting of holders of Common Stock of the Registrant, the Depositary will mail to the record holders of ADRs and publish a notice which will contain the information in the notice of the meeting. The record holders of ADRs at the close of business on a date specified by the Depositary will be entitled to instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Common Stock of the Registrant represented by their respective Depositary Receipts. The Depositary will endeavor, in so far as practicable, to vote the amount of Common Stock of the Registrant represented by such Depositary Receipts in accordance with such instructions, and the Registrant has agreed to take all action which may at any time be deemed necessary by the Depositary in order to enable the Depositary to so vote such Common Stock. In the absence of such instructions, the Depositary has agreed to use its best efforts to give a discretionary proxy to a person designated by the Registrant. However, such proxy may not be given with respect to any proposition of which the Depositary has knowledge regarding any contest related to the action to be taken at the meeting, or the purpose of which is to authorize a merger, consolidation or any other matter which may substantially affect the rights or privileges of the Common Stock of the Registrant or other securities, property or cash received by the Depositary or the Custodian in respect thereof.

## **Subscription Rights and Stock Acquisition Rights**

Holders of Honda's shares have no preemptive rights under Honda's articles of incorporation. Under the Company Law, the Board of Directors may, however, determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, such rights must be given to all shareholders as of a specified record date by at least two weeks' prior public notice to shareholders of the record date. In addition, individual notice must be given to each of these shareholders at least two weeks prior to the date of expiration of the subscription rights.

Honda also may decide to grant the stock acquisition rights (*shinkabu-yoyakuken*), with or without bonds, to any person including its shareholders, by resolution of its Board of Directors unless issued under specially favorable conditions. The holder of such rights may exercise its rights within the exercise period by paying subscription moneys all as prescribed in the terms of such rights.

## **Liquidation Rights**

In the event of a liquidation of Honda, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the number of shares they own.

## **Liability to Further Calls or Assessments**

All of Honda's currently issued shares, including shares represented by the ADSs, are fully paid and nonassessable.

**Shareholders' Register Manager**

Sumitomo Mitsui Trust Bank, Limited is the Shareholders' Register Manager for the shares. Sumitomo Mitsui Trust Bank's office is located at 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-8233, Japan. Sumitomo Mitsui Trust Bank maintains Honda's register of shareholders and records the names and addresses of its shareholders and other relevant information in its register of shareholders upon notice thereof from JASDEC, as described in "Record Date" below.

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### **Record Date**

As mentioned above, the record dates for Honda's dividends are June 30, September 30, December 31 and March 31, if paid. A holder of shares constituting one or more whole voting units who is registered as a holder on Honda's register of shareholders at the close of business as of March 31 is entitled to exercise its voting rights at the ordinary general meeting of shareholders with respect to the fiscal year ended on March 31. In addition, Honda may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' prior public notice.

Under the Book-Entry Law, Honda is required to give notice of each record date to JASDEC at least two weeks prior to such record date. JASDEC is required to promptly give notice to Honda of the names and addresses of all of its shareholders of record, the numbers of shares held by them and other relevant information as of such record date.

The shares generally trade ex-dividend or ex-rights on the Japanese financial instruments exchanges on the second business day prior to a record date (or if the record date is not a business day, the third business day prior thereto).

### **Acquisition by Honda of Shares**

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

- (i) a resolution at a general meeting of shareholders, which may be effective for one year at the most from the date thereof;
- (ii) a resolution of the Board of Directors if the acquisition is in accordance with its articles of incorporation; or
- (iii) a resolution of the Board of Directors if the acquisition is to purchase its shares from a subsidiary.

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

Upon due authorization, Honda may acquire its own shares:

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

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

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

In the event Honda is to acquire its own shares from a specific person other than its subsidiary at a price which is higher than the higher of (x) the final market price on the market trading such shares as of the date immediately preceding the date of the required resolution or (y) in the event that such shares are subject to a tender offer, etc., the price set in the contract regarding such tender offer, any shareholder may request that Honda includes such shareholder's shares in the proposed purchase.

Acquisitions described in (i) through (iii) above must satisfy certain other requirements, including the restriction of the source of consideration in which the total amount of the purchase price of such own shares may not exceed the distributable amount of the corporation.

#### **Reports to Shareholders**

Honda currently furnishes shareholders with notices of shareholders' meetings, business reports, including financial statements, and notices of resolutions adopted at the shareholders' meetings, all of which are in Japanese. Such notices as described above may be furnished by electronic means to those shareholders who have

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approved such way of furnishing notices. Pursuant to its articles of incorporation, upon convening a general meeting of shareholders, Honda may deem that the information required to be described or indicated in the reference documents for the general meeting of shareholders, business reports, financial statements and consolidated financial statements shall have been provided to the shareholders when such information is disclosed, pursuant to laws or regulations, through a method that uses the Internet. Further, pursuant to its articles of incorporation, Honda's public notices to shareholders shall be given in Japanese by way of electronic public notice; provided, however, that if any public notice is unable to be given by electronic method due to any accident or for any other unavoidable reason, such public notice shall be given by publication in the Nihon Keizai Shimbun, a Japanese newspaper of general circulation.

## **Report of Substantial Shareholdings**

The Financial Instruments and Exchange Law of Japan and regulations under such law require any person who has become a holder (together with its related persons) of more than 5% of the total issued shares of a corporation listed on any Japanese financial instruments exchange or whose shares are traded on the over-the-counter market (including ADSs representing such shares) to file with the Director of a competent Local Finance Bureau, within five business days, in general, a report concerning those shareholdings. A similar report must also be filed to reflect any change of 1% or more in any shareholding or any change in material matters set out in reports previously filed. As of April 1, 2014, any person who filed a report on or after that date to reflect a change in holding of 5% or less of the total issued shares is not required to file any further report for a change of 1% or more in shareholding (unless the holding exceeds 5%) or any change in material matters previously reported. Copies of any report must also be furnished to the corporation and to all Japanese financial instruments exchanges on which the corporation's shares are listed or in the case of shares traded on the over-the-counter market, the Japan Securities Dealers Association. For this purpose, shares issuable or transferable to such person upon exercise of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights are taken into account in determining both the number of shares held by that holder and the corporation's total issued share capital.

## **Daily Price Limits under Japanese Financial Instruments Exchange Rules**

Share prices on Japanese financial instruments exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges set daily price limits, which limit the maximum range of fluctuation within a single trading day. Daily price limits are set in absolute yen according to the previous day's closing price or special quote. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell its shares at such price on a particular trading day, or at all.

## ***C. Material Contracts***

All contracts concluded by Honda during the two years preceding this filing were entered into in the ordinary course of business.

## ***D. Exchange Controls***

There are no laws, decrees, regulations or other legislation of Japan which materially affect our ability to import or export capital for our use or our ability to pay dividends or other payments to nonresident holders of our shares.

*E. Taxation*

**Japanese Taxes**

The following is a summary of the principal Japanese tax consequences as of the date of filing of this Form 20-F to owners of Honda's shares or ADSs who are non-resident individuals or non-Japanese corporations

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without a permanent establishment in Japan to which income from Honda's shares is attributable. The tax treatment is subject to possible changes in the applicable Japanese laws or double taxation conventions occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor. Potential investors should consult their own tax advisers as to:

the overall tax consequences of the acquisition, ownership and disposition of shares or ADSs, including specifically the tax consequences under Japanese law;

the laws of the jurisdiction of which they are resident; and

any tax treaty between Japan and their country of residence.

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

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to a non-resident of Japan or a non-Japanese corporation is (a) 20.42% for dividends to be paid on or before December 31, 2037, and (b) 20% for dividends to be paid thereafter. With respect to dividends paid on listed shares issued by Japanese corporations (such as Honda's shares) to a non-resident of Japan or a non-Japanese corporation, the aforementioned 20.42% or 20% withholding tax rate is reduced to (i) 15.315% for dividends to be paid on or before December 31, 2037, and (ii) 15% for dividends to be paid thereafter, except for dividends paid to any individual shareholder who holds 3% or more of the issued shares of that corporation. Japan has entered into income tax treaties, conventions or agreements, whereby the maximum withholding tax rate is generally set at 15% or 10% for portfolio investors (15% under the income tax treaties with, among others, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore, Spain, and Sweden, and 10% under the income tax treaties with, among others, Australia, France, the Netherlands, Portugal, Switzerland, the United Kingdom, and the United States).

Pursuant to the Convention Between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "U.S.-Japan Tax Treaty"), a portfolio investor that is a U.S. holder is generally subject to Japanese withholding tax on dividends on shares at a rate of 10%. Under Japanese tax law, the maximum rate applicable under the tax treaties, conventions or agreements shall be applicable except when such maximum rate is more than the Japanese statutory rate.

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

## **United States Taxes**

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

This section is based on the Internal Revenue Code of 1986, as amended (the Code ), its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the U.S.-Japan Tax Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

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

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

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

## **Taxation of Dividends**

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

Dividends paid to a noncorporate U.S. holder that constitute qualified dividend income will be taxable to such holder at the preferential rates applicable to long term capital gains provided that the noncorporate U.S. holder holds the shares or ADSs with respect to which the dividends are paid for more than 60 days during the 121 day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends that Honda pays with respect to the shares or ADSs generally will be qualified dividend income. A U.S. holder must include the dividend in its taxable income when the holder, in the case of shares, or the Depositary, in the case of ADSs, receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The amount of the dividend distribution that a U.S. holder must include in its income will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date of the dividend distribution, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the U.S. holder includes the dividend payment in income to the date it converts the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the U.S. for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of U.S. holder's basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with the U.S.-Japan Tax Treaty and paid over to Japan will be creditable against a U.S. holder's United States federal income tax liability. Special



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

Dividends will be income from sources outside the United States and will, depending on a U.S. holder's circumstances, be either passive or general income for purposes of computing the foreign tax credit allowable to such U.S. holder.

## **Taxation of Capital Gains**

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

## **Passive Foreign Investment Company (PFIC) Rules**

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

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

at least 75% of Honda's gross income for the taxable year is passive income; or

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

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

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

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any gain it realizes on the sale or other disposition of its shares or ADSs; and

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

Under these rules:

the gain or excess distribution will be allocated ratably over the U.S. holder's holding period for the shares or ADSs,

the amount allocated to the taxable year in which it realized the gain or excess distribution will be taxed as ordinary income,

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the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

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

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

In addition, notwithstanding any election that a U.S. holder makes with regard to the shares or ADSs, dividends that a U.S. holder receives from Honda will not constitute qualified dividend income to such holder if Honda is a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, shares or ADSs held by a U.S. holder will be treated as stock in a PFIC if Honda was a PFIC at any time during the U.S. holder's holding period in its shares or ADSs, even if Honda is not currently a PFIC, unless a U.S. holder has made a mark-to-market election with respect to its shares or ADSs or the U.S. holder has otherwise made a "purging election" with respect to its shares or ADSs. Dividends that a U.S. holder receives that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, the U.S. holder must include the gross amount of any such dividend paid by Honda out of Honda's accumulated earnings and profits (as determined for United States federal income tax purposes) in the U.S. holder's gross income, and it will be subject to tax at rates applicable to ordinary income.

