

HONDA MOTOR EUROPE LIMITED

Registered number 857969

Report and financial statements

For the year ended 31 March 2021

HONDA MOTOR EUROPE LIMITED
Corporate information

Directors

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J. Nishimoto
I. Howells
T. Gardner
T. Yamato

Secretary

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HONDA MOTOR EUROPE LIMITED

Strategic Report

For the year ended 31 March 2021

Strategic Management

The strategic objective of Honda Motor Europe Limited (“the Company”) is in line with that of the ultimate parent company, Honda Motor Co., Ltd (“Honda Motor Co”). The mission statement of Honda Motor Co is:

“Maintaining a global viewpoint, we are dedicated to supplying products of the highest quality, yet at a reasonable price for worldwide customer satisfaction”.

Honda Motor Co published its 2030 Vision in 2017 which is to “Serve people worldwide with the ‘joy of expanding their life’s potential’”. In order to achieve this Honda Motor Co has begun a variety of initiatives based on the three directions of “Toward a clean and safe/secure society”, Creating value for “mobility” and “daily lives” and “Accommodate the different characteristics of people and society.”

With the cessation of production at its automobile plant in Swindon, the Company has taken the decision to prepare Company only financial statements rather than consolidation financial statements prepared in prior years.

The Company operates through branches throughout Europe. The European business is managed from its European headquarters in the UK. There have been no significant changes in the legal structure of these branches in the year ended 31 March 2021.

The Principal Activities of the Company are set out in the Directors’ Report and the results for the year ended 31 March 2021 are set out in the financial statements and related notes.

Business Environment

Trends and Factors

COVID-19

As the global economy slowed down due to the spread of COVID-19, the Company experienced a negative impact to its sales revenue for the fiscal year ended 31 March 2021. In addition, it continues to be impacted by the travel restriction measures imposed by governments around the world.

During the fiscal year, production bases in Japan and overseas were affected by suspended or reduced production mainly due to restrictions on employees’ commute to the workplaces and delays in the supply of component parts within the supply chain. Some dealers were obliged to suspend business, shorten business hours, or reduce services such as inspections and repairs.

See also “COVID-19” in “Risk Factors”.

Change in European Business

The company is focusing on leading the European automobiles business to a secure future through a move to electrification. In July 2021, the UK automobile factory which is a subsidiary of the Company ceased production. This is in line with the announcement in February 2019, when Honda announced changes throughout the global automobile production network based on the direction to optimize production allocation and production capacity on a global basis.

In April 2021, the Company brought to market its first commercial energy services, ePROGRESS, providing customers with access to competitive energy tariffs by offering a range of charging and energy management solutions for Electric Vehicle (“EV”) users. This is in line with its intentions announced in 2019 to enter the energy management sector.

Brand

In its 2030 Vision, Honda highlighted it will aim to expand the circle of joy and let the Honda brand shine even brighter through the steadfast pursuit of the “quality of value Honda provides” and “quality of its initiatives.” To realize this Vision, Honda will make effective use of its corporate resources to transform and evolve existing businesses and create new value.

COVID-19 has dramatically changed our daily lives and society. Honda realizes that many people around the world desire to make the most of their limited time and make their lives safer, more free and more enjoyable. At the same time, the Company have reaffirmed the importance of cooperation and harmony as members of society and have become more conscious of making a contribution to society based on its own initiative.

In order to share joys with stakeholders, Honda seeks to contribute to the advancement of a mobile society with its original and useful technologies that anticipate the needs of the times. This approach aligns with the United Nations’ SDGs, specifically, Goal 9 “Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation,” Goal 12 “Ensure sustainable consumption and production patterns” and Goal 17 “Strengthen the means of implementation and revitalize the global partnership for

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sustainable development,” and aligns with Honda’s overall corporate activities. Honda also believes that creating value for society while pursuing economic value will lead to sustainable corporate management and ultimately contribute to the sustainability of society.

Electrification

Honda has placed its European business firmly at the forefront of the company’s global electrification ambitions and the commitment that 100% of mainstream European automobile sales will feature electrified technology by 2022 continued to be realized with the introduction of the new hybrid Jazz model during summer 2020, and will see a new hybrid HR-V launched in late 2021, with the new Civic hybrid model scheduled for introduction in 2022.

