

HONDA MOTOR CO LTD
Form 6-K
February 21, 2019
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No.1-7628

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF FEBRUARY 2019
COMMISSION FILE NUMBER: 1-07628

HONDA GIKEN KOGYO KABUSHIKI KAISHA

(Name of registrant)

HONDA MOTOR CO., LTD.

(Translation of registrant's name into English)

1-1, Minami-Aoyama 2-chome, Minato-ku, Tokyo 107-8556, Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

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Exhibit 1:

On February 7, 2019, Honda Motor Co., Ltd. filed its consolidated financial statements for the fiscal third quarter ended December 31, 2018 with Financial Services Agency in Japan.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HONDA GIKEN KOGYO KABUSHIKI
KAISHA (HONDA MOTOR CO., LTD.)

/s/ Eiji Fujimura
Eiji Fujimura
General Manager
Finance Division
Honda Motor Co., Ltd.

Date: February 21, 2019

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

December 31, 2018

Table of Contents**HONDA MOTOR CO., LTD. AND SUBSIDIARIES****Consolidated Financial Results****Overview of Operating Performance**

Honda's consolidated sales revenue for the nine months ended December 31, 2018 increased by 3.4%, to ¥11,839.5 billion from the same period last year, due mainly to increased sales revenue in all business operations. Operating profit decreased by 3.2%, to ¥684.0 billion from the same period last year, due mainly to increased selling, general and administrative expenses as well as negative foreign currency effects, which was partially offset by continuing cost reduction and the loss related to the settlement of multidistrict class action litigation in the same period last year. Profit before income taxes decreased by 6.1%, to ¥868.2 billion from the same period last year. Profit for the period attributable to owners of the parent decreased by 34.5%, to ¥623.3 billion from the same period last year, due mainly to the impacts of the enactment of the Tax Cuts and Jobs Act in the United States in the same period last year.

Business Segments*Motorcycle Business*

For the nine months ended December 31, 2017 and 2018

	Units (thousands)							
	Honda Group Unit Sales*				Consolidated Unit Sales*			
	Nine months ended	Nine months ended	Change	%	Nine months ended	Nine months ended	Change	%
	Dec. 31, 2017	Dec. 31, 2018			Dec. 31, 2017	Dec. 31, 2018		
Motorcycle Business	14,807	15,680	873	5.9	9,787	10,378	591	6.0
Japan	126	157	31	24.6	126	157	31	24.6
North America	232	216	(16)	(6.9)	232	216	(16)	(6.9)
Europe	173	181	8	4.6	173	181	8	4.6
Asia	13,460	14,187	727	5.4	8,440	8,885	445	5.3
Other Regions	816	939	123	15.1	816	939	123	15.1

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

Sales revenue from external customers increased by 6.1%, to ¥1,610.7 billion from the same period last year, due mainly to increased consolidated unit sales. Operating profit increased by 16.3%, to ¥246.7 billion from the same period last year, due mainly to an increase in profit attributable to increased sales volume and model mix.

Table of Contents*Automobile Business*

For the nine months ended December 31, 2017 and 2018

	Units (thousands)							
	Honda Group Unit Sales*				Consolidated Unit Sales*			
	Nine months ended		Nine months ended		Nine months ended		Nine months ended	
	Dec. 31, 2017	Dec. 31, 2018	Change	%	Dec. 31, 2017	Dec. 31, 2018	Change	%
Automobile Business	3,903	3,959	56	1.4	2,739	2,769	30	1.1
Japan	498	515	17	3.4	451	464	13	2.9
North America	1,424	1,444	20	1.4	1,424	1,444	20	1.4
Europe	127	121	(6)	(4.7)	127	121	(6)	(4.7)
Asia	1,671	1,698	27	1.6	554	559	5	0.9
Other Regions	183	181	(2)	(1.1)	183	181	(2)	(1.1)

* Honda Group Unit Sales is the total unit sales of completed products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed products of Honda and its consolidated subsidiaries. Certain sales of automobiles that are financed with residual value type auto loans by our Japanese finance subsidiaries and sold through our consolidated subsidiaries are accounted for as operating leases in conformity with IFRS and are not included in consolidated sales revenue to the external customers in our Automobile business. Accordingly, they are not included in Consolidated Unit Sales, but are included in Honda Group Unit Sales of our Automobile business. Sales revenue from external customers increased by 1.7%, to ¥8,228.1 billion from the same period last year, due mainly to increased consolidated unit sales. Operating profit decreased by 24.3%, to ¥262.7 billion from the same period last year, due mainly to increased selling, general and administrative expenses as well as negative foreign currency effects, which was partially offset by the loss related to the settlement of multidistrict class action litigation in the same period last year.

Financial Services Business

Sales revenue from external customers increased by 9.4%, to ¥1,746.2 billion from the same period last year, due mainly to an increase in revenues on disposition of lease vehicles and operating lease revenues. Operating profit increased by 19.6%, to ¥176.7 billion from the same period last year, due mainly to an increase in profit attributable to increased sales revenue.