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

### *F. Dividends and Paying Agents*

Not applicable.

### *G. Statement by Experts*

Not applicable.

*H. Documents on Display*

Honda is subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, it will file annual reports on Form 20-F within six months of its fiscal year-end and furnish other reports and information on Form 6-K with the Securities and Exchange Commission. These reports and other information can be inspected without charge at the public reference room at the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You can also obtain copies of such material by mail from the public reference room of the Securities and Exchange Commission at prescribed fees. You may obtain

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information on the operation of the Securities and Exchange public reference room by calling the Securities and Exchange Commission in the United States at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. Also, as a foreign private issuer, Honda is exempt from the rules under the Securities Exchange Act of 1934 prescribing the furnishing and content of proxy statements to shareholders.

*I. Subsidiary Information*

Not applicable.

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

Honda is exposed to market risks, which are changes in foreign currency exchanges rates, in interest rates and in prices of marketable equity securities. Honda is a party to derivative financial instruments in the normal course of business in order to manage risks associated with changes in foreign currency exchange rates and in interest rates. Honda does not hold any derivative financial instruments for trading purposes.

**Foreign Currency Exchange Rate Risk**

Foreign currency forward exchange contracts and purchased option contracts are used to hedge currency risk of sale commitments denominated in foreign currencies (principally U.S. dollars).

Foreign currency written option contracts are entered into in combination with purchased option contracts to offset premium amounts to be paid for purchased option contracts.

The following tables provide information about our derivatives related to foreign currency exchange rate risk as of March 31, 2013 and 2014. For forward exchange contracts and currency options, these tables present the contract amounts and fair value. All forward exchange contracts and currency contracts to which we are a party have original maturities within one year.

**Foreign Exchange Risk**

	2013		Average contractual rate	2014		Average contractual rate
	Yen (millions) Contract amount	Fair value		Yen (millions) Contract amount	Fair value	
<b>Forward Exchange Contracts</b>						
To sell US\$	¥ 390,548	(33,197)	85.72	¥ 98,260	(225)	103.00

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To sell EUR	14,751	(2,311)	99.80	3,289	(6)	141.37
To sell CA\$	13	375	92.10	10		91.99
To sell GBP	6,230	17	143.55	1,593	(17)	169.53
To sell other foreign currencies	108,215	(14,318)	various	25,373	(1,119)	various
To buy US\$	3,441	4	93.92	3,919	21	102.39
To buy other foreign currencies	7,656	100	various	2,489	31	various
Cross-currencies	216,905	1,441	various	371,801	(69)	various
Total	¥ 747,759	(47,889)		¥ 506,734	(1,384)	

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	Yen (millions)		Average contractual rate	Yen (millions)		Average contractual rate
	Contract amount	Fair value		Contract amount	Fair value	
<b>Currency Option Contracts</b>						
Option purchased to sell US\$	¥ 2,020	33	various	¥ 1,861	(11)	various
Option written to sell US\$	2,019	(9)	various	1,860	10	various
Option purchased to sell other foreign currencies	53	1	various			
Option written to sell other foreign currencies	53		various			
<b>Total</b>	<b>¥ 4,145</b>	<b>25</b>		<b>¥ 3,721</b>	<b>(1)</b>	

**Interest Rate Risk**

Honda is exposed to market risk for changes in interest rates related primarily to its debt obligations and finance receivables. In addition to short-term financing such as commercial paper, Honda has long-term debt with both fixed and floating rates. Our finance receivables are primarily fixed rate. Interest rate swap agreements are mainly used to manage interest rate risk exposure and to convert floating rate financing to fixed rate financing (normally three-five years) in order to match financing costs with income from finance receivables. Foreign currency and interest rate swap agreements used among different currencies, also serve to hedge foreign currency exchange risk as well as interest rate risk.

The following tables provide information about Honda's financial instruments that were sensitive to changes in interest rates at March 31, 2013 and 2014. For finance receivables and long-term debt, these tables present principal cash flows, fair value and related weighted average interest rates. For interest rate swaps and currency and interest rate swaps, the table presents notional amounts, fair value and weighted average interest rates. Variable interest rates are determined using formulas such as LIBOR+a and an index.

**Interest Rate Risk****Finance Subsidiaries-Receivables**

	2013 Yen (millions)			2014 Yen (millions) Expected maturity date							Average interest rate
	Total	Fair value	Total	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	There-after	Fair value	
<b>Direct financing leases</b>											
JP¥	¥ 106,735	*	¥ 119,306	30,150	24,279	28,626	20,627	15,495	129	*	4.11%
Other	341,937	*	303,630	84,685	91,847	77,264	36,722	13,112		*	2.27%
<b>Total Direct financing leases</b>	<b>¥ 448,672</b>	<b>*</b>	<b>¥ 422,936</b>	<b>114,835</b>	<b>116,126</b>	<b>105,890</b>	<b>57,349</b>	<b>28,607</b>	<b>129</b>	<b>*</b>	
<b>Other finance subsidiaries-receivables</b>											
JP¥	¥ 542,165	544,441	¥ 628,167	172,864	146,967	124,724	93,550	60,716	29,346	611,136	3.61%
US\$	3,025,075	3,059,686	3,607,002	1,314,043	854,711	677,423	461,577	233,548	65,700	3,637,098	3.20%
Other	730,185	722,206	940,967	390,809	307,445	112,589	73,018	33,715	23,391	927,330	6.68%

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Total	Other finance										
subsidiaries-receivables	¥ 4,297,425	4,326,333	¥ 5,176,136	1,877,716	1,309,123	914,736	628,145	327,979	118,437	5,175,564	
Total**	¥ 4,746,097		¥ 5,599,072								

\* Under U.S. generally accepted accounting principles, disclosure of fair values of direct financing leases is not required.

\*\* The finance subsidiaries-receivables include finance subsidiaries-receivables contained in trade accounts and notes receivable and other assets in the consolidated balance sheets. Additional detailed information is described in note (3) to the accompanying consolidated financial statements.

**Table of Contents****Long-Term Debt (including current portion)**

	2013 Yen (millions)			2014 Yen (millions) Expected maturity date							Fair value	Average interest rate
	Total	Fair value	Total	Within 1 year	1-2 year	Expected maturity date						
						2-3 year	3-4 year	4-5 year	Thereafter			
Japanese yen bonds	¥ 340,000	342,627	¥ 450,000	30,000	60,000	80,000	95,000	130,000	55,000	452,373	0.48%	
Japanese yen medium-term notes (Fixed rate)	42,923	43,445	36,378	5,982	27,405				2,991	36,924	0.73%	
Japanese yen medium-term notes (Floating rate)	5,490	5,488	1,994		1,994					1,995	0.22%	
U.S. dollar medium-term notes (Fixed rate)	942,086	994,988	1,062,127	221,278	202,745	231,570	128,650	174,964	102,920	1,101,604	2.45%	
U.S. dollar medium-term notes (Floating rate)	235,427	237,547	515,612	226,424	52,987	209,442	10,292	16,467		518,199	0.63%	
Asset backed notes	681,020	684,741	808,022	412,200	267,532	109,093	16,135	2,519	543	811,297	0.70%	
Loans and others primarily fixed rate	1,408,945	1,419,185	1,663,397	407,580	350,799	495,091	140,927	136,780	132,220	1,675,351	1.99%	
Total	¥ 3,655,891	3,728,021	¥ 4,537,530	1,303,464	963,462	1,125,196	391,004	460,730	293,674	4,597,743		

**Interest Rate Swaps**

		2013 Yen (millions)			2014 Yen (millions)									
		Expected maturity date												
Notional principal currency	Receive/Pay	Contract	Fair	Contract	Within	1-2	2-3	3-4	4-5	Thereafter	Fair	Average	Average	
		amount	value	amount	1 year	year	year	year	year		value	receive	pay	
US\$	Float/Fix	¥ 2,424,360	(11,508)	¥ 3,089,462	1,291,320	853,366	715,800	192,477	35,212	1,287	(3,662)	0.24%	0.73%	
	Fix/Float	993,168	30,934	1,065,222	221,278	205,840	231,570	128,650	174,964	102,920	14,347	2.45%	1.24%	
CA\$	Float/Fix	493,374	(2,743)	529,733	185,472	140,365	99,171	69,118	26,479	9,128	(1,810)	1.32%	1.85%	
	Fix/Float	120,174	924	74,512				37,256	37,256		69	2.31%	1.90%	
GBP	Float/Fix	32,213	(94)	50,108	33,834	11,135	5,139				(17)	0.52%	0.71%	
Total		¥ 4,063,289	17,513	¥ 4,809,037	1,731,904	1,210,706	1,051,680	427,501	273,911	113,335	8,927			

**Currency & Interest Rate Swaps**

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Receiving side currency	Paying side currency	Receive/ Pay	2013 Yen (millions)				2014 Yen (millions)							Average receive rate	Average pay rate
			Contract amount	Fair value	Contract amount	Within 1 year	Expected maturity date					Fair value			
							1-2 year	2-3 year	3-4 year	4-5 year	Thereafter				
JP¥	US\$	Fix/Float	¥ 46,029	(2,704)	¥ 44,074	6,854	34,328				2,892	(7,378)	0.76%	0.96%	
		Float/Float	5,383	88	2,330		2,330					(354)	0.22%	0.89%	
Other	Other	Fix/Float	253,922	(20,306)	258,267	155,234					103,033	4,200	3.31%	1.72%	
		Float/Fix	31,920	(1,610)	61,360	18,071	13,303	10,910	19,076			1,101	0.76%	3.30%	
Total			¥ 337,254	(24,532)	¥ 366,031	180,159	49,961	10,910	19,076		105,925	(2,431)			

## Equity Price Risk

Honda is exposed to equity price risk as a result of its holdings of marketable equity securities. Marketable equity securities included in Honda's investment portfolio are held for purposes other than trading, and are reported at fair value, with unrealized gains or losses, net of deferred taxes, included in accumulated other comprehensive income (loss) in equity section of the consolidated balance sheets. At March 31, 2013 and 2014, the estimated fair values of marketable equity securities were ¥117.1 billion and ¥138.4 billion, respectively.

## Item 12. Description of Securities Other than Equity Securities

### A. Debt Securities

Not applicable.

**Table of Contents***B. Warrants and Rights*

Not applicable.

*C. Other Securities*

Not applicable.