L-Category vehicles, such as mopeds, scooters, and motorcycles, play a positive role in supporting affordable low emissions mobility and addressing congestion in urban environments. As the industry leader, Honda has committed to ambitious actions to decarbonise powered two wheelers. Honda will seek to lead the motorcycle industry at the forefront of its environmental initiatives with an approach which will include not only electrification but also the improvement of the fuel efficiency of gasoline engines, utilization of biofuels and other strategies. On 6th September 2021, Honda, along with KTM, Piaggio Group and Yamaha Motor Co. Ltd, announced the signing of an agreement for the creation of a Swappable Batteries Motorcycle Consortium in Europe. The aim of the Consortium is to address the concerns around electromobility such as range, charging time and infrastructure, and cost.

Honda has a vision to expand Mobile Power Pack applications beyond motorcycles to power products and micro-mobility products.

UK Membership of the European Union

As a result of the preparations that Honda took to minimize the impact of a “No Deal” Brexit, the Company was well placed to deal with the exit on 31 December 2020 and saw minimal disruption.

Regulatory divergence continues to be an additional risk to the Company. To mitigate this risk, the Company continues to participate in regular and constructive discussions with both UK and EU officials and politicians as well as providing its views to relevant stakeholders on how the future EU-UK relationship should continue to support the inter-connected nature of the UK and European automotive industry, as well as identifying ways in which new UK domestic regulation can support the industry.

Principal Risks and Uncertainties

COVID-19

The World Health Organization (WHO) declared COVID-19 a pandemic in March 2020. Thereafter, COVID-19 continued to spread worldwide, and due to the profound impact resulting from the spread of COVID-19, there has been stagnation of consumers’ consumptions and corporate economic activities.

Despite widespread vaccinations in certain countries, it is still unclear at present as to when the impact of COVID-19 will end. Production activities at some of Honda’s production bases in Japan and overseas have been affected mainly due to restrictions on employees’ commute to the workplaces and delays in the supply of parts within the supply chain.

Although much of Honda’s business activities have resumed, the duration of the spread of COVID-19, related market and economic trends remain uncertain. Unpredictable future demand may adversely affect Honda’s business and operating results, such as through factory downtime and business suspensions or shortening of business hours at dealers and decrease in sales volumes, in addition to increased costs to maintain prolonged infection prevention countermeasures.

The Company is exposed to credit risk through its dealings with dealers and distributors. This risk is managed through appropriate credit management policies which clearly set out and define the objectives of the Company.

The liquidity and capital resources of the Company are discussed in the Directors’ report.

Information Security Risk

Honda uses a wide range of information systems and networks relating to information services to support its business activities and its products, including in areas managed by subcontractors. Especially in recent years, IoT and other information technologies, which have evolved rapidly, have become indispensable

Meanwhile, the means of cyber-attacks that take place have become more advanced and sophisticated, targeting organizations around the world. For example, on June 8, 2020, Honda experienced a cyber-attack, which widely affected personal computers when they accessed Honda’s internal system. As a result, Honda’s business operation was suspended temporarily at several locations including Honda’s production bases. The company has strengthened its systems security following this cyber-attack incident.

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Any additional cyber-attacks could have similar or more serious effects on the business, or substantially impact Honda's mid- and long-term initiatives, particularly regarding more widespread use and evolution of driver-assistive technologies and further provision of mobility services.

There is a possibility that, in addition to external cyber-attacks, any equipment malfunction, any management deficiency or human error at Honda or within any of its subcontractors, or any natural disaster, infrastructure failure or any other unforeseen circumstances could also result in the suspension of important operations and services, leakage of confidential or personal information, inappropriate processing of documents and information, or the destruction or falsification of important data.

If such events occur, Honda's business and operating results could be adversely affected in terms of damage to its brand image or social reputation, liability to customers or parties affected, payment of financial penalties, delays in or suspension of Honda's manufacturing operations, and a loss of Honda's competitiveness.