Power Product and Other Businesses

For the nine months ended December 31, 2017 and 2018

Units (thousands)
Honda Group Unit Sales / Consolidated Unit Sales*

	Nine months ended Dec. 31, 2017	Nine months ended Dec. 31, 2018	Change	%
Power Product Business	3,785	3,954	169	4.5
Japan	202	246	44	21.8
North America	1,665	1,781	116	7.0
Europe	597	600	3	0.5
Asia	1,041	1,080	39	3.7
Other Regions	280	247	(33)	(11.8)

* Honda Group Unit Sales is the total unit sales of completed power products of Honda, its consolidated subsidiaries and its affiliates and joint ventures accounted for using the equity method. Consolidated Unit Sales is the total unit sales of completed power products corresponding to consolidated sales revenue to external customers, which consists of unit sales of completed power products of Honda and its consolidated subsidiaries. In Power Product business, there is no discrepancy between Honda Group Unit Sales and Consolidated Unit Sales since no affiliate and joint venture accounted for using the equity method were involved in the sale of Honda power products. Sales revenue from external customers increased by 3.5%, to ¥254.3 billion from the same period last year, due mainly to increased consolidated unit sales in Power Product business. Operating loss was ¥2.1 billion, an increase of ¥1.8 billion from the same period last year, due mainly to increased operating costs in Other businesses. In addition, operating loss of aircraft and aircraft engines included in the Power Product and other businesses was ¥29.2 billion, an improvement of ¥1.0 billion from the same period last year.

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Cash Flows

Consolidated cash and cash equivalents on December 31, 2018 decreased by ¥62.4 billion from March 31, 2018, to ¥2,194.0 billion. The reasons for the increases or decreases for each cash flow activity, when compared with the same period last year, are as follows:

Net cash provided by operating activities amounted to ¥498.6 billion of cash inflows. Cash inflows from operating activities decreased by ¥123.9 billion from the same period last year, due mainly to increased payments for parts and raw materials, which was partially offset by increased cash received from customers.

Net cash used in investing activities amounted to ¥496.1 billion of cash outflows. Cash outflows from investing activities increased by ¥64.8 billion from the same period last year, due mainly to increased payments for acquisitions of other financial assets.

Net cash used in financing activities amounted to ¥54.2 billion of cash outflows. Cash outflows from financing activities decreased by ¥76.1 billion from the same period last year, due mainly to an increase in proceeds from financing liabilities, which was partially offset by an increase in repayments of financing liabilities and purchases of treasury stock.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Position

March 31, 2018 and December 31, 2018

Assets	Note	Yen (millions)	
		March 31, 2018 unaudited	December 31, 2018 unaudited
Current assets:			
Cash and cash equivalents		¥ 2,256,488	¥ 2,194,073
Trade receivables		800,463	688,213
Receivables from financial services		1,840,699	1,873,742
Other financial assets		213,177	229,189
Inventories		1,523,455	1,618,680
Other current assets		291,006	375,030
Total current assets		6,925,288	6,978,927
Non-current assets:			
Investments accounted for using the equity method		679,517	666,587
Receivables from financial services		3,117,364	3,379,984
Other financial assets		436,555	477,449
Equipment on operating leases	6	4,088,133	4,330,434
Property, plant and equipment	7	3,062,433	2,972,261
Intangible assets		741,514	744,446
Deferred tax assets		129,338	134,763
Other non-current assets		169,022	166,350
Total non-current assets		12,423,876	12,872,274
Total assets		¥ 19,349,164	¥ 19,851,201

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Liabilities and Equity	Note	Yen (millions)	
		March 31, 2018 unaudited	December 31, 2018 unaudited
Current liabilities:			
Trade payables		¥ 1,224,627	¥ 1,056,584
Financing liabilities		2,917,261	3,138,789
Accrued expenses		404,719	427,688
Other financial liabilities		115,405	133,109
Income taxes payable		53,595	50,062
Provisions	8	305,994	285,194
Other current liabilities		602,498	569,987
Total current liabilities		5,624,099	5,661,413
Non-current liabilities:			
Financing liabilities		3,881,749	3,998,741
Other financial liabilities		60,005	61,342
Retirement benefit liabilities		404,401	399,540
Provisions	8	220,625	204,607
Deferred tax liabilities		629,722	645,765
Other non-current liabilities		294,468	309,030
Total non-current liabilities		5,490,970	5,619,025
Total liabilities		11,115,069	11,280,438
Equity:			
Common stock		86,067	86,067
Capital surplus		171,118	171,343
Treasury stock		(113,271)	(177,826)
Retained earnings		7,611,332	8,028,707
Other components of equity		178,292	178,249
Equity attributable to owners of the parent		7,933,538	8,286,540
Non-controlling interests		300,557	284,223
Total equity		8,234,095	8,570,763
Total liabilities and equity		¥ 19,349,164	¥ 19,851,201

See accompanying notes to condensed consolidated interim financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

For the nine months ended December 31, 2017 and 2018

	Yen (millions)		
	Note	December 31, 2017 unaudited	December 31, 2018 unaudited
Profit for the period		¥ 1,006,921	¥ 680,815
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		(24,210)	
Net changes in revaluation of financial assets measured at fair value through other comprehensive income		28,417	(25,697)
Share of other comprehensive income of investments accounted for using the equity method		2,352	(3,023)
Items that may be reclassified subsequently to profit or loss			
Net changes in revaluation of financial assets measured at fair value through other comprehensive income			120
Exchange differences on translating foreign operations		104,807	29,817
Share of other comprehensive income of investments accounted for using the equity method		19,033	(23,918)
Total other comprehensive income, net of tax		130,399	(22,701)
Comprehensive income for the period		¥ 1,137,320	¥ 658,114
Comprehensive income for the period attributable to:			
Owners of the parent		1,072,640	606,702
Non-controlling interests		64,680	51,412