*D. American Depositary Shares*

## 3. Fees and charges.

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

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

Category (as defined by SEC)	Depositary Actions	Associated Fee
(a) Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of Shares, including deposits and issuances in respect of:	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
	Share distributions, stock split, rights, merger	
	Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the deposited securities	
(b) Receiving or distributing dividends	Not applicable	
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	USD 5.00 for each 100 ADSs (or portion thereof)

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(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	USD 2.50 per ADS certificate
(f) General depositary services, particularly those charged on an annual basis	Not applicable	

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<b>Category (as defined by SEC)</b>	<b>Depository Actions</b>	<b>Associated Fee</b>
(g) Expenses of the depositary	Expenses incurred on behalf of holders in connection with	Expenses payable at the sole discretion of the depositary by billing holders or by deducting charges from one or more dividends or other cash distributions
	Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment	
	The depositary's or its custodian's compliance with applicable law, rule or regulation	
	Stock transfer or other taxes and other governmental charges	
	Cable, telex, facsimile transmission/delivery	
	Expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency)	
	Any other charge payable by the depositary or its agents	

#### **4. Direct / Indirect Payment Disclosure**

Honda does not receive any reimbursement from the depositary bank. JPMorgan Chase Bank, N.A. agreed to waive an out-of-pocket expense of \$50,000 associated with the administration of the ADR program. The out-of-pocket expenses relate to depositary service administration, including but not limited to, dividend disbursement and proxy process.

## **PART II**

### ***Item 13. Defaults, Dividend Arrearages and Delinquencies***

None.

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

None.

***Item 15. Controls and Procedures***

**Disclosure Controls and Procedures**

Under the supervision and participation of our management, including our Chief Executive Officer and Chief Operating Officer for Business Management Operations (who is our Chief Financial Officer), we performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934) as of March 31, 2014. Based on that evaluation, our Chief Executive Officer and Chief Operating Officer for Business Management Operations concluded that our disclosure controls and procedures were effective as of that date.

**Management's Report on Internal Control over Financial Reporting**

The management of Honda is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Securities Exchange Act of 1934).

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

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

Our management assessed the effectiveness of internal control over financial reporting as of March 31, 2014 based on the criteria established in Internal Control-Integrated Framework (1992) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, our management concluded that our internal control over financial reporting was effective as of March 31, 2014.

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

### ***Changes in Internal Control over Financial Reporting***

No significant changes were made in our internal control over financial reporting during the fiscal year ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ***Item 16A. Audit Committee Financial Expert***

Honda's Board of Corporate Auditors has determined that Mr. Kunio Endo and Mr. Hirotake Abe are each qualified as an audit committee financial expert as defined by the rules of the SEC. Mr. Endo and Mr. Abe were each elected to become one of Honda's Corporate Auditors at the general meeting of shareholders held on June 19, 2013 and June 23, 2011, respectively. See Item 6.A. for additional information regarding them. They meet the independence requirements imposed on Corporate Auditors under the Company Law of Japan. See Item 6.C. for an explanation of such independence requirements.

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

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

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

KPMG AZSA LLC has served as Honda's independent registered public accounting firm for each of the fiscal years in the three-year period ended March 31, 2014, for which audited financial statements appear in this annual report on Form 20-F.

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The following table presents the aggregate fees for professional services and other services rendered by KPMG AZSA LLC and the various member firms of KPMG International, a Swiss Cooperative, to Honda in fiscal year 2013 and 2014:

	Yen (millions)	
	2013	2014
Audit Fees	¥ 2,486	¥ 3,670
Audit-Related Fees	59	89
All Other Fees	16	31
Total	¥ 2,561	¥ 3,790

**Audit Fees** means fees for audit services, which are professional services provided by independent auditors for the audit of our annual financial statements or for services that are normally provided by independent auditors with respect to any submissions required under applicable laws and regulations.

**Audit-Related Fees** means fees for audit-related services, which are assurance services provided by independent auditors that are reasonably related to the carrying out of auditing or reviewing of our financial reports and other related services. This category includes fees for agreed-upon or expanded audit procedures related to accounting and/or other records.

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

***Pre-approval policies and procedures of the Board of Corporate Auditors***

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

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

All services to be provided to us by the principal accountant and its affiliates which are not specifically set forth in this list must be specifically pre-approved by our Board of Corporate Auditors.

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

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

With respect to the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 relating to listed company audit committees, which apply to us through Section 303A.06 of the New York Stock Exchange's Listed Company Manual, we rely on an exemption provided by paragraph (c)(3) of that Rule available to foreign private issuers with Boards of Corporate Auditors meeting certain requirements. For a New York Stock Exchange-listed Japanese company with a Board of Corporate Auditors, the requirements for relying on paragraph (c)(3) of Rule 10A-3 are as follows:

The Board of Corporate Auditors must be established, and its members must be selected, pursuant to Japanese law expressly requiring such a board for Japanese companies that elect to have a corporate governance system with Corporate Auditors.

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Japanese law must and does require the Board of Corporate Auditors to be separate from the Board of Directors.

None of the members of the Board of Corporate Auditors may be elected by management, and none of the listed company's executive officers may be a member of the Board of Corporate Auditors.

Japanese law must and does set forth standards for the independence of the members of the Board of Corporate Auditors from the listed company or its management.

The Board of Corporate Auditors, in accordance with Japanese law or the listed company's governing documents, must be responsible, to the extent permitted by Japanese law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by Japanese law, the resolution of disagreements between our management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed company, including its independent registered public accounting firm that audits its consolidated financial statements included in its annual reports on Form 20-F.

To the extent permitted by Japanese law:

the Board of Corporate Auditors must establish procedures for (i) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;

the Board of Corporate Auditors must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties; and

the listed company must provide for appropriate funding, as determined by its Board of Corporate Auditors, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us, (ii) compensation to any advisers employed by the Board of Corporate Auditors, and (iii) ordinary administrative expenses of the Board of Corporate Auditors that are necessary or appropriate in carrying out its duties.

In our assessment, our Board of Corporate Auditors, which meets the requirements for reliance on the exemption in paragraph (c)(3) of Rule 10A-3 as described above, is not materially less effective than an audit committee meeting all the requirements of paragraph (b) of Rule 10A-3 (without relying on any exemption provided by that Rule) at acting independently of management and performing the functions of an audit committee as contemplated therein.

**Table of Contents****Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth certain information with respect to purchases by Honda of its own shares during the year ended March 31, 2014. There were no purchases of Honda's shares by its affiliated purchasers during that year.

Period	(a) Total Number of Shares Purchased <sup>(*)</sup>	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Yen Amount of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2013	464	¥ 4,249		
May 1 to May 31, 2013	512	¥ 4,211		
June 1 to June 30, 2013	515	¥ 3,613		
July 1 to July 31, 2013	290	¥ 3,835		
August 1 to August 31, 2013	276	¥ 3,733		
September 1 to September 30, 2013	335	¥ 3,737		
October 1 to October 31, 2013	324	¥ 3,873		
November 1 to November 30, 2013	383	¥ 4,233		
December 1 to December 31, 2013	1,962	¥ 4,239		
January 1 to January 31, 2014	622	¥ 4,196		
February 1 to February 28, 2014	289	¥ 3,790		
March 1 to March 31, 2014	122	¥ 4,853		
<b>Total</b>	<b>6,094</b>	<b>¥ 4,082</b>		

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

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

Not applicable.

**Item 16G. Corporate Governance**

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

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

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

### **Corporate Governance Practices Followed by**

#### **NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have a majority of directors meeting the independence requirements under Section 303A of the NYSE Listed Company Manual.

#### **Corporate Governance Practices Followed by Honda**

For Japanese companies, which employ a corporate governance system based on a Board of Corporate Auditors (the Board of Corporate Auditors system), including Honda, Japan's Company Law has no independence requirement with respect to directors. The task of overseeing management and, together with the accounting audit firm, accounting, is assigned to the Corporate Auditors, who are separate from the company's management and meet certain independence requirements under Japan's Company Law.

In the case of Japanese companies which employ the Board of Corporate Auditors system, including Honda, at least half of the Corporate Auditors must be outside Corporate Auditors who must meet additional independence requirements under Japan's Company Law. An outside Corporate Auditor is defined as a Corporate Auditor who has not served as a director, accounting councilor, executive officer, manager or any other employee of the company or any of its subsidiaries. Currently, Honda has three outside Corporate Auditors which constitute 60% of Honda's five Corporate Auditors.

In addition, the listing rules of the Tokyo Stock Exchange, which Honda is subject to, require listed companies to have at least one independent Director or Corporate Auditor, and to make efforts to have at least one independent Director. Requirements for an independent Director/Corporate Auditor are more stringent than those for outside Directors or outside Corporate Auditors. Unlike an outside Director/Corporate Auditor, an independent Director/Corporate Auditor may not be a person who is an executive officer, manager or employee of the parent company of the company or of the major business counterparties, or someone who is a professional advisor receiving significant remuneration from the company. Honda already has one independent Director out of two outside Directors and two independent Corporate Auditors out of three outside Corporate Auditors.

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### **Corporate Governance Practices Followed by**

#### **NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have an audit committee composed entirely of independent directors, and the audit committee must have at least three members.

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

#### **Corporate Governance Practices Followed by Honda**

Like a majority of Japanese companies, Honda employs the Board of Corporate Auditors system as described above. Under this system, the Board of Corporate Auditors is a legally separate and independent body from the Board of Directors. The main function of the Board of Corporate Auditors is similar to that of independent directors, including those who are members of the audit committee, of a U.S. company: to monitor the performance of the directors, and review and express opinions on the method of auditing by the company's accounting audit firm and on such accounting audit firm's audit reports, for the protection of the company's shareholders.

Japanese companies which employ the Board of Corporate Auditors system, including Honda, are required to have at least three Corporate Auditors. Currently, Honda has five Corporate Auditors. Each Corporate Auditor has a four-year term. In contrast, the term of each Director of Honda is one year.

With respect to the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees, Honda relies on an exemption under that rule which is available to foreign private issuers with Board of Corporate Auditors meeting certain criteria.

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

Honda's Corporate Auditors are also elected at a meeting of shareholders. A proposal by Honda's Board of Directors to elect a Corporate Auditor must be approved by a resolution of its Board of Corporate Auditors. The Board of Corporate Auditors is empowered to request that Honda's Directors submit a proposal for election of a Corporate Auditor to a meeting of shareholders. The Corporate Auditors have the right to state their opinion concerning election of a Corporate Auditor at the meeting of shareholders.

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### **Corporate Governance Practices Followed by**

#### **NYSE-listed U.S. Companies**

A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors. Compensation committee members must satisfy the additional independence requirements under Section 303A.02(a)(ii) of the NYSE Listed Company Manual. A compensation committee must also have authority to retain or obtain the advice of compensation and other advisers, subject to prescribed independence criteria that the committee must consider prior to engaging any such adviser.

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

#### **Corporate Governance Practices Followed by Honda**

Maximum total amounts of compensation for Honda's Directors and Corporate Auditors are proposed to, and voted on, by a meeting of shareholders. Once the proposals for such maximum total amounts of compensation are approved at the meeting of shareholders, each of the Board of Directors and Board of Corporate Auditors determines the compensation amount for each member within the respective maximum total amounts.