Other risks

Fluctuation of product price

Prices for motorcycles, automobiles and power products in certain markets may experience sharp changes over short periods of time. This volatility may be caused by various factors, including competition, 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, a steep rise in material prices and sales incentives. There is no guarantee 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. Overcapacity within the industry will likely persist if the economic recovery is slow in the Company's major markets, leading, potentially, to downwards pressure on price. Price volatility in any of its major markets could adversely affect the Company's results.

Currency

The Company's operations are subject to currency fluctuations because it has sales operations throughout Europe and exports/imports products to/from various other countries.

The Company purchases and sells its products in foreign currencies. Therefore, currency fluctuations may affect the Company's pricing of products sold. Accordingly, currency fluctuations in either functional or presentational currency have an effect on the Company's results of operations and financial condition, as well as the Company's competitiveness, which will over time affect its results.

Foreign currency forward exchange contracts are used to hedge currency risk of purchase and sale commitments denominated in foreign currencies (principally in Euro and U.S. dollars). Further information is given in Note 20.

While limiting, to some degree, the risk of fluctuations in currency exchange and interest rates by utilising such hedging instruments, the Company potentially foregoes benefits that might result from other fluctuations in currency exchange and interest rates. The Company is also exposed to the risk that its counterparties to hedging contracts will default on their obligations.

The Company 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 the Company.

Status of Personal Information Protection Rules

In recent years, personal information protection rules have been rapidly developed in countries around the world. As such, fines may be imposed if violations of rules occur, including the leakage of personal information, in accordance with the rules of each country, and this could have an adverse effect on Honda's business and operating results.

This risk may be magnified by initiatives for other next-generation technologies such as provision of mobility services, which involve greater collection and management of personal information.

Pensions

The Company has various pension plans and provides other post-employment benefits, in which the amount of the benefits is determined based on the level of salary, service years, and other factors. Contributions are also regularly reviewed and adjusted as necessary to the extent permitted by laws and regulations. Defined benefit obligations and defined benefit costs are based on assumptions of many factors, including the discount rate and the rate of salary increase. Changes in assumptions could affect the Company's defined benefit costs and obligations, including the Company's cash requirements to fund such obligations in the future, which could materially affect the Group's financial position and results.

The company over the year ending 31 March 2021, contributed 41.2% of Pensionable Earnings (excluding salary sacrifice contributions paid on a member's behalf where they have opted for this).

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Other risks (continued)

Environmental compliance

Environmental Management Systems have been introduced at all Honda's business sites and in each business division, in order to promote continuous efforts to minimise Honda's environmental impact. Furthermore, in addition to complying with all statutory environmental regulations, Honda sets its own voluntary environmental standards, which are more stringent than any national or local regulations.

We measure our environmental performance by reporting carbon footprint annually in terms of tonnes CO₂ equivalent ("tCO₂e").

The data below relates to the owned and leased properties in the UK under the Company's operational control and consists of direct emissions from the Company's owned and controlled sources (Scope 1) and emissions from consumption of energy (Scope 2). This ensures our compliance with the requirements of the Companies Act 2006 (Strategic Report and Director's Report Regulations 2013 which requires certain disclosures in respect of greenhouse gas emissions (the Strategic Report GHG Emission disclosures).

	Year ended 31 March 2021		Year ended 31 March 2020	
	GHQ (tCO ₂ eq)	Energy Use (kWH)	GHQ (tCO ₂ eq)	Energy Use (kWH)
Scope 1 - direct	236	1,215,411	774	3,175,741
Scope 2 - location based indirect	-	1,123,160	-	1,266,968
Scope 3 – fuel company car for business use	222	848,056	1,014	N/A**
Intensity Metric – emissions per FTE	1		4	

*Company only financial statements have been prepared so this table excludes Honda of the UK Manufacturing's figure which would be disclosed in their accounts.

**Scope 3 was not required to be reported last year.

Our disclosures cover the sources of our greenhouse gas emissions from our operations in the UK and the consumption data is converted into a carbon footprint in line with emission factors from the 2006 IPCC Guidelines for National GHG Inventories.