See accompanying notes to condensed consolidated interim financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

For the three months ended December 31, 2017 and 2018

	Note	Yen (millions)	
		December 31, 2017 unaudited	December 31, 2018 unaudited
Profit for the period		¥ 589,768	¥ 184,868
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		(24,210)	
Net changes in revaluation of financial assets measured at fair value through other comprehensive income		16,360	(26,131)
Share of other comprehensive income of investments accounted for using the equity method		2,450	(2,278)
Items that may be reclassified subsequently to profit or loss			
Net changes in revaluation of financial assets measured at fair value through other comprehensive income			161
Exchange differences on translating foreign operations		18,673	(169,559)
Share of other comprehensive income of investments accounted for using the equity method		7,752	(6,168)
Total other comprehensive income, net of tax		21,025	(203,975)
Comprehensive income for the period		¥ 610,793	¥ (19,107)
Comprehensive income for the period attributable to:			
Owners of the parent		587,954	(28,313)
Non-controlling interests		22,839	9,206

See accompanying notes to condensed consolidated interim financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Equity

For the nine months ended December 31, 2017 and 2018

	Yen (millions)								
	Note	Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance as of April 1, 2017 (unaudited)		¥86,067	¥171,118	¥(26,189)	¥6,712,894	¥351,406	¥7,295,296	¥274,330	¥7,569,626
Comprehensive income for the period									
Profit for the period					951,592		951,592	55,329	1,006,921
Other comprehensive income, net of tax						121,048	121,048	9,351	130,399
Total comprehensive income for the period					951,592	121,048	1,072,640	64,680	1,137,320
Reclassification to retained earnings					(23,096)	23,096			
Transactions with owners and other									
Dividends paid	14				(129,764)		(129,764)	(40,002)	(169,766)
Purchases of treasury stock				(87,080)			(87,080)		(87,080)
Total transactions with owners and other				(87,080)	(129,764)		(216,844)	(40,002)	(256,846)
Balance as of December 31,		¥86,067	¥171,118	¥(113,269)	¥7,511,626	¥495,550	¥8,151,092	¥299,008	¥8,450,100

2017
(unaudited)

	Yen (millions)								
	Equity attributable to owners of the parent					Other components		Non-controlling interests	Total equity
	Note	Common stock	Capital surplus	Treasury stock	Retained earnings	of equity	Total		
Balance as of April 1, 2018 (unaudited)		¥ 86,067	¥ 171,118	¥ (113,271)	¥ 7,611,332	¥ 178,292	¥ 7,933,538	¥ 300,557	¥ 8,234,095
Effect of changes in accounting policy	3				(46,833)	(208)	(47,041)	6	(47,035)
Effect of hyperinflation					(9,454)	14,896	5,442		5,442
Adjusted balance as of April 1, 2018		86,067	171,118	(113,271)	7,555,045	192,980	7,891,939	300,563	8,192,502
Comprehensive income for the period									
Profit for the period					623,339		623,339	57,476	680,815
Other comprehensive income, net of tax						(16,637)	(16,637)	(6,064)	(22,701)
Total comprehensive income for the period					623,339	(16,637)	606,702	51,412	658,114
Reclassification to retained earnings					(1,906)	1,906			
Transactions with owners and other									
Dividends paid	14				(144,983)		(144,983)	(65,039)	(210,022)
Purchases of treasury stock					(64,556)		(64,556)		(64,556)
Disposal of treasury stock				1			1		1
Share-based payment			225				225		225

transactions

Total transactions with owners and other	225	(64,555)	(144,983)		(209,313)	(65,039)	(274,352)
Other changes			(2,788)		(2,788)	(2,713)	(5,501)
Balance as of December 31, 2018 (unaudited)	¥ 86,067	¥ 171,343	¥ (177,826)	¥ 8,028,707	¥ 178,249	¥ 8,286,540	¥ 284,223
							¥ 8,570,763

See accompanying notes to condensed consolidated interim financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

For the nine months ended December 31, 2017 and 2018

	Note	Yen (millions)	
		December 31, 2017 unaudited	December 31, 2018 unaudited
Cash flows from operating activities:			
Profit before income taxes		¥ 924,525	¥ 868,251
Depreciation, amortization and impairment losses excluding equipment on operating leases		531,230	518,386
Share of profit of investments accounted for using the equity method		(189,723)	(169,631)
Finance income and finance costs, net		11,628	(68,087)
Interest income and interest costs from financial services, net		(96,331)	(92,655)
Changes in assets and liabilities			
Trade receivables		57,230	105,991
Inventories		(104,753)	(105,008)
Trade payables		(72,579)	(85,229)
Accrued expenses		(39,806)	(34,658)
Provisions and retirement benefit liabilities		(79,965)	(22,445)
Receivables from financial services		(121,704)	(165,210)
Equipment on operating leases		(136,548)	(141,291)
Other assets and liabilities		(64,373)	(101,717)
Other, net		4,483	108
Dividends received		79,542	98,624
Interest received		184,581	201,325
Interest paid		(79,611)	(105,418)
Income taxes paid, net of refunds		(185,174)	(202,677)
Net cash provided by operating activities		622,652	498,659
Cash flows from investing activities:			
Payments for additions to property, plant and equipment		(318,457)	(316,581)
Payments for additions to and internally developed intangible assets		(112,706)	(136,115)
Proceeds from sales of property, plant and equipment and intangible assets		15,089	16,381
Payments for acquisitions of investments accounted for using the equity method		(2,450)	(2,401)
Payments for acquisitions of other financial assets		(188,995)	(449,654)
Proceeds from sales and redemptions of other financial assets		175,488	389,553
Other, net		719	2,649
Net cash used in investing activities		(431,312)	(496,168)