Currently, Honda does not adopt stock option compensation plans. If Honda were to adopt such a plan, Honda must obtain shareholder approval for stock options only if the stock options are issued with specifically favorable conditions or price concerning the issuance and exercise of the stock options.

### ***Item 16H. Mine Safety Disclosure***

Not applicable.

## **PART III**

### ***Item 17. Financial Statements***

Not applicable.

### ***Item 18. Financial Statements***

See Consolidated Financial Statements attached hereto.

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### ***Item 19. Exhibits***

1.1	Articles of Incorporation of the registrant (English translation)
1.2	Share Handling Regulations of the registrant (English translation)
1.3	Regulations of Board of Directors of the registrant (English translation)
1.4	Regulations of the Board of Corporate Auditors of the registrant (English translation)
2.1	Specimen common stock certificates of the registrant (English translation) (1)
2.2	Deposit Agreement dated as of December 19, 1962, as amended and restated as of October 1, 1982 (including changes from Amendment to Deposit Agreement dated as of April 1, 1989) among the registrant, Morgan Guaranty Trust Company of New York (now JPMorgan Chase Bank, N.A.), as Depositary, and all owners and holders from time to time of American Depositary Receipts and European Depositary Receipts, including the form of American Depositary Receipt (2)
2.3	Form of Amendment No. 2 to Deposit Agreement dated as of April, 1995, among the parties referred to in Exhibit 2.2 above (2)
2.4	Form of Amendment No. 3 to Deposit Agreement dated as of January, 2002, among the parties referred to in Exhibit 2.2 above (3)
2.5	Form of Amendment No. 4 to Deposit Agreement dated as of June, 2006, among the parties referred to in Exhibit 2.2 above (4)
2.6	Form of Amendment No. 5 to Deposit Agreement dated as of June, 2007, among the parties referred to in Exhibit 2.2 above (5)
8.1	List of Significant Subsidiaries (See Organizational Structure in Item 4.C of this Form 20-F)
11.1	Code of Ethics (6)
12.1	Certification of the principal executive officer required by 17 C.F.R. 240. 13a-14(a)
12.2	Certification of the principal financial officer required by 17 C.F.R. 240. 13a-14(a)
13.1	Certification of the chief executive officer required by 18 U.S.C. Section 1350
13.2	Certification of the chief financial officer required by 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

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



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**HONDA MOTOR CO., LTD.**  
**(Honda Giken Kogyo Kabushiki Kaisha)**  
**(A Japanese Company)**  
**AND SUBSIDIARIES**

**Consolidated Financial Statements**

**and**

**Reports of Independent Registered**

**Public Accounting Firm**

**March 31, 2014**

**To be Included in**

**The Annual Report**

**Form 20-F**

**Filed with**

**The Securities and Exchange Commission**

**Washington, D.C., U.S.A.**

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

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

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Honda Motor Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2013 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2013 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2014, in conformity with U.S. generally accepted accounting principles.

As further described in Note 1(k) to the consolidated financial statements, the Company changed its method of accounting for calculating depreciation of certain property, plant and equipment beginning April 1, 2012.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Honda Motor Co., Ltd.'s internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 20, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG AZSA LLC

Tokyo, Japan

June 20, 2014

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Honda Motor Co., Ltd.:

We have audited Honda Motor Co., Ltd.'s internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Honda Motor Co., Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Honda Motor Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Honda Motor Co., Ltd. and subsidiaries as of March 31, 2013 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2014, and our report dated June 20, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA LLC

Tokyo, Japan

June 20, 2014

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Balance Sheets****March 31, 2013 and 2014**

	<b>Yen (millions)</b>	
	<b>2013</b>	<b>2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	¥ 1,206,128	¥ 1,168,914
Trade accounts and notes receivable, net of allowance for doubtful accounts of ¥7,885 million in 2013 and ¥9,677 million in 2014 (notes 3, 9 and 20)	1,005,981	1,158,671
Finance subsidiaries-receivables, net (notes 3, 4, 9 and 20)	1,243,002	1,464,215
Inventories (notes 5 and 9)	1,215,421	1,302,895
Deferred income taxes (notes 11 and 20)	234,075	202,123
Other current assets (notes 3, 4, 7, 9 and 17)	418,446	474,448
<b>Total current assets</b>	<b>5,323,053</b>	<b>5,771,266</b>
Finance subsidiaries-receivables, net (notes 3, 4, 9 and 20)	2,788,135	3,317,553
Investments and advances:		
Investments in and advances to affiliates (note 6)	459,110	564,266
Other, including marketable equity securities (notes 3, 4 and 7)	209,680	253,661
<b>Total investments and advances</b>	<b>668,790</b>	<b>817,927</b>
Property on operating leases (note 8):		
Vehicles	2,243,424	2,718,131
Less accumulated depreciation	400,292	481,410
<b>Net property on operating leases</b>	<b>1,843,132</b>	<b>2,236,721</b>
Property, plant and equipment, at cost (note 9):		
Land	515,661	521,806
Buildings	1,686,638	1,895,140
Machinery and equipment	3,832,090	4,384,255
Construction in progress	288,073	339,093
	6,322,462	7,140,294
Less accumulated depreciation and amortization	3,922,932	4,321,862
<b>Net property, plant and equipment</b>	<b>2,399,530</b>	<b>2,818,432</b>
Other assets, net of allowance for doubtful accounts of ¥22,754 million in 2013 and ¥22,100 million in 2014 (notes 3, 4, 9, 11, 13, 17 and 20)	612,717	660,132
<b>Total assets</b>	<b>¥ 13,635,357</b>	<b>¥ 15,622,031</b>

**Liabilities and Equity**

Current liabilities:

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Short-term debt (notes 4 and 9)	¥ 1,238,297	¥ 1,319,344
Current portion of long-term debt (notes 4 and 9)	945,046	1,303,464
Trade payables:		
Notes	31,354	28,501
Accounts	956,660	1,071,179
Accrued expenses (note 13)	593,570	626,503
Income taxes payable (note 11)	48,454	43,085
Other current liabilities (notes 9, 11 and 17)	275,623	319,253
<b>Total current liabilities</b>	<b>4,089,004</b>	<b>4,711,329</b>
Long-term debt, excluding current portion (notes 4 and 9)	2,710,845	3,234,066
Other liabilities (notes 4, 10, 11 and 13)	1,630,085	1,563,238
<b>Total liabilities</b>	<b>8,429,934</b>	<b>9,508,633</b>
<b>Equity:</b>		
Honda Motor Co., Ltd. shareholders' equity:		
Common stock, authorized 7,086,000,000 shares; issued 1,811,428,430 shares	86,067	86,067
Capital surplus	171,117	171,117
Legal reserves (note 12)	47,583	49,276
Retained earnings (notes 1(c) and 12)	6,001,649	6,431,682
Accumulated other comprehensive income (loss), net (notes 7, 11, 13, 15 and 17)	(1,236,792)	(793,014)
Treasury stock, at cost 9,131,140 shares in 2013 and 9,137,234 shares in 2014	(26,124)	(26,149)
<b>Total Honda Motor Co., Ltd. shareholders' equity</b>	<b>5,043,500</b>	<b>5,918,979</b>
Noncontrolling interests (note 1(c))	161,923	194,419
<b>Total equity</b>	<b>5,205,423</b>	<b>6,113,398</b>
Commitments and contingent liabilities (notes 18 and 19)		
<b>Total liabilities and equity</b>	<b>¥ 13,635,357</b>	<b>¥ 15,622,031</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Income****Years ended March 31, 2012, 2013 and 2014**

		<b>Yen (millions)</b>	
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Net sales and other operating revenue (note 2)	¥ 7,948,095	¥ 9,877,947	¥ 11,842,451
Operating costs and expenses:			
Cost of sales (notes 1(k), 1(u), 2 and 13)	5,919,633	7,345,162	8,761,083
Selling, general and administrative (notes 1(k), 1(u) and 13)	1,277,280	1,427,705	1,696,957
Research and development (note 1(k))	519,818	560,270	634,130
	7,716,731	9,333,137	11,092,170
Operating income	231,364	544,810	750,281
Other income (expenses):			
Interest income	33,461	25,742	24,026
Interest expense	(10,378)	(12,157)	(12,703)
Other, net (notes 1(p), 7, 15 and 17)	2,956	(69,504)	(32,664)
	26,039	(55,919)	(21,341)
Income before income taxes and equity in income of affiliates	257,403	488,891	728,940
Income tax expense (notes 11 and 15):			
Current	86,074	125,724	207,236
Deferred	49,661	53,252	45,426
	135,735	178,976	252,662
Income before equity in income of affiliates	121,668	309,915	476,278
Equity in income of affiliates (note 6)	100,406	82,723	132,471
Net income	222,074	392,638	608,749
Less: Net income attributable to noncontrolling interests	10,592	25,489	34,642
Net income attributable to Honda Motor Co., Ltd.	¥ 211,482	¥ 367,149	¥ 574,107
		<b>Yen</b>	
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Basic net income attributable to Honda Motor Co., Ltd. per common share (note 1(o))	¥ 117.34	¥ 203.71	¥ 318.54

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See accompanying notes to consolidated financial statements.

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****Years ended March 31, 2012, 2013 and 2014**

	<b>2012</b>	<b>Yen (millions) 2013</b>	<b>2014</b>
Net income	¥ 222,074	¥ 392,638	¥ 608,749
Other comprehensive income (loss), net of tax:			
Adjustments from foreign currency translation	(118,135)	430,812	333,659
Unrealized gains (losses) on available-for-sale securities, net	5,812	7,984	15,252
Unrealized gains (losses) on derivative instruments, net	(29)	(52)	237
Pension and other postretirement benefits adjustments (note 13)	(39,653)	(15,297)	107,718
Other comprehensive income (loss), net of tax (note 15)	(152,005)	423,447	456,866
Comprehensive income (loss)	70,069	816,085	1,065,615
Less: Comprehensive income attributable to noncontrolling interests	9,285	39,650	47,730
Comprehensive income (loss) attributable to Honda Motor Co., Ltd.	¥ 60,784	¥ 776,435	¥ 1,017,885

See accompanying notes to consolidated financial statements.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity****Years ended March 31, 2012, 2013 and 2014**