Honda has not had any serious instances of non-compliance with environmental laws and regulations, paid any fines/sanctions, or recorded any major chemical releases. In addition, no environment-related complaints were received through the official complaint resolution program.

Honda's long-term aim is to deliver zero-environmental impact from its business activities, with a target to deliver carbon neutrality for all products and corporate activities Honda is involved in by 2050. Through Honda's proprietary technologies and business activities, Honda is committed to progressing towards this objective, with particular focus on climate change and CO₂ reduction, energy management and the effective utilisation of resources.

(i) Climate change and CO₂ reduction initiatives

Honda's objective is to cut its total Global CO₂ emissions in half by 2050 compared with 2000 levels.

In Europe, the European Union has tasked the automotive industry to meet EU fleet-wide average emission target for new cars of 95 g CO₂/km from 2021, phased in from 2020. Each manufacturer will face a binding emission target according to the average mass of their vehicles, using a limit value curve. In 2020, the emission targets applied for each manufacturer's 95% least emitting vehicles. Following the 2020 introduction of the battery electric Honda e and the hybrid Jazz, Honda made progressive steps towards compliance with the EU's CO₂ Regulation for 2020. The Company also took the step to pool its European fleet with Tesla Inc. and Fiat Chrysler Automobiles as an additional measure to ensure compliance.

EU fleet-wide CO₂ emission targets have also been established for the years 2025 and 2030. These targets are defined as a percentage reduction from the 2021 starting points, with a 15% reduction from 2025 onwards, and a 37.5% reduction from 2030 onwards. On 14th July 2021, the European Commission announced the 'Fit for 55' legislative programme, a comprehensive package of proposals to support a reduction in CO₂ emissions of 55% from 1990 levels, by 2030. Within these measures, the European Commission proposed stricter CO₂ emission reduction targets for automobiles. These proposals would see a 55% reduction from 1990 levels by 2030, and a 100% reduction by 2050. The UK Government has proposed an end date of traditional Internal Combustion Engine technologies in automobiles by 2030, with certain hybrid vehicle sales extending to 2035. The Company will continue to carefully monitor these proposals and will aim to develop products and technologies that meet societal and customer needs.

(ii) Energy supply issues

In the energy service division, the focus on the area of mobile power supply is to enable customers to "create" electric power and "connect" with the power supplies for the household so that electricity can be used efficiently whenever and wherever needed.

Honda intends to serve people worldwide with the "joy of expanding their life's potential" by proposing solutions in these areas.

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(iii) Effective utilisation of resources

Honda considers the effective utilisation of resources a critical issue and is actively promoting a '3R' approach by encouraging 'Reduction/Reuse/Recycling' activities at each stage of the product lifecycle, from the development of products to their disposal.

Business Performance and Position

Summary of results

The summary of results below is provided which is included in the Annual Report of the ultimate parent company Honda Motor Co. In a change to prior years, the results shown below are for the Company only.

	Year ended 31 March 2021	Year ended 31 March 2020	Change
Revenue (£m)	3,928	4,695	(767)
Operating Profit (£m)	53	59	(6)
Operating Margin	1.4%	1.3%	0.1 %
Profit before tax (£m)	76	54	22
Profit before tax % of revenue	1.9%	1.2%	0.7%
Total shareholder deficit (£m)	(535)	(418)	(117)

Revenue has decreased by £767m, or 16%, to £3,928m from the previous fiscal year. This is caused by a combination of a reduction in sales volumes, due to COVID-19 restrictions and shipping delays and the continuing refresh of the automobile line up with the introduction of low and zero emission models.

Operating profit has decreased by £6m or 10% to £53m which is mainly due to reduction in gross margin of £28m and rental income of £4m offset by a decrease of £26m in sales and administrative expenses due to a reduction in advertising costs and sales promotions.

Other non-operating income increased by 107% to £22m, due to the movement in actuarial pension costs for the year and foreign exchange movement.

Total assets have reduced by £446m or 14% to £2,864m, this is primarily due to the decrease in pensions assets because of the annual remeasurement of the defined benefit pension and lower inventory levels. Inventory reduction is because, the Company has been able to sell through cars stock build up that was in place at the end of 2020 as a result of the sudden introduction of lock-downs and other government responses to COVID-19. In addition, the Company have managed the stock being sent by Honda Motor Co such that it has been selling more than it receives. For power products there has been a significant decline of units held in stock due to the high volume of sales within the year.