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Cash flows from financing activities:		
Proceeds from short-term financing liabilities	5,723,203	6,085,890
Repayments of short-term financing liabilities	(5,537,683)	(5,865,684)
Proceeds from long-term financing liabilities	1,203,256	1,290,354
Repayments of long-term financing liabilities	(1,228,275)	(1,256,400)
Dividends paid to owners of the parent	(129,764)	(144,983)
Dividends paid to non-controlling interests	(39,392)	(61,786)
Purchases and sales of treasury stock, net	(87,080)	(64,555)
Other, net	(34,630)	(37,061)
Net cash used in financing activities	(130,365)	(54,225)
Effect of exchange rate changes on cash and cash equivalents	43,534	(10,681)
Net change in cash and cash equivalents	104,509	(62,415)
Cash and cash equivalents at beginning of year	2,105,976	2,256,488
Cash and cash equivalents at end of period	¥ 2,210,485	¥ 2,194,073

See accompanying notes to condensed consolidated interim financial statements.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

(1) Reporting Entity

Honda Motor Co., Ltd. (the Company) is a public company domiciled in Japan. The Company and its subsidiaries (collectively Honda) develop, manufacture and distribute motorcycles, automobiles, power products and others throughout the world, and also provide financial services to customers and dealers for the sale of those products. Principal manufacturing facilities are located in Japan, the United States of America, Canada, Mexico, the United Kingdom, Turkey, Italy, France, China, India, Indonesia, Malaysia, Thailand, Vietnam, Argentina and Brazil.

(2) Basis of Preparation

(a) Compliance with Interim Financial Reporting Standards

The condensed consolidated interim financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the fiscal year ended March 31, 2018, since the condensed consolidated interim financial statements do not include all the information required in the annual consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) Functional Currency and Presentation Currency

The condensed consolidated interim financial statements are presented in Japanese yen, which is the functional currency of the Company. All financial information presented in Japanese yen has been rounded to the nearest million Japanese yen, except when otherwise indicated.

(c) Use of Estimates and Judgments

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amount of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The condensed consolidated interim financial statements are prepared based on the same judgments and estimations as those applied and described in the Company's consolidated financial statements for the fiscal year ended March 31, 2018.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies

The condensed consolidated interim financial statements are prepared based on the same accounting policies as those applied and described in the Company's consolidated financial statements for the fiscal year ended March 31, 2018, except for the changes below.

(a) IFRS 9 Financial Instruments

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

Classification of financial assets

Debt securities other than those classified into financial assets measured at amortized cost were classified into financial assets measured at fair value through profit or loss under IFRS 9 (2013). IFRS 9 (2014) newly established a classification in which financial assets are measured at fair value through other comprehensive income. Under IFRS 9 (2014), a financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: 1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The impact of this reclassification is as follows:

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

Impairment of financial assets

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

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

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

(b) IFRS 15 Revenue from Contracts with Customers

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

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

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

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

The impacts of adopting IFRS 15 on Honda's condensed consolidated financial statements as of and for the nine months and the three months ended December 31, 2018 are as follows:

(Condensed Consolidated Statements of Financial Position)

As of December 31, 2018

Assets	Yen (millions)		
	Balances without adoption of IFRS 15	Adjustments	As reported
Current assets:			
Cash and cash equivalents	¥ 2,194,073	¥	¥ 2,194,073
Trade receivables	689,495	(1,282)	688,213
Receivables from financial services	1,873,742		1,873,742
Other financial assets	229,189		229,189
Inventories	1,618,680		1,618,680
Other current assets	374,224	806	375,030
Total current assets	6,979,403	(476)	6,978,927
Non-current assets:			
Investments accounted for using the equity method	666,575	12	666,587
Receivables from financial services	3,379,984		3,379,984
Other financial assets	477,449		477,449
Equipment on operating leases	4,330,434		4,330,434
Property, plant and equipment	2,972,261		2,972,261
Intangible assets	744,446		744,446
Deferred tax assets	134,348	415	134,763
Other non-current assets	165,544	806	166,350
Total non-current assets	12,871,041	1,233	12,872,274

Total assets	19,850,444	757	19,851,201
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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