	Yen (millions)						Total Honda Motor Co., Ltd.		
	Common stock	Capital surplus	Legal reserves	Retained earnings	Accumulated other comprehensive income (loss), net	Treasury stock	shareholders equity	Noncontrolling interests	Total equity
Balance at April 1, 2011	¥ 86,067	¥ 172,529	¥ 46,330	¥ 5,656,151	¥ (1,495,380)	¥ (26,110)	¥ 4,439,587	¥ 132,937	¥ 4,572,524
Adjustment resulting from change in fiscal year-end of a subsidiary, net of tax (note 1(c))				6,023			6,023	1,658	7,681
Adjusted balance at April 1, 2011	¥ 86,067	¥ 172,529	¥ 46,330	¥ 5,662,174	¥ (1,495,380)	¥ (26,110)	¥ 4,445,610	¥ 134,595	¥ 4,580,205
Transfer to legal reserves			854	(854)					
Dividends paid to Honda Motor Co., Ltd. shareholders				(108,138)			(108,138)		(108,138)
Dividends paid to noncontrolling interests								(15,763)	(15,763)
Capital transactions and others								(783)	(783)
Comprehensive income (loss):									
Net income				211,482			211,482	10,592	222,074
Other comprehensive income (loss), net of tax (note 15)					(150,698)		(150,698)	(1,307)	(152,005)
Total comprehensive income (loss)							60,784	9,285	70,069
Purchase of treasury stock						(8)	(8)		(8)
Reissuance of treasury stock						1	1		1
Balance at March 31, 2012	¥ 86,067	¥ 172,529	¥ 47,184	¥ 5,764,664	¥ (1,646,078)	¥ (26,117)	¥ 4,398,249	¥ 127,334	¥ 4,525,583
Transfer to legal reserves			399	(399)					
Dividends paid to Honda Motor Co., Ltd. shareholders				(129,765)			(129,765)		(129,765)
Dividends paid to noncontrolling interests								(6,250)	(6,250)
Capital transactions and others		(1,412)					(1,412)	1,189	(223)
Comprehensive income (loss):									
Net income				367,149			367,149	25,489	392,638
Other comprehensive income (loss), net of tax (note 15)					409,286		409,286	14,161	423,447

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Total comprehensive income (loss)							776,435	39,650	816,085
Purchase of treasury stock						(8)	(8)		(8)
Reissuance of treasury stock						1	1		1
Balance at March 31, 2013	¥ 86,067	¥ 171,117	¥ 47,583	¥ 6,001,649	¥ (1,236,792)	¥ (26,124)	¥ 5,043,500	¥ 161,923	¥ 5,205,423
Transfer to legal reserves			1,693	(1,693)					
Dividends paid to Honda Motor Co.,Ltd. shareholders				(142,381)			(142,381)		(142,381)
Dividends paid to noncontrolling interests								(9,677)	(9,677)
Capital transactions and others								(5,557)	(5,557)
Comprehensive income (loss):									
Net income				574,107			574,107	34,642	608,749
Other comprehensive income (loss), net of tax (note 15)					443,778		443,778	13,088	456,866
Total comprehensive income (loss)							1,017,885	47,730	1,065,615
Purchase of treasury stock						(26)	(26)		(26)
Reissuance of treasury stock						1	1		1
Balance at March 31, 2014	¥ 86,067	¥ 171,117	¥ 49,276	¥ 6,431,682	¥ (793,014)	¥ (26,149)	¥ 5,918,979	¥ 194,419	¥ 6,113,398

See accompanying notes to consolidated financial statements.

**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****Years ended March 31, 2012, 2013 and 2014**

	Yen (millions)		
	2012	2013	2014
Cash flows from operating activities (note 14):			
Net income	¥ 222,074	¥ 392,638	¥ 608,749
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation excluding property on operating leases	345,105	335,536	442,318
Depreciation of property on operating leases	209,762	254,933	352,402
Deferred income taxes	49,661	53,252	45,426
Equity in income of affiliates	(100,406)	(82,723)	(132,471)
Dividends from affiliates	95,106	84,705	98,955
Provision for credit and lease residual losses on finance subsidiaries-receivables	13,032	10,059	18,904
Impairment loss on investments in securities	1,062		
Damaged and impairment loss on long-lived assets excluding property on operating leases (note 1(u))	10,590		
Impairment loss on property on operating leases	1,514	4,773	3,301
Loss (gain) on derivative instruments, net	(1,847)	35,027	(39,376)
Decrease (increase) in assets:			
Trade accounts and notes receivable	(35,475)	(90,495)	(92,638)
Inventories	(154,222)	(74,662)	(2,901)
Other current assets	2,883	2,019	(7,363)
Other assets	(24,000)	(27,243)	(59,816)
Increase (decrease) in liabilities:			
Trade accounts and notes payable	242,814	(95,192)	70,988
Accrued expenses	(25,718)	52,021	49,718
Income taxes payable	(7,568)	21,764	(8,688)
Other current liabilities	(12,395)	(4,489)	31,404
Other liabilities	(14,744)	(4,384)	(53,815)
Other, net	(55,690)	(66,795)	(95,906)
Net cash provided by operating activities	761,538	800,744	1,229,191
Cash flows from investing activities:			
Increase in investments and advances	(23,129)	(34,426)	(45,617)
Decrease in investments and advances	14,647	19,850	58,243
Payments for purchases of available-for-sale securities	(1,784)	(5,642)	(44,459)
Proceeds from sales of available-for-sale securities	1,879	1,347	14,501
Payments for purchases of held-to-maturity securities	(26,078)	(5,186)	(20,771)
Proceeds from redemptions of held-to-maturity securities	47,193	17,005	3,358
Proceeds from sales of subsidiaries, net of cash and cash equivalents disposed			9,129
Proceeds from sales of investments in affiliates	9,957		5,363
Capital expenditures	(397,218)	(626,879)	(774,006)
Proceeds from sales of property, plant and equipment	23,260	44,182	34,069
Proceeds from insurance recoveries for damaged property, plant and equipment (note 1(u))	16,217	9,600	6,800
Acquisitions of finance subsidiaries-receivables	(1,784,720)	(1,951,802)	(2,792,774)
Collections of finance subsidiaries-receivables	1,765,204	1,833,669	2,354,029
Purchases of operating lease assets	(683,767)	(793,118)	(1,127,840)
Proceeds from sales of operating lease assets	365,270	418,086	611,317
Other, net		3,558	(86)
Net cash used in investing activities	(673,069)	(1,069,756)	(1,708,744)
Cash flows from financing activities:			

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Proceeds from short-term debt	6,778,336	6,775,636	8,559,288
Repayments of short-term debt	(6,882,932)	(6,621,897)	(8,563,616)
Proceeds from long-term debt	1,151,971	1,101,469	1,588,826
Repayments of long-term debt	(967,588)	(970,702)	(1,039,595)
Dividends paid (note 12)	(108,138)	(129,765)	(142,381)
Dividends paid to noncontrolling interests	(15,763)	(6,250)	(9,677)
Sales (purchases) of treasury stock, net	(7)	(7)	(25)
Other, net	(24,109)	(28,917)	(22,265)
Net cash provided by (used in) financing activities	(68,230)	119,567	370,555
Effect of exchange rate changes on cash and cash equivalents	(52,150)	108,460	71,784
Net change in cash and cash equivalents	(31,911)	(40,985)	(37,214)
Cash and cash equivalents at beginning of year	1,279,024	1,247,113	1,206,128
Cash and cash equivalents at end of year	¥ 1,247,113	¥ 1,206,128	¥ 1,168,914

See accompanying notes to consolidated financial statements.

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

**Notes to Consolidated Financial Statements**

**(1) General and Summary of Significant Accounting Policies**

*(a) Description of Business*

Honda Motor Co., Ltd. (the Company) and its subsidiaries (collectively Honda) mainly develop, manufacture and distribute motorcycles, automobiles, power products, and also provide financing for the sale of those products. Principal manufacturing facilities are located in Japan, the United States of America, Canada, Mexico, the United Kingdom, Italy, China, India, Thailand, Vietnam, Indonesia, Argentina, Brazil and Turkey.

*(b) Basis of Presenting Consolidated Financial Statements*

The Company and its Japanese subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries generally maintain their books of account in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary to conform them with U.S. generally accepted accounting principles (U.S.GAAP).

*(c) Consolidation Policy*

The consolidated financial statements include the accounts of the Company, its subsidiaries and those variable interest entities where Honda is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Noncontrolling interests in the net assets of subsidiary are reported as a component of equity in the consolidated financial statements. Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary are accounted for as equity transactions. Noncontrolling interests in a subsidiary's earnings or losses are reported as a component of net income in the consolidated financial statements.

Investments in affiliates in which Honda has the ability to exercise significant influence over their operating and financial policies, but where Honda does not have a controlling financial interest are accounted for using the equity method.

There are some subsidiaries and affiliates of which the fiscal year-end is December 31.

Effective April 1, 2013, a subsidiary of the Company changed its fiscal year-end from December 31 to March 31. As a result, the Company eliminated the previously existing three month differences between the reporting periods of the Company and the subsidiary in the consolidated financial statements. The elimination of the lag period represents a change in accounting principle and has been reported by retrospective application. The impacts on the retained earnings and noncontrolling interests as of April 1, 2011 are ¥6,023 million and ¥1,658 million, respectively. Honda believes the effect of the retrospective application is not material to the Company's consolidated financial statements as of and for the year ended March 31, 2012 and 2013, and therefore the Company's consolidated financial statements have not been retrospectively adjusted, except for the adjustment to retained earnings and noncontrolling interests as of April 1, 2011.

*(d) Use of Estimates*

Management of Honda has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare its consolidated financial statements in conformity with U.S. GAAP. Significant items subject to such estimates and

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

**Notes to Consolidated Financial Statements (Continued)**

assumptions include, but are not limited to, allowance for credit losses, losses on lease residual values, realizable values of inventories, realization of deferred tax assets, damaged and impairment losses on long-lived assets, unrecognized tax benefits, product warranty obligations, the fair values of assets and obligations related to employee benefits, and the fair value of derivative financial instruments. Further changes in the economic environment surrounding Honda, effects by market conditions, effects of currency fluctuations or other factors have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from those estimates.

*(e) Revenue Recognition*

Sales of manufactured products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, title and risk of loss have passed to the customers, the sales price is fixed or determinable, and collectibility is probable.

Honda provides dealer incentives passed on to the end customers generally in the form of below-market interest rate loans or lease programs. The amount of interest or lease subsidies paid is the difference between the amount offered to retail customers and the amount stemmed from a market-based interest or lease rate. Honda also provides dealer incentives retained by the dealer, which generally represent discounts provided from Honda to the dealers. These incentives are classified as a reduction of sales revenue as the consideration is paid in cash, because Honda does not receive an identifiable benefit in exchange for this consideration. The incentives are estimated and accrued at the time the product is sold to the dealer.

Operating lease revenues are recorded on a straight-line basis over the term of the lease.

Interest income from finance receivables is recognized using the interest method. Finance receivable origination fees and certain direct origination costs are deferred, and the net fee or cost is amortized using the interest method over the contractual life of the finance receivables.

Taxes collected from customers and remitted to governmental authorities on revenue-producing transactions are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

*(f) Cash Equivalents*

Honda considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents mainly consist of money market funds and certificates of deposit.

*(g) Inventories*

Inventories are stated at the lower of cost or market. Cost is determined principally on a first-in, first-out basis.

*(h) Investments in Securities*

Investments in securities consist of investment in affiliates and debt and equity securities.

Investments in affiliates in which Honda has the ability to exercise significant influence over their operating and financial policies, but where Honda does not have a controlling financial interest are accounted for using the equity method. Differences between the cost of investments in affiliates and the amount of underlying equity of the affiliates principally represent investor level goodwill.