The shareholder deficit equity of the Company increased by £117m or 28% to £535m due to total comprehensive deficit for the year of £117m which mainly consists of profit for the year of £62m and actuarial loss on the re-measurement of the defined benefit asset, net of tax credit of £174m.

Total liabilities decreased by £329m or 8.8% to £3,399m. This is due to a decrease in short term bank loans and lower accounts payable due to the lower stock levels at year end, as well as the impact of the remeasurement of the defined benefit asset on the deferred tax liability. For the financial year ended 31 March 2021, Honda Motor Co advanced loans totaling £615m.

Key performance indicators (KPIs)

The following KPIs are used to understand and measure the performance of the Group's business:

	Year ended 31/03/2021	Year ended 31/03/2020	Change	Change
	Unit sales ('000)	Unit sales ('000)	%	Unit sales ('000)
Automobiles	75	111	(32.4)	(36)
Motorcycles	202	212	(4.7)	(10)
Power Product	919	838	9.7	81

*adjusted to include sales to Honda entities outside the European region.

Automobiles

The Company's unit sales decreased by 32.4% from the previous fiscal year to 75 thousand units in fiscal year 2021, primarily due to decreases in sales of the CR-V & HR-V models. The reduction in volume reflects the COVID-19 restrictions on dealer networks.

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Business Performance and Position (continued)

Key performance indicators (KPIs) (continued)

Motorcycles

The Company's unit sales decreased by 4.7% from the previous fiscal year to 202 thousand units in fiscal year 2021. This is mainly due to decreases primarily in sales of the 650 & 500 series due to shipping delays caused by COVID-19 restrictions, offset by increases primarily in sales of the African Twin & Adventure sports series which had new models.

Power Product

The Company's unit sales increased by 9.7% from the previous fiscal year to 919 thousand units in fiscal year 2021, mainly due to strong performance in Marine engines, agriculture equipment and lawnmowers. This is because of changes in customers' needs during the COVID-19 lockdown.

Corporate Governance

Honda Motor Co has adopted a "company with an Audit and Supervisory Committee" system with the aim of reinforcing the supervisory function of the Board of Directors and ensuring the prompt decision-making. It has published the Honda Corporate Government Basic Policies and reports in accordance with this in the Honda Motor Corporation Annual Report. The Board of Directors of the Company follows these principles through the adoption of Company-wide policies and procedures.

For the year ended 31 March 2021, the Company adopted the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ("FRC") in December 2018 and available on the FRC website). Honda strives to enhance corporate governance as one of the most important tasks for its management in order to strengthen the trust of our shareholders/investors, customers and society; encourage timely, decisive and risk-considered decision-making, seek sustainable growth and the enhancement of corporate value in the mid- to long-term, and continues to be a company that society wants to exist.

Purpose and Leadership

Honda Motor Co Limited has published its 2030 Vision which is to bring the universal passion of Honda to "serve people worldwide with the joy of expanding their life's potential." And toward this end, we will "lead the advancement of mobility and enable people everywhere in the world to improve their daily lives." The Board of Directors of Honda Motor Co determines the overall strategy and business model of the global Company based on this vision.

The mid-term plans are produced for a three year period and cascaded to the regions. The company then produces its annual objectives in line with the mid-term plan and global 2030 Vision.

Board Composition

The members of the Board of Directors are disclosed in the Directors Report and each director brings a different set of skills and experience ensuring the Board as a whole has a high-level of understanding of the company's business needs and stakeholder interests.

Director Responsibilities

In line with the direction from Honda Motor Co, the Company's Directors sit on the European Risk Management Committee which in turn reports into the Global Corporate Governance Structure. In addition, the Directors are responsible for the application of Company-wide policies and practices and for ensuring compliance with specific legal and regulatory frameworks applicable in the geographies the Company operates in. This includes responsibility for statutory reporting and taxation matters.