Liabilities and Equity	Yen (millions)		
	Balances without adoption of IFRS 15	Adjustments	As reported
Current liabilities:			
Trade payables	¥ 1,056,584	¥	¥ 1,056,584
Financing liabilities	3,138,789		3,138,789
Accrued expenses	367,652	60,036	427,688
Other financial liabilities	133,109		133,109
Income taxes payable	50,062		50,062
Provisions	289,013	(3,819)	285,194
Other current liabilities	554,740	15,247	569,987
Total current liabilities	5,589,949	71,464	5,661,413
Non-current liabilities:			
Financing liabilities	3,998,741		3,998,741
Other financial liabilities	61,342		61,342
Retirement benefit liabilities	399,540		399,540
Provisions	205,579	(972)	204,607
Deferred tax liabilities	662,934	(17,169)	645,765
Other non-current liabilities	307,814	1,216	309,030
Total non-current liabilities	5,635,950	(16,925)	5,619,025
Total liabilities	11,225,899	54,539	11,280,438
Equity:			
Common stock	86,067		86,067
Capital surplus	171,343		171,343
Treasury stock	(177,826)		(177,826)
Retained earnings	8,081,616	(52,909)	8,028,707
Other components of equity	178,910	(661)	178,249
Equity attributable to owners of the parent	8,340,110	(53,570)	8,286,540

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Non-controlling interests	284,435	(212)	284,223
Total equity	8,624,545	(53,782)	8,570,763
Total liabilities and equity	19,850,444	757	19,851,201

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements***(Condensed Consolidated Statements of Income)***For the nine months ended December 31, 2018**

	Yen (millions)		
	Balances without adoption of IFRS 15	Adjustments	As reported
Sales revenue	¥ 11,851,234	¥ (11,734)	¥ 11,839,500
Operating costs and expenses:			
Cost of sales	(9,327,471)	1,963	(9,325,508)
Selling, general and administrative	(1,255,114)	613	(1,254,501)
Research and development	(575,486)		(575,486)
Total operating costs and expenses	(11,158,071)	2,576	(11,155,495)
Operating profit	693,163	(9,158)	684,005
Share of profit of investments accounted for using the equity method	169,629	2	169,631
Finance income and finance costs:			
Interest income	36,172		36,172
Interest expense	(10,065)		(10,065)
Other, net	(11,492)		(11,492)
Total finance income and finance costs	14,615		14,615
Profit before income taxes	877,407	(9,156)	868,251
Income tax expense	(189,703)	2,267	(187,436)
Profit for the period	687,704	(6,889)	680,815
Profit for the period attributable to:			

Owners of the parent	629,606	(6,267)	623,339
Non-controlling interests	58,098	(622)	57,476

For the three months ended December 31, 2018

	Yen (millions)		
	Balances without adoption of IFRS 15	Adjustments	As reported
Sales revenue	¥ 4,017,243	¥ (43,588)	¥ 3,973,655
Operating costs and expenses:			
Cost of sales	(3,158,630)	526	(3,158,104)
Selling, general and administrative	(444,354)	(202)	(444,556)
Research and development	(200,848)		(200,848)
Total operating costs and expenses	(3,803,832)	324	(3,803,508)
Operating profit	213,411	(43,264)	170,147
Share of profit of investments accounted for using the equity method	51,402	1	51,403
Finance income and finance costs:			
Interest income	12,848		12,848
Interest expense	(4,108)		(4,108)
Other, net	(3,363)		(3,363)
Total finance income and finance costs	5,377		5,377
Profit before income taxes	270,190	(43,263)	226,927
Income tax expense	(53,099)	11,040	(42,059)
Profit for the period	217,091	(32,223)	184,868
Profit for the period attributable to:			
Owners of the parent	200,315	(32,077)	168,238
Non-controlling interests	16,776	(146)	16,630

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements****(4) Segment Information**

Honda has four reportable segments: Motorcycle business, Automobile business, Financial services business and Power Product and other businesses, which are based on Honda's organizational structure and characteristics of products and services. Operating segments are defined as the components of Honda for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The accounting policies used for these reportable segments are consistent with the accounting policies used in the Company's condensed consolidated interim financial statements.

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

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

(a) Segment Information

Segment information as of and for the nine months ended December 31, 2017 and 2018 is as follows:

As of and for the nine months ended December 31, 2017

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated
Sales revenue:							
External customers	¥ 1,517,766	¥ 8,087,128	¥ 1,595,750	¥ 245,774	¥ 11,446,418	¥	¥ 11,446,418
Intersegment		131,939	10,633	18,625	161,197	(161,197)	
Total	1,517,766	8,219,067	1,606,383	264,399	11,607,615	(161,197)	11,446,418
Segment profit (loss)	¥ 212,185	¥ 347,064	¥ 147,816	¥ (333)	¥ 706,732	¥	¥ 706,732
Segment assets	¥ 1,489,767	¥ 7,875,109	¥ 9,867,147	¥ 334,638	¥ 19,566,661	¥ 194,804	¥ 19,761,465
Depreciation and amortization	55,986	459,241	559,239	11,654	1,086,120		1,086,120
Capital expenditures	35,228	357,005	1,374,254	7,213	1,773,700		1,773,700

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

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

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

Segment information for the three months ended December 31, 2017 and 2018 is as follows:

For the three months ended December 31, 2017

	Yen (millions)						
	Motorcycle Business	Automobile Business	Financial Services Business	Power Product and Other Businesses	Segment Total	Reconciling Items	Consolidated

Sales revenue:													
External customers	¥	499,117	¥	2,849,328	¥	523,558	¥	85,120	¥	3,957,123	¥	3,957,123	
Intersegment				52,085		3,572		8,362		64,019		(64,019)	
Total		499,117		2,901,413		527,130		93,482		4,021,142		(64,019)	3,957,123
Segment profit (loss)													
	¥	64,823	¥	167,497	¥	50,701	¥	1,555	¥	284,576	¥	284,576	

For the three months ended December 31, 2018

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

Explanatory notes:

1. Segment profit (loss) of each segment is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before share of profit of investments accounted for using the equity method and finance income and finance costs. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable.
2. Segment assets of each segment are defined as total assets including investments accounted for using the equity method, derivatives, and deferred tax assets. Segment assets are based on those directly associated with each segment and those not directly associated with specific segments are allocated based on the most reasonable measures applicable except for the corporate assets described below.
3. Intersegment sales revenues are generally made at values that approximate arm's-length prices.