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

**Notes to Consolidated Financial Statements (Continued)**

Honda considers whether the fair value of any of its equity method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If Honda considers any such decline to be other-than-temporary based on various factors, then a write-down will be recorded to estimated fair value.

Honda classifies its debt and marketable equity securities into the following categories: available-for-sale, trading, or held-to-maturity. Debt securities classified as held-to-maturity securities are reported at amortized cost. Debt and marketable equity securities classified as trading securities are reported at fair value, with unrealized gains and losses included in earnings. Other debt and marketable equity securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains or losses, net of deferred taxes included in accumulated other comprehensive income (loss) in the equity section of the consolidated balance sheets. The costs of available-for-sale securities sold are accounted for using the moving-average method. Honda did not hold any trading securities at March 31, 2013 and 2014.

Honda periodically compares the fair value of debt and marketable equity securities with their cost basis. If the fair value of the securities has declined below the cost basis and such decline is judged to be other-than-temporary, Honda recognizes the impairment of the securities through a charge to income. The determination of other-than-temporary impairment is based upon an assessment of the facts and circumstances related to each investment security. In assessing impairment of securities, Honda considers the factors such as degree and period of the decline in fair value, financial position and results of operations of investees and forecast earnings based on market and economic trend in which the investees operate. Honda did not recognize significant impairment loss on investments in securities for the years ended March 31, 2012, 2013 and 2014.

Non-marketable equity securities are carried at cost, and are examined for the possibility of impairment periodically.

*(i) Goodwill*

Goodwill, all of which is allocated to Honda's reporting units, is not amortized but is tested for impairment at least annually. Honda performs its annual impairment review of goodwill at March 31, and when a triggering event occurs between annual impairment dates. For the years ended March 31, 2012, 2013 and 2014, Honda did not recognize any goodwill impairment losses.

The carrying amount of goodwill at March 31, 2013 and 2014 was ¥10,296 million and ¥11,439 million, respectively and is included in other assets of the consolidated balance sheets.

*(j) Property on Operating Leases*

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Property on operating leases is reported at cost, less accumulated depreciation. Depreciation of vehicles is generally provided on a straight-line basis to an estimated residual value over the lease term. The residual values of the vehicles related to operating leases are estimated by using the estimate of future used vehicle values, taking into consideration external industry data and our own historical experience.

### *(k) Depreciation and Amortization*

Depreciation of property, plant and equipment is calculated principally by the straight line method based on estimated useful lives and salvage values of the respective assets.

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

The estimated useful lives used in computing depreciation and amortization of property, plant and equipment are as follows:

<b>Asset</b>	<b>Life</b>
Buildings and structures	3 to 50 years
Machinery and equipment	2 to 20 years

Previously, Honda used principally the declining-balance method for calculating the depreciation of property, plant and equipment. In recent years, because sales of global strategic product models are increasing, Honda has been enhancing its production systems and the versatility of production equipment to have better flexibility to meet changes in global customer demand. Further, Honda has resumed more normalized capital expenditures which Honda had previously held down due to the financial crisis beginning in the fiscal year ended March 31, 2009. Effective April 1, 2012, Honda changed to the straight line method of depreciation because management believes it better reflects the future economic benefit from the usage of property, plant and equipment under this more flexible and versatile production arrangement. The effect of the change in depreciation method is recognized prospectively as a change in accounting estimate in accordance with the FASB Accounting Standards Codification (ASC) 250 Accounting Changes and Error Corrections .

As a result of the change in depreciation method, depreciation expense for the year ended March 31, 2013 decreased by approximately ¥56,300 million. Net income attributable to Honda Motor Co., Ltd. and Basic net income attributable to Honda Motor Co., Ltd. per common share for the year ended March 31, 2013 increased by approximately ¥35,746 million and ¥19.83, respectively.

*(l) Impairment of Long-Lived Assets to Be Held and Used and Long-Lived Assets to Be Disposed of*

Honda's long-lived assets and identifiable intangible assets other than goodwill having finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Honda did not recognize any significant impairment losses on long-lived assets, excluding property on operating leases for the years ended March 31, 2012, 2013 and 2014.

Assets to be disposed of by sale are reported at the lower of the carrying amount or estimated fair value less costs to sell.

*(m) Income Taxes*

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Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Honda recognizes in the consolidated financial statements the impact of a tax position, if any, based on the technical merits of the position, when that position is more likely than not to be sustained upon examination.

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

**Notes to Consolidated Financial Statements (Continued)**

Benefits from tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. Honda accounts for interest and penalties related to the liability for unrecognized tax benefits as a component of income tax expense in the consolidated statements of income.

*(n) Product-Related Expenses*

Advertising and sales promotion costs are expensed as incurred. Advertising expenses were ¥195,284 million, ¥254,016 million and ¥297,514 million, for the years ended March 31, 2012, 2013 and 2014, respectively. Estimated costs related to product warranty are accrued at the time the products are sold to customers, or those costs for new warranty programs, including product recalls, are deemed to be probable and can be reasonably estimated. Estimated warranty expenses are provided 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. Included in warranty expenses accruals are costs for general warranties on vehicles Honda sells and costs for warranty programs, including product recalls.

*(o) Basic Net Income Attributable to Honda Motor Co., Ltd. per Common Share*

Basic net income attributable to Honda Motor Co., Ltd. per common share has been computed by dividing net income attributable to Honda Motor Co., Ltd. by the weighted average number of common shares outstanding during each year. The weighted average number of common shares outstanding for the years ended March 31, 2012, 2013 and 2014 was 1,802,300,720 shares, 1,802,298,819 shares and 1,802,294,383 shares, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2012, 2013 or 2014.

*(p) Foreign Currency Translation and Transactions*

Foreign currency financial statement amounts are translated into Japanese yen on the basis of the year-end exchange rate for all assets and liabilities and the weighted average rate for the year for all income and expense amounts. The resulting translation adjustments are included in accumulated other comprehensive income (loss) in the equity section of the consolidated balance sheets.

All revenues and expenses associated with foreign currencies are converted at the rates of exchange prevailing when such transactions occur and foreign currency receivables and payables are re-measured at the applicable exchange rates on the balance sheet date. Foreign currency translation and transaction gains or losses are included in other income (expenses)-other, net and these net gains or losses for each of the years in the three-year period ended March 31, 2014 are as follows:

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	Yen (millions)	
	2012	2013
	2014	
	¥ 4,563	¥ 36,794
		¥ (6,461)

The gains or losses on translation of receivables and payables dominated in foreign currencies intended to be hedged are presented on a net basis with derivative financial instruments (note 17).

## *(q) Derivative Financial Instruments*

Honda has entered into foreign exchange agreements and interest rate agreements to manage currency and interest rate exposures. These instruments include foreign currency forward contracts, currency swap agreements, currency option contracts and interest rate swap agreements (notes 16 and 17).

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

Honda recognizes all derivative financial instruments at fair value in its consolidated balance sheets. Derivative asset and liability positions are presented net by counterparty on the consolidated balance sheets when valid master netting agreements exist and the other conditions set out in the FASB Accounting Standards Codification (ASC) 210-20 Balance Sheet-Offsetting are met.

The Company applies hedge accounting for certain foreign currency forward contracts related to forecasted foreign currency transactions between the Company and its subsidiaries. These are designated as cash flow hedges on the date derivative contracts are entered into. The Company has a documented currency rate risk management policy. In addition, it documents all relationships between derivative financial instruments designated as cash flow hedges and the relevant hedged items to identify the relationship between them. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments designated as cash flow hedge are highly effective to offset changes in cash flows of hedged items.

When it is determined that a derivative financial instrument is not highly effective as a cash flow hedge, when the hedged item matures, is sold or is terminated, or when it is identified that the forecasted transaction is no longer probable, the Company discontinues hedge accounting. To the extent derivative financial instruments are designated as cash flow hedges and have been assessed as being highly effective, changes in their fair value are recognized in other comprehensive income (loss). The amounts are reclassified into earnings in the period when forecasted hedged transactions affect earnings. When these cash flow hedges prove to be ineffective, changes in the fair value of the derivatives are immediately recognized in earnings.

Changes in the fair value of derivative financial instruments not designated as accounting hedges are recognized in earnings in the period of the change.

Honda does not hold any derivative financial instruments for trading purposes.

*(r) Shipping and Handling Costs*

Shipping and handling costs included in selling, general and administrative expenses for each of the years in the three-year period ended March 31, 2014 are as follows:

	Yen (millions)		
	2012	2013	2014
	¥ 155,276	¥160,843	¥180,554

*(s) Asset Retirement Liability*

Honda recognizes an asset retirement liability if the fair value of the obligation can be reasonably estimated. Asset retirement obligations include those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

*(t) Adoption of New Accounting Pronouncements*

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02 Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income . This amendment requires reporting entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component, and to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income.

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

**Notes to Consolidated Financial Statements (Continued)**

Honda adopted ASU 2013-02, effective April 1, 2013, and discloses in accompanying note 15 to consolidated financial statements. This adoption has no impact on the Honda's financial position or results of operations.

*(u) Impact on the Company's Consolidated Financial Position or Results of Operations of the Floods in Thailand*

In October 2011, Thailand suffered from severe floods that caused damage to inventories, and machinery and equipment of certain consolidated subsidiaries and affiliates of the Company. Accordingly, production activities in plant facilities at Honda and its affiliates had been temporarily affected by the floods for the year ended March 31, 2012.

Honda recognized ¥23,420 million of costs and expenses, of which ¥10,680 million is included in cost of sales and ¥12,740 million is included in selling, general and administrative expenses in the accompanying consolidated statements of income for the year ended March 31, 2012. These costs and expenses mainly consist of losses on damaged inventories of ¥7,330 million which is included in cost of sales, and losses on damaged property, plant and equipment of ¥7,654 million which is included in selling, general and administrative expenses.

In addition, Honda recognized insurance recoveries of ¥21,725 million and ¥16,278 million for the years ended March 31, 2012 and 2013, respectively, which are included in selling, general and administrative expenses in the accompanying consolidated statements of income. Honda recognizes insurance recoveries in excess of the incurred losses when settlements with insurance companies are reached.

*(v) New Accounting Pronouncements Not Yet Adopted*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers, which amends the revenue recognition requirements in the FASB Accounting Standards Codification (ASC). This statement requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The statement shall be applied using one of two methods: retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying this statement recognized at the date of initial application. The Company has not yet determined which method it will apply. This statement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. Honda is currently evaluating the impact of this statement on the Company's consolidated financial position or results of operations.

**(2) Finance Income and Related Costs of Finance Subsidiaries**

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Net sales and other operating revenue and cost of sales include finance income and related costs of finance subsidiaries for each of the years in the three-year period ended March 31, 2014 as follows:

	Yen (millions)		
	2012	2013	2014
Finance income	¥ 526,576	¥ 560,256	¥ 708,588
Finance costs	293,216	336,203	440,148

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(3) Finance Receivables**

The finance subsidiaries of the Company provide retail lending and leasing to customers and wholesale financing to dealers primarily to support sales of our products. Honda classifies retail and direct financing lease receivables (consumer finance receivables) derived from those services as finance subsidiaries-receivables. Operating leases are classified as property on operating leases. Certain finance receivables related to sales of inventory are included in trade accounts and notes receivable and other assets in the consolidated balance sheets.