Opportunity and Risk

The Directors recognition of the position in terms of Opportunity and Risk is outlined in the strategic report within the section on "Principle risks and uncertainties". Risks are identified by way of a bottom up approach with branches, subsidiaries and company divisions being asked to complete a self-assessment template on an annual basis. The top 5 risks are then kept under close review by the Risk Committee.

Remuneration

Directors' remuneration is established under Company-wide remuneration principles established by Honda Motor Co, aligned with Company and individual performance and behaviours and subject to annual assessment and appraisals in the same way as all other employees of the Company. The Board of Directors does not have the authority to determine its own remuneration.

The Directors have an obligation under the Honda Code of Conduct to declare conflicts of interest to the Board for consideration. Any such conflicts are then documented and managed in accordance with the requirement.

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Corporate Governance (continued)

Stakeholder relationships and engagement

The company is a 100% subsidiary of Honda Motor Co Limited. As explained in the Section 172 Statement below, the Board actively considers the interests of all stakeholders when determining the strategic direction of the Company.

S172(1) Statement

In carrying out their duty to promote the success of the company the Directors work within the Honda Code of Conduct which is guided by the fundamental beliefs of “Respect for the Individual” and “The Three Joys” (“The Joy of Buying,” “The Joy of Selling,” and “The Joy of Creating”), Honda endeavours to share joy with people around the world and aspires to be “a company society wants to exist.” A prerequisite to fulfilling this philosophy is to act with integrity towards employees, customers and society at all times. Failure in Honda’s duty to maintain sincerity would result in loss of the confidence and trust that has been established over the years; a precious asset that would be extremely difficult to recover. For this reason, in 2003 Honda announced and subsequently implemented the Honda Conduct Guidelines.

In addition to the above, the Directors have considered the following points:

- The likely consequences of any decision in the long term [Strategic Report]
- The interests of the company’s employees [Directors’ Report]
- The need to foster the company’s business relationships with suppliers [Directors’ Report]
- The impact of the company’s operations on the community and the environment [Directors’ Report]
- The desirability of the company maintaining a reputation for high standards of business conduct [Strategic Report]; and
- The need to act fairly between members of the company [Strategic Report].

By order of the Board



I Howells Company Secretary
Cain Road,
Bracknell
Berkshire
RG12 1HL
United Kingdom

29th September 2021

HONDA MOTOR EUROPE LIMITED

Directors' Report

For the year ended 31 March 2021

Principal activities

The principal activities of the Company are the sale of Honda products throughout the European region. These products are motorcycles, automobiles, all-terrain vehicles, lawn mowers, cultivators, generator units and outboard motors, together with their related spare parts and accessories.

The Company has sales branches in the following European Countries: Germany, France, Italy, Belgium, the Netherlands, Spain, Portugal, Switzerland, Austria, Czech Republic, Slovakia, Hungary, Poland, Sweden, Norway and Denmark. The Company also sells its products through a network of third-party distributors.

The ultimate parent of the Group is Honda Motor Co, a limited liability joint stock corporation incorporated on 24 September 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 motorised bicycles.

Honda develops and manufactures a variety of motor products, ranging from small general purpose engines and scooters to specialty sports cars. Honda's principal executive office is located in Japan.

Honda is engaged in research and development activities to support product development and parts sourcing and design around Europe. The Group benefits, including in its European operations in the UK, Germany and Italy, from the strong commitment of the Honda worldwide group to research and development in order to improve product design, manufacturing process and quality.

Since its establishment in 1948, Honda Motor Co has provided products of the highest quality at a reasonable price, for worldwide customer satisfaction. In addition, it has conducted its activities with a commitment to protecting the environment and enhancing safety in a mobile society. This long term, global effort has earned Honda Motor Co an outstanding reputation from customers throughout the world.

Employees

At Honda, the value placed on our people is at the heart of our success. Our employees are called Associates and we believe that respecting people as individuals is essential for the continued success of the company. Our culture, through our philosophy, nurtures an enterprising spirit and a free, open-minded atmosphere, emphasizing initiative, equality & trust. Associates are encouraged to share ideas and experiences within the workplace.