4. Reconciling items include elimination of intersegment transactions and balances as well as unallocated corporate assets. Unallocated corporate assets, included in reconciling items as of December 31, 2017 and 2018 amounted to ¥523,929 million and ¥654,744 million, respectively, which consist primarily of the Company's cash and cash equivalents and financial assets measured at fair value through other comprehensive income.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements***(b) Supplemental Geographical Information*

In addition to the disclosure required by IFRS, Honda provides the following supplemental information for the financial statements users:

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

As of and for the nine months ended December 31, 2017

	Yen (millions)						Reconciling	Consolidated
	Japan	North America	Europe	Asia	Other Regions	Total	Items	
Sales revenue:								
External customers	¥ 1,612,740	¥ 6,060,094	¥ 473,183	¥ 2,686,496	¥ 613,905	¥ 11,446,418	¥	¥ 11,446,418
Inter-geographic areas	1,628,595	375,822	166,646	496,432	4,720	2,672,215	(2,672,215)	
Total	3,241,335	6,435,916	639,829	3,182,928	618,625	14,118,633	(2,672,215)	11,446,418
Operating profit (loss)	¥ 119,135	¥ 206,992	¥ 11,757	¥ 319,285	¥ 34,482	¥ 691,651	¥ 15,081	¥ 706,732
Assets	¥ 4,332,709	¥ 11,128,906	¥ 685,811	¥ 2,921,112	¥ 677,332	¥ 19,745,870	¥ 15,595	¥ 19,761,465
Non-current assets other than financial instruments and deferred tax assets	¥ 2,498,753	¥ 4,885,452	¥ 106,163	¥ 711,057	¥ 169,757	¥ 8,371,182		¥ 8,371,182

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

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

For the three months ended December 31, 2017

	Yen (millions)								
	Japan	North America	Europe	Asia	Other Regions	Total	Reconciling Items	Consolidated	
Sales revenue:									
External customers	¥ 557,410	¥ 2,114,553	¥ 148,354	¥ 926,136	¥ 210,670	¥ 3,957,123	¥	¥ 3,957,123	
Inter-geographic areas	600,637	123,255	69,242	180,876	1,452	975,462	(975,462)		
Total	1,158,047	2,237,808	217,596	1,107,012	212,122	4,932,585	(975,462)	3,957,123	
Operating profit (loss)									
	¥ 63,275	¥ 106,063	¥ 2,575	¥ 111,139	¥ 7,751	¥ 290,803	¥ (6,227)	¥ 284,576	

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements****For the three months ended December 31, 2018**

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

Explanatory notes:

1. Major countries or regions in each geographic area:

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

2. Operating profit (loss) of each geographical region is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before share of profit of investments accounted for using the equity method and finance income and finance costs.

3. Assets of each geographical region are defined as total assets including investments accounted for using the equity method, derivatives, and deferred tax assets.
4. Sales revenues between geographic areas are generally made at values that approximate arm's-length prices.
5. Reconciling items include elimination of inter-geographic transactions and balances as well as unallocated corporate assets. Unallocated corporate assets, included in reconciling items as of December 31, 2017 and 2018 amounted to ¥523,929 million and ¥654,744 million, respectively, which consist primarily of the Company's cash and cash equivalents and financial assets measured at fair value through other comprehensive income.

(5) Reversal of impairment loss on investments accounted for using the equity method

For the nine months ended December 31, 2017, the Company recognized reversal of impairment losses of ¥15,782 million, which had been previously recognized, on certain investments accounted for using the equity method mainly due to the recovery of quoted market values. The reversal of impairment losses is included in share of profit of investments accounted for using the equity method in the condensed consolidated statement of income. For the nine months ended December 31, 2018, the Company did not recognize any significant reversal of impairment losses.

(6) Equipment on Operating Leases

The additions to equipment on operating leases for the nine months ended December 31, 2017 and 2018 are ¥1,372,335 million and ¥1,466,827 million, respectively.

The sales or disposals of equipment on operating leases for the nine months ended December 31, 2017 and 2018 are ¥668,256 million and ¥735,138 million, respectively.

(7) Property, Plant and Equipment

The additions to property, plant and equipment for the nine months ended December 31, 2017 and 2018 are ¥315,608 million and ¥316,498 million, respectively.