Finance subsidiaries-receivables, net, consisted of the following at March 31, 2013 and 2014:

	<b>Yen (millions)</b>	
	<b>2013</b>	<b>2014</b>
Retail	¥ 3,865,430	¥ 4,678,741
Direct financing lease	448,672	422,936
Wholesale flooring	389,562	434,219
Commercial loans	42,433	63,176
Total finance receivables	4,746,097	5,599,072
Less:		
Allowance for credit losses	19,716	24,851
Allowance for losses on lease residual values	3,354	2,131
Unearned interest income and fees	18,697	38,093
	4,704,330	5,533,997
Less:		
Finance receivables included in trade accounts and notes receivables, net	461,450	498,230
Finance receivables included in other assets, net	211,743	253,999
Finance subsidiaries-receivables, net	4,031,137	4,781,768
Less current portion	1,243,002	1,464,215
Noncurrent finance subsidiaries-receivables, net	¥ 2,788,135	¥ 3,317,553

*Allowance for credit losses*

The majority of the credit risk is with consumer financing and to a lesser extent with dealer financing. Credit risk is affected by general economic conditions. The allowance for credit losses is management's estimate of probable losses incurred on finance receivables.

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

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

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

Honda regularly reviews the adequacy of the allowance for credit losses. The estimates are based on information available as of each reporting date. However, actual losses may differ from the original estimates as a result of actual results varying from those assumed in our estimates with inherently uncertain items.

The following tables present the changes in the allowance for credit losses on finance receivables for the years ended March 31, 2013 and 2014.

	Yen (millions)			
	Retail	Direct financing lease	Wholesale	Total
<b>For the year ended March 31, 2013</b>				
Balance at beginning of year	¥ 20,497	¥ 1,151	¥ 1,401	¥ 23,049
Provision	8,707	392	59	9,158
Charge-offs	(20,838)	(940)	(289)	(22,067)
Recoveries	8,143	117	16	8,276
Adjustments from foreign currency translation	1,134	69	97	1,300
Balance at end of year	¥ 17,643	¥ 789	¥ 1,284	¥ 19,716

	Yen (millions)			
	Retail	Direct financing lease	Wholesale	Total
<b>For the year ended March 31, 2014</b>				
Balance at beginning of year	¥ 17,643	¥ 789	¥ 1,284	¥ 19,716
Provision	18,616	310	1,484	20,410
Charge-offs	(27,550)	(573)	(425)	(28,548)
Recoveries	11,676	93	11	11,780
Adjustments from foreign currency translation	1,252	17	224	1,493
Balance at end of year	¥ 21,637	¥ 636	¥ 2,578	¥ 24,851

In the finance subsidiaries of the Company in North America, retail and direct financing lease receivables are charged off when they become 120 days past due or earlier if they have been specifically identified as uncollectible. Wholesale receivables are charged off when they have been individually identified as uncollectible. In the finance subsidiaries of the Company in other areas except for North America, finance receivables are charged off when they have been identified as substantially uncollectible according to the internal standards of each subsidiary.

*Allowance for losses on lease residual values*

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

### *Delinquencies*

In the finance subsidiaries of the Company in North America, retail and direct financing lease receivables are considered delinquent if more than 10% of a monthly scheduled payment is contractually past due on a cumulative basis. Wholesale receivables are considered delinquent when any principal payments are past due. In the finance subsidiaries of the Company in other areas except for North America, finance receivables are considered delinquent when any principal payments are past due.

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

The following tables present an age analysis of past due finance receivables at March 31, 2013 and 2014.

	Yen (millions)					
As of March 31, 2013	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Current*	Total finance receivables
<b>Retail</b>						
New auto	¥ 12,947	¥ 1,805	¥ 2,607	¥ 17,359	¥ 3,247,241	¥ 3,264,600
Used & certified auto	5,064	643	276	5,983	434,183	440,166
Others	1,213	419	1,353	2,985	157,679	160,664
<b>Total retail</b>	<b>19,224</b>	<b>2,867</b>	<b>4,236</b>	<b>26,327</b>	<b>3,839,103</b>	<b>3,865,430</b>
Direct financing lease	966	161	1,644	2,771	445,901	448,672
<b>Wholesale</b>						
Wholesale flooring	205	67	311	583	388,979	389,562
Commercial loans					42,433	42,433
<b>Total wholesale</b>	<b>205</b>	<b>67</b>	<b>311</b>	<b>583</b>	<b>431,412</b>	<b>431,995</b>
<b>Total finance receivables</b>	<b>¥ 20,395</b>	<b>¥ 3,095</b>	<b>¥ 6,191</b>	<b>¥ 29,681</b>	<b>¥ 4,716,416</b>	<b>¥ 4,746,097</b>

	Yen (millions)					
As of March 31, 2014	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Current*	Total finance receivables
<b>Retail</b>						
New auto	¥ 15,948	¥ 2,069	¥ 2,745	¥ 20,762	¥ 4,044,290	¥ 4,065,052
Used & certified auto	5,557	689	281	6,527	424,872	431,399
Others	1,239	507	1,800	3,546	178,744	182,290
<b>Total retail</b>	<b>22,744</b>	<b>3,265</b>	<b>4,826</b>	<b>30,835</b>	<b>4,647,906</b>	<b>4,678,741</b>
Direct financing lease	1,106	214	384	1,704	421,232	422,936
<b>Wholesale</b>						
Wholesale flooring	526	227	758	1,511	432,708	434,219
Commercial loans			133	133	63,043	63,176
<b>Total wholesale</b>	<b>526</b>	<b>227</b>	<b>891</b>	<b>1,644</b>	<b>495,751</b>	<b>497,395</b>
<b>Total finance receivables</b>	<b>¥ 24,376</b>	<b>¥ 3,706</b>	<b>¥ 6,101</b>	<b>¥ 34,183</b>	<b>¥ 5,564,889</b>	<b>¥ 5,599,072</b>

\* Includes recorded investment of finance receivables that are less than 30 days past due.

*Credit quality indicators*

The collection experience of consumer finance receivables provides an indication of the credit quality of consumer finance receivables. The likelihood of accounts charging off becomes significantly higher once an account becomes 60 days delinquent. The table below segments the Company's portfolio of consumer finance receivables between groups the Company considers to be performing and nonperforming. Accounts that are delinquent for 60 days or greater are included in the nonperforming group and all other accounts are considered to be performing.

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

The following tables present the balances of consumer finance receivables by this credit quality indicator at March 31, 2013 and 2014.

	Yen (millions)		Total consumer finance receivables
As of March 31, 2013	Performing	Nonperforming	
Retail			
New auto	¥ 3,260,188	¥ 4,412	¥ 3,264,600
Used & certified auto	439,247	919	440,166
Others	158,892	1,772	160,664
Total retail	3,858,327	7,103	3,865,430
Direct financing lease	446,867	1,805	448,672
Total	¥ 4,305,194	¥ 8,908	¥ 4,314,102

	Yen (millions)		Total consumer finance receivables
As of March 31, 2014	Performing	Nonperforming	
Retail			
New auto	¥ 4,060,238	¥ 4,814	¥ 4,065,052
Used & certified auto	430,429	970	431,399
Others	179,983	2,307	182,290
Total retail	4,670,650	8,091	4,678,741
Direct financing lease	422,338	598	422,936
Total	¥ 5,092,988	¥ 8,689	¥ 5,101,677

A credit quality indicator for wholesale receivables is the internal risk ratings for the dealerships. Dealerships are assigned an internal risk rating based primarily on their financial condition. At a minimum, risk ratings for dealerships are updated annually and more frequently for dealerships with weaker risk ratings. The table below presents outstanding wholesale receivables balances by the internal risk rating group. Group A includes the loans of dealerships with the highest credit quality characteristics in the strongest risk rating tier. Group B includes the loans of all remaining dealers and are considered to have weaker credit quality characteristics. Although the likelihood of losses can be higher for dealerships in Group B, the overall risk of losses is not considered to be significant.

The following tables present the balances of wholesale receivables by this credit quality indicator at March 31, 2013 and 2014.

As of March 31, 2013	Yen (millions)		
	Group A	Group B	Total
Wholesale			
Wholesale flooring	¥ 236,203	¥ 153,359	¥ 389,562
Commercial loans	24,198	18,235	42,433
Total	¥ 260,401	¥ 171,594	¥ 431,995

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

<b>As of March 31, 2014</b>	<b>Group A</b>	<b>Yen (millions) Group B</b>	<b>Total</b>
Wholesale			
Wholesale flooring	¥ 245,019	¥ 189,200	¥ 434,219
Commercial loans	36,364	26,812	63,176
Total	¥ 281,383	¥ 216,012	¥ 497,395

*Contractual maturities*

The following schedule shows the contractual maturities of finance receivables for each of the five years following March 31, 2014 and thereafter:

<b>Years ending March 31</b>	<b>Yen (millions)</b>
2015	¥ 1,992,551
2016	1,425,249
2017	1,020,626
2018	685,494
2019	356,586
After five years	118,566
	3,606,521
Total	¥ 5,599,072

*Other finance receivables*

Except for the finance subsidiaries-receivables, the other finance receivables about which credit quality information and the allowance for credit losses are required to be disclosed of ¥37,274 million and ¥29,605 million are included in other current assets, investments and advances-other and other assets in the consolidated balance sheets at March 31, 2013 and 2014, respectively. Honda estimates, individually, the collectibility of the other finance receivables based on the financial condition of the debtor. The impaired finance receivables amounted to ¥19,562 million and ¥20,094 million at March 31, 2013 and 2014, respectively, for which the allowance for credit losses were ¥19,541 million and ¥19,996 million at March 31, 2013 and 2014, respectively.

Regarding the other finance receivables which are not impaired, there are no past due receivables.

**(4) Variable Interest Entities**

Honda considers its involvement with a variable interest entity (VIE) under the FASB Accounting Standards Codification (ASC) 810

Consolidation . This standard prescribes that the reporting entity shall consolidate a VIE as its primary beneficiary when it is deemed to have a controlling financial interest in a VIE, meeting both of the following characteristics:

- (a) The power to direct the activities of a VIE that most significantly impact the VIE's economic performance.
- (b) The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

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

The finance subsidiaries of the Company periodically securitize for liquidity and funding purposes and transfer finance receivables to the trust which is newly established to issue asset-backed securities. The finance subsidiaries of the Company are deemed to have the power to direct the activities of these trusts that most significantly impact the trusts' economic performance, as they retain servicing rights in all securitizations, and manage delinquencies and defaults of the underlying receivables. Furthermore, the finance subsidiaries of the Company are deemed to have the obligation to absorb losses of these trusts that could potentially be significant to these trusts, as they would absorb the majority of the expected losses of these trusts by retaining certain subordinated interests of these trusts. Therefore, the Company has consolidated these trusts, as it is deemed to have controlling financial interests in these trusts.