The Company believes that having an inclusive workplace where people are treated equally is fundamental not only to creating an environment where our people feel empowered and able to be themselves but is also key to the future success of the company. Our fundamental belief is based around respect for the individual and as part of this, Honda is committed to creating equal opportunities for every Associate.

Human rights

Honda is committed to practicing fairness and sincerity and respects human rights. The Directors are proud of the independence, fairness, and trust that emerges from our management policy of respect for the individual. This calls on each associate to nurture and promote individual differences and to trust their colleagues as equal partners. The Company aims to cultivate these qualities so that people's differences are respected, and trust is developed on an equal basis.

The Company accepts the individual characteristics and differences of our associates and respect their willingness and initiative. The Company will always respect each individual's basic human rights and will not allow forced labour or child labour.

The Company is aware of its obligations under the Modern Slavery Act and publishes its section 54 statement each September.

Diversity and Gender rights

Honda aims to be a fair, discrimination free company, and to accept the uniqueness and differences of people around the world. The Company is committed to bringing together people from different cultures, backgrounds, races and belief and promote equal opportunities.

Based on the principle that all human beings should have equal employment opportunities, we strive to create opportunities for everyone in a free and fair manner. The Company does not tolerate discrimination or harassment of any form in the workplace on the basis of an individual's race, ethnicity, national origin, religion, or gender, among other characteristics.

The Company has been pursuing gender awareness-raising activities since 2008, deciding to focus on expanding opportunities for participation by women.

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Employees (continued)

The Company's approach to occupational health and safety

As a Company that holds respect for the individual as one of the basic tenets of its philosophy, the Company considers the mental and physical health of associates to be one of its most important responsibilities, alongside workplace and traffic safety. Besides making these views explicit in our basic policy on occupational health and safety, Honda engages in initiatives designed to ensure that its workplaces are among the safest and most comfortable in the industry.

Sustainability

The Company publishes its Environmental Report each year which can be found at

<https://hondanews.eu/en/corporate/media/pressreleases/312560/honda-issues-european-environmental-report-2020>

It invests resources in a range of sustainability initiatives focusing on our four pillars of education, safety, environment and community. Honda's programmes aim to deliver the sustainable changes in behaviour needed to make our roads safer, our environment cleaner, our community stronger and to support our children's future.

Environmental and safety regulation for Automobiles, Motorcycles and Life creation

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 incurs significant compliance and other costs in connection with such regulations and will incur future compliance and other costs for new and upcoming regulations.

Social reputation and communication with the community

The Company continues to provide products incorporating Honda's advanced safety and environmental technologies, the Company 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 group-wide activities, Honda will strive to be a company that its shareholders, investors, customers and society want to exist.

Liquidity and capital resources

The policy of the Company is to support its business activities by maintaining adequate capital resources, a sufficient level of liquidity and a sound balance sheet. The Company meets its operating capital requirements through cash generated by operations and borrowings.

The Company 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. The Directors believe the Company currently has sufficient lines of credit from both prominent international banks and Honda Motor Co.

The Company manages its funding through a combination of equity, Intercompany borrowings, committed loan facilities and uncommitted loan facilities. Further information about the Company's financing requirements can be found in section (b) of Note 1, Significant accounting policies.

Donations

The Company made no political donations in the year (2020: £nil).

Tax policy

Our objective is to ensure that relationships between Honda businesses and tax authorities are transparent, constructive and based on mutual trust. The tax strategy is published on our UK website www.honda.co.uk.

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Directors' Report

For the year ended 31 March 2021

Events since the balance sheet date

There are no post balance sheet events.

Proposed dividend

The Directors do not recommend the payment of a dividend (2020: £nil).