The sales or disposals of property, plant and equipment for the nine months ended December 31, 2017 and 2018 are ¥30,444 million and ¥32,243 million, respectively.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements****(8) Provisions**

The components of and changes in provisions for the nine months ended December 31, 2018 are as follows:

	Yen (millions)		
	Product warranties*	Other	Total
Balance as of March 31, 2018	¥ 457,596	¥ 69,023	¥ 526,619
Effect of changes in accounting policy	(4,536)		(4,536)
Balance as of April 1, 2018	453,060	69,023	522,083
Provision	¥ 147,663	¥ 21,645	¥ 169,308
Charge-offs	(166,034)	(18,954)	(184,988)
Reversal	(12,105)	(8,629)	(20,734)
Exchange differences on translating foreign operations	4,333	(201)	4,132
Balance as of December 31, 2018	¥ 426,917	¥ 62,884	¥ 489,801

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

	Yen (millions)	
	As of March 31, 2018	As of December 31, 2018
Current liabilities	¥ 305,994	¥ 285,194
Non-current liabilities	220,625	204,607
Total	¥ 526,619	¥ 489,801

Explanatory notes:

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements****(9) Sales Revenue**

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

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

For the nine months ended December 31, 2018

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

For the three months ended December 31, 2018

Yen (millions)

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

Explanatory notes:

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

(10) Income Taxes

The Tax Cuts and Jobs Act (the Act) was enacted in the United States on December 22, 2017. Due to the Act, the federal corporate income tax rate in the United States applicable to the Company s United States businesses was reduced from 35% to a blended rate of 31.55% for the fiscal year ended March 31, 2018 and to 21% from the fiscal year commencing on April 1, 2018.

The Company had recognized impacts of the enactment of the Act, including a decrease in income tax expenses of ¥346,129 million, as a result of reevaluating deferred tax assets and liabilities in its consolidated subsidiaries in the United States based on the reduced federal corporate income tax rate, in the third quarter of the fiscal year ended March 31, 2018.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

(11) Fair Value

(a) Definition of Fair Value Hierarchy

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

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

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

(b) Method of Fair Value Measurement

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

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

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

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

(Receivables from financial services)

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

(Debt securities)

Debt securities consist mainly of mutual funds, corporate bonds, local bonds and auction rate securities.

The fair value of mutual funds with an active market is measured by using quoted market prices. Fair value measurement for mutual funds with an active market is classified as Level 1.

The fair values of corporate bonds and local bonds are measured based on proprietary pricing models provided by specialists and/or market makers and the models obtain a wide array of market observable inputs such as credit ratings and discount rates. Fair value measurements for corporate bonds and local bonds are classified as Level 2.

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

The subsidiary's auction rate securities are A to AAA rated and are insured by qualified guarantee agencies, and reinsured by the Secretary of Education and the United States government, and guaranteed at approximately 95% by the United States government. To measure fair value of auction rate securities, Honda uses a third-party-developed valuation model which obtains a wide array of market observable inputs, as well as unobservable inputs including probability of passing or failing auction at each auction. Fair value measurement for auction rate securities is classified as Level 3.

(Equity securities)

The fair value of equity securities with an active market is measured by using quoted market prices. Fair value measurement for equity securities with an active market is classified as Level 1.

The fair value of equity securities with no active market is measured mainly by using the comparable company valuation method and other appropriate valuation methods. Fair value measurement for equity securities with no active market is classified as Level 3. In addition, in the case that cost represents the best estimate of fair value, fair value for the equity securities with no active market is measured at cost.

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

(Derivatives)

Derivatives consist mainly of foreign currency forward exchange contracts, foreign currency option contracts, currency swap agreements and interest rate swap agreements.

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

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

(Financing liabilities)

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements***(c) Assets and Liabilities Measured at Fair Value on a recurring basis*

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2018 consist of the following:

As of March 31, 2018	Yen (millions)			Total
	Level 1	Level 2	Level 3	
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥	¥ 38,926	¥	¥ 38,926
Interest rate instruments		49,419		49,419
Total		88,345		88,345
Debt securities				
	26,763	37,860	5,206	69,829
Financial assets measured at fair value through other comprehensive income:				
Debt securities				
Equity securities	198,011		12,671	210,682
Total	¥224,774	¥126,205	¥17,877	¥368,856
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥	¥ 16,417	¥	¥ 16,417
Interest rate instruments		36,369		36,369
Total		52,786		52,786
Total	¥	¥ 52,786	¥	¥ 52,786

There were no transfers between Level 1 and Level 2 for the year ended March 31, 2018.

As of December 31, 2018	Yen (millions)			Total
	Level 1	Level 2	Level 3	
Other financial assets:				
Financial assets measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥	¥ 20,680	¥	¥ 20,680
Interest rate instruments		39,363		39,363
Total		60,043		60,043
Debt securities				
	19,964	28,514	5,408	53,886
Financial assets measured at fair value through other comprehensive income:				
Debt securities				
		12,589		12,589
Equity securities	167,921		95,169	263,090
Total	¥ 187,885	¥ 101,146	¥ 100,577	¥ 389,608
Other financial liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivatives				
Foreign exchange instruments	¥	¥ 30,498	¥	¥ 30,498
Interest rate instruments		29,818		29,818
Total		60,316		60,316
Total	¥	¥ 60,316	¥	¥ 60,316

There were no transfers between Level 1 and Level 2 for the nine months ended December 31, 2018.

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

There were no significant effects of the measurements on profit or loss or other comprehensive income in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended December 31, 2018.