The following table presents the balances of the assets and liabilities of consolidated VIEs at March 31, 2013 and 2014.

	Yen (millions)	
	2013	2014
Finance subsidiaries-receivables, net	¥ 713,631	¥ 872,621
Restricted cash* <sup>1</sup>	20,885	27,468
Other assets	1,545	1,462
Total assets	¥ 736,061	¥ 901,551
Secured debt* <sup>2</sup>	¥ 718,980	¥ 877,054
Other liabilities	237	249
Total liabilities	¥ 719,217	¥ 877,303

\*<sup>1</sup> Restricted cash as collateral for the payment of the related secured debt obligation is included in other current assets and investment and advances-other on the consolidated balance sheets.

\*<sup>2</sup> Secured debt is included in short-term, current portion of long-term and long-term debt on the consolidated balance sheets.

The creditors of these trusts do not have recourse to the finance subsidiaries' general credit with the exception of representations and warranties customary in the industry provided by the finance subsidiaries to these trusts.

There is no VIE in which Honda holds a significant variable interest but is not the primary beneficiary as of March 31, 2013 and 2014.

**(5) Inventories**

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Inventories at March 31, 2013 and 2014 are summarized as follows:

	Yen (millions)	
	2013	2014
Finished goods	¥ 726,034	¥ 759,099
Work in process	53,035	69,731
Raw materials	436,352	474,065
Total	¥ 1,215,421	¥ 1,302,895

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(6) Investments in and Advances to Affiliates**

The difference between the carrying amount of investments in affiliates and the amount of underlying equity is mainly investor level goodwill and recognizing of impairment losses. The amounts are not material as of March 31, 2013 and 2014.

Investments in affiliates include equity securities which have quoted market values at March 31, 2013 and 2014 compared with related carrying amounts as follows:

	Yen (millions)	
	2013	2014
Carrying amounts	¥ 175,420	¥ 212,615
Market values	220,221	242,671

For the year ended March 31, 2013, Honda recognized impairment losses of ¥12,757 million, net of tax, on certain investments in affiliates which have quoted market values because of other-than-temporary declines in fair values below their carrying values. The fair values of the investments were based on quoted market prices. The impairment losses are included in equity in income of affiliates in the accompanying consolidated statement of income. For the year ended March 31, 2014, Honda did not recognize any significant impairment losses.

Certain combined financial information in respect of affiliates accounted for under the equity method at March 31, 2013 and 2014, and for each of the years in the three-year period ended March 31, 2014 is shown below (note 21):

	Yen (millions)			
As of March 31, 2013	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
Current assets	¥ 228,358	¥ 1,335,075	¥ 25,438	¥ 1,588,871
Other assets, principally property, plant and equipment	134,901	1,137,654	27,219	1,299,774
<b>Total assets</b>	<b>363,259</b>	<b>2,472,729</b>	<b>52,657</b>	<b>2,888,645</b>
Current liabilities	149,033	1,013,565	8,358	1,170,956
Other liabilities	10,075	242,194	2,979	255,248
<b>Total liabilities</b>	<b>159,108</b>	<b>1,255,759</b>	<b>11,337</b>	<b>1,426,204</b>
<b>Equity</b>	<b>¥ 204,151</b>	<b>¥ 1,216,970</b>	<b>¥ 41,320</b>	<b>¥ 1,462,441</b>

As of March 31, 2014	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
Current assets	¥ 258,565	¥ 1,732,609	¥ 26,185	¥ 2,017,359
Other assets, principally property, plant and equipment	126,888	1,212,313	30,450	1,369,651
Total assets	385,453	2,944,922	56,635	3,387,010
Current liabilities	168,060	1,337,236	10,111	1,515,407
Other liabilities	12,849	226,822	2,972	242,643
Total liabilities	180,909	1,564,058	13,083	1,758,050
Equity	¥ 204,544	¥ 1,380,864	¥ 43,552	¥ 1,628,960

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

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
<b>For the year ended March 31, 2012</b>				
Net sales	¥ 888,914	¥ 3,579,019	¥ 23,934	¥ 4,491,867
Net income attributable to Honda's affiliates	72,168	177,309	1,516	250,993

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
<b>For the year ended March 31, 2013</b>				
Net sales	¥ 891,343	¥ 3,876,766	¥ 25,918	¥ 4,794,027
Net income attributable to Honda's affiliates	60,586	162,037	1,717	224,340

	Yen (millions)			
	Motorcycle Business	Automobile Business	Power Product and Other Businesses	Total
<b>For the year ended March 31, 2014</b>				
Net sales	¥ 1,070,837	¥ 4,314,804	¥ 27,578	¥ 5,413,219
Net income attributable to Honda's affiliates	79,381	230,397	2,708	312,486

Significant investments in affiliates accounted for under the equity method at March 31, 2013 and 2014 are shown below:

Business	Company	Percentage ownership
Motorcycle	P.T. Astra Honda Motor	50.0%
Automobile	Guangqi Honda Automobile Co., Ltd.	50.0%
	Dongfeng Honda Automobile Co., Ltd.	50.0%
	Dongfeng Honda Engine Co., Ltd.	50.0%

There are no equity method affiliates that are in Financial services business.

Sales to affiliates by the Company and its subsidiaries and sales among such affiliates are made on the same basis as sales to unaffiliated parties.

Honda's equity in undistributed income of affiliates at March 31, 2013 and 2014 included in retained earnings was ¥376,888 million and ¥417,050 million, respectively.

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Trade receivables and trade payables include the following balances with affiliates at March 31, 2013 and 2014, and purchases and sales include the following transactions with affiliates for each of the years in the three-year period ended March 31, 2014. Honda mainly purchases materials, supplies and services from affiliates, and sells finished goods, parts used in its products, equipment and services to affiliates.

	<b>Yen (millions)</b>	
	<b>2013</b>	<b>2014</b>
Amounts due from	¥ 160,470	¥ 225,383
Amounts due to	97,958	138,181

	<b>2012</b>	<b>Yen (millions)</b>	
		<b>2013</b>	<b>2014</b>
Purchases from	¥ 762,415	¥ 789,261	¥ 1,028,523
Sales to	561,426	636,299	786,802

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(7) Investments and Advances-Other**

Investments and advances at March 31, 2013 and 2014 consist of the following:

	Yen (millions)	
	2013	2014
Current		
Corporate debt securities	¥ 1,553	¥ 11,050
Government bonds		2,000
Local bonds		6,620
Advances	926	1,028
Certificates of deposit	1,550	1,558
Other	10,846	15,012
Total	¥ 14,875	¥ 37,268

Investments and advances due within one year are included in other current assets in the consolidated balance sheets.

	Yen (millions)	
	2013	2014
Noncurrent		
Auction rate securities	¥ 6,928	¥ 6,999
Marketable equity securities	117,110	138,476
Corporate debt securities	1,505	8,542
Government bonds	2,000	
Local bonds	9,499	15,850
U.S. government agency debt securities	1,068	5,455
Non-marketable equity securities accounted for under the cost method		
Non-marketable preferred stocks	969	969
Other	10,780	10,316
Guaranty deposits	20,210	18,742
Advances	2,132	1,998
Other	37,479	46,314
Total	¥ 209,680	¥ 253,661

Certain information with respect to available-for-sale securities and held-to-maturity securities at March 31, 2013 and 2014 are summarized below:

	Yen (millions)	
	2013	2014
Available-for-sale		
Cost	¥ 49,990	¥ 84,820
Fair value	128,848	185,960
Gross unrealized gains	80,453	101,917
Gross unrealized losses	1,595	777
Held-to-maturity		
Amortized cost	¥ 16,511	¥ 34,650
Fair value	16,556	34,667
Gross unrealized gains	45	17
Gross unrealized losses		

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

Maturities of debt securities classified as available-for-sale at March 31, 2014 are as follows:

	Yen (millions)
Due within one year	¥ 2,676
Due after one year through five years	12,968
Due after five years through ten years	8,748
Due after ten years	14,512
<b>Total</b>	<b>¥ 38,904</b>

Maturities of debt securities classified as held-to-maturity at March 31, 2014 are as follows:

	Yen (millions)
Due within one year	¥ 22,378
Due after one year through five years	476
Due after five years through ten years	10,954
Due after ten years	842
<b>Total</b>	<b>¥ 34,650</b>

There were no significant realized gains and losses from available-for-sale securities included in other income (expenses) other, net for the years ended March 31, 2012, 2013 and 2014.

Gross unrealized losses on available-for-sale securities and fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2014 are as follows:

	Fair value	Yen (millions) Unrealized losses
Less than 12 months	¥ 8,877	¥ 224
12 months or longer	7,351	553
<b>Total</b>	<b>¥ 16,228</b>	<b>¥ 777</b>

Honda does not believe the decline in fair value of any of its investment securities to be other than temporary, based on factors such as financial and operating conditions of the issuer, the industry in which the issuer operates, degree and period of the decline in fair value and other relevant factors.

There were no held-to-maturity securities in a loss position at March 31, 2014.

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**Table of Contents****HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(8) Property on Operating Leases**

Future minimum lease rentals expected to be received from property on operating leases at March 31, 2014 are as follows:

<b>Years ending March 31</b>	<b>Yen (millions)</b>
2015	¥ 380,146
2016	247,759
2017	89,967
2018	9,148
2019	2,058
Total future minimum lease rentals	¥ 729,078

Future minimum lease rentals as shown above should not necessarily be considered indicative of future cash collections.

**(9) Short-term and Long-term Debt**

Short-term debt at March 31, 2013 and 2014 is as follows:

	<b>Yen (millions)</b>	
	<b>2013</b>	<b>2014</b>
Short-term bank loans	¥ 347,842	¥ 373,610
Asset-backed notes	37,448	69,032
Medium-term notes	159,963	231,519
Commercial paper	693,044	645,183
Total	¥ 1,238,297	¥ 1,319,344

The weighted average interest rates on short-term debt outstanding at March 31, 2013 and 2014 were 0.86% and 1.15%, respectively.



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

Long-term debt at March 31, 2013 and 2014 is as follows:

	<b>Yen (millions)</b>	
	<b>2013</b>	<b>2014</b>
<b>Honda Motor Co., Ltd.:</b>		
Loans, maturing through 2031:		
Unsecured, principally from banks	¥ 160	¥ 128
	160	128
<b>Subsidiaries:</b>		
Loans, maturing through 2029:		
Secured, principally from banks	15,830	30,466
Unsecured, principally from banks	1,043,857	1,224,947
Asset-backed notes, maturing through 2019	681,020	808,022
1.31% Japanese yen unsecured bond due 2013	40,000	
1.05% Japanese yen unsecured bond due 2014	30,000	30,000