(d) Financial Assets and Financial Liabilities measured at amortized cost

The carrying amounts and fair values of financial assets and financial liabilities measured at amortized cost as of March 31, 2018 and December 31, 2018 are as follows:

	Yen (millions)			
	As of March 31, 2018		As of December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Receivables from financial services	¥4,958,063	¥4,935,772	¥5,253,726	¥5,228,916
Debt securities	104,286	104,284	68,259	68,261
Financing liabilities	6,799,010	6,795,675	7,137,530	7,123,737

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

(12) Contingent Liabilities

Claims and Lawsuits

Honda is subject to potential liability under various lawsuits and claims. Honda recognizes a provision for loss contingencies when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Honda reviews these pending lawsuits and claims periodically and adjusts the amounts recognized for these contingent liabilities, if necessary, by considering the nature of lawsuits and claims, the progress of the case and the opinions of legal counsel.

With respect to product liability, personal injury claims or lawsuits, Honda believes that any judgment that may be recovered by any plaintiff for general and special damages and court costs will be adequately covered by Honda's insurance and provision. Punitive damages are claimed in certain of these lawsuits.

After consultation with legal counsel, and taking into account all known factors pertaining to existing lawsuits and claims, Honda believes that the ultimate outcome of such lawsuits and pending claims should not result in liability to Honda that would be likely to have an adverse material effect on its consolidated financial position or results of operations.

Loss related to airbag inflators

Honda has been conducting market-based measures in relation to airbag inflators. Honda recognizes a provision for specific warranty costs when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. There is a possibility that Honda will need to recognize additional provisions when new evidence related to the product recalls arise, however, it is not possible for Honda to reasonably estimate the amount and timing of potential future losses as of the date of this report.

In the United States and Canada, various class action lawsuits and civil lawsuits related to the above mentioned market-based measures were filed against Honda. The plaintiffs claimed for properly functioning airbag inflators, compensation of economic losses including incurred costs and the decline in the value of vehicles, as well as punitive damages.

Most of the class action lawsuits in the United States were transferred to the United States District Court for the Southern District of Florida and consolidated into a multidistrict class action litigation. For the nine months ended December 31, 2017, Honda has reached a settlement with the plaintiffs of the multidistrict class action litigation in the

United States. Honda recognized the settlement of ¥53,739 million as selling, general and administrative expenses, which includes funds contributed to enhance airbag inflator recall activities. The final approval of the settlement from court was completed as July 31, 2018(U.S. local time).

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

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES**Notes to Condensed Consolidated Interim Financial Statements****(13) Earnings Per Share**

Earnings per share attributable to owners of the parent for the nine months ended December 31, 2017 and 2018 are calculated based on the following information. There were no dilutive potential common shares outstanding for the nine months ended December 31, 2017 and 2018.

	2017	2018
Profit for the period attributable to owners of the parent (millions of yen)	¥ 951,592	¥ 623,339
Weighted average number of common shares outstanding, basic (shares)	1,797,532,277	1,765,309,719
Basic earnings per share attributable to owners of the parent (yen)	¥ 529.39	¥ 353.10

Earnings per share attributable to owners of the parent for the three months ended December 31, 2017 and 2018 are calculated based on the following information. There were no dilutive potential common shares outstanding for the three months ended December 31, 2017 and 2018.

	2017	2018
Profit for the period attributable to owners of the parent (millions of yen)	¥ 570,251	¥ 168,238
Weighted average number of common shares outstanding, basic (shares)	1,790,411,190	1,759,562,385
Basic earnings per share attributable to owners of the parent (yen)	¥ 318.50	¥ 95.61

(14) Dividend*(a) Dividend payout***For the nine months ended December 31, 2017**

Resolution	The Ordinary General Meeting of Shareholders on June 15, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	March 31, 2017
Effective date	June 16, 2017

Resolution	The Board of Directors Meeting on August 1, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	June 30, 2017
Effective date	August 25, 2017

Resolution	The Board of Directors Meeting on November 1, 2017
Type of shares	Common shares
Total amount of dividends (millions of yen)	43,254
Dividend per share (yen)	24.00
Record date	September 30, 2017
Effective date	November 29, 2017

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HONDA MOTOR CO., LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended December 31, 2018

Resolution	The Board of Directors Meeting on April 27, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	48,013
Dividend per share (yen)	27.00
Record date	March 31, 2018
Effective date	May 30, 2018

Resolution	The Board of Directors Meeting on July 31, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	47,682
Dividend per share (yen)	27.00
Record date	June 30, 2018
Effective date	August 28, 2018

Resolution	The Board of Directors Meeting on October 30, 2018
Type of shares	Common shares
Total amount of dividends (millions of yen)	49,287
Dividend per share (yen)	28.00
Record date	September 30, 2018
Effective date	November 28, 2018

(b) Dividends payable of which record date was in the nine months ended December 31, 2018, effective after the period

Resolution	The Board of Directors Meeting on February 1, 2019
Type of shares	Common shares
Resource for dividend	Retained earnings
Total amount of dividends (millions of yen)	49,287
Dividend per share (yen)	28.00

Record date December 31, 2018

Effective date February 28, 2019

(15) Approval of Release of Condensed Consolidated Interim Financial Statements

The release of the condensed consolidated interim financial statements was approved by Takahiro Hachigo, President and Representative Director, Chief Executive Officer and Kohei Takeuchi, Senior Managing Director and Chief Financial Officer on February 7, 2019.