Directors

The Directors who held office in Honda Motor Europe Limited ("the Company") during the year and subsequent changes were as follows:

Katsuhisa Okuda (appointed 1 May 2020)

Kogen Iguchi (resigned 1 April 2021)

K Inoue (resigned 1 May 2020)

Ian Howells

Jun Nishimoto

T Yamato (appointed 1 April 2021)

The Company operates an interest-free loan scheme open to all eligible employees on equal terms to enable employees to acquire vehicles for their own use. The relevant amounts in respect of Directors are included in Note 22 along with details of Directors' remuneration.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken, as a Director, to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

By order of the Board



I Howells
Company Secretary
Cain Road
Bracknell
Berkshire
RG12 1HL
United Kingdom

29th September 2021

HONDA MOTOR EUROPE LIMITED

Directors' Responsibilities Statement

For the year ended 31 March 2021

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Company financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of their profit or loss for that period. In preparing each of the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

HONDA MOTOR EUROPE LIMITED
Statement of Profit and Loss and Other Comprehensive Income
As at 31 March 2021

	<i>Note</i>	<i>2021</i> £ '000	<i>2020</i> £ '000
Revenue	2	3,928,370	4,695,301
Cost of sales		(3,586,292)	(4,325,041)
Gross Profit		342,078	370,260
Other income	4	3,255	6,710
Sales expenses		(69,138)	(98,952)
Administrative expenses		(223,026)	(218,908)
Profit from operating activities		53,169	59,110
Finance income	6	963	978
Finance expenses	6	(141)	(16,086)
Other non-operating income	6	21,700	10,480
Net finance and other non-operating expense	6	22,522	(4,628)
Profit before tax	3	75,691	54,482
Tax expense	7	(14,072)	(107,625)
Profit/(loss) for the year		61,619	(53,143)
Other comprehensive (expense)/income			
Items that will not be re-classified to profit or loss			
Remeasurement of defined benefit liability	17	(263,709)	182,902
Tax credit/(charge) on remeasurement of defined benefit liability	8	89,326	(63,626)
		(174,383)	119,276
Items that may be re-classified to profit or loss			
Loss on translation of foreign operations		(4,327)	(1,354)
Other comprehensive (expense)/income for the year, net of tax		(178,710)	117,922
Total comprehensive (expense)/income for the year, net of tax		(117,091)	64,779

The notes on pages 22 to 59 are an integral part of these financial statements.

HONDA MOTOR EUROPE LIMITED
Registered Number 857969
Company Statement of Financial Position
As at 31 March 2021

	<i>Note</i>	2021 £ '000	2020 £ '000
Assets			
Property, plant and equipment	9	135,125	136,308
Intangible assets	10	43,610	60,251
Net investment in lease	21	36,319	43,831
Employee benefits	17	162,682	406,854
Investment in subsidiaries	25	498,030	498,289
Other assets		132,543	143,693
Deferred tax asset	8	24,546	26,487
Total non-current assets		1,032,855	1,315,713
Inventories	11	653,929	782,331
Trade and other receivables	12	1,008,900	1,056,754
Prepayment and other current assets	13	160,047	143,007
Cash at bank and in hand	14	8,165	12,250
Total current assets		1,831,041	1,994,342
Total assets		2,863,896	3,310,055
Equity			
Share capital	15	665,550	665,550
Other reserves	15	(10,785)	(6,458)
Deficit in earnings		(1,190,108)	(1,077,344)
Total equity		(535,343)	(418,252)
Liabilities			
Loans and borrowings	16	78,184	79,509
Trade and other payables	19	11,687	25,356
Provisions	18	56,464	6,996
Deferred tax liability	8	80,334	166,701
Total non-current liabilities		226,669	278,562
Loans and borrowings	16	2,100,818	2,216,480
Trade and other payables, including derivatives	19	978,203	1,170,099
Taxes payable		15,877	4,147
Provisions	18	77,672	59,019
Total current liabilities		3,172,570	3,449,745
Total liabilities		3,399,239	3,728,307
Total equity and liabilities		2,863,896	3,310,055

The notes on pages 22 to 59 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29th September 2021 and were signed on its behalf by:



I Howells

Director

29th September 2021

HONDA MOTOR EUROPE LIMITED**Statement of Changes in Equity****For the year ended 31 March 2021****Attributable to equity holders of the Company**

	<i>Share Capital</i>	<i>Translation Reserve</i>	<i>Deficit in earnings</i>	<i>Total Equity</i>
	£ '000	£ '000	£ '000	£ '000
Balance at 1 April 2019	665,550	(5,104)	(1,143,477)	(483,031)
Loss for the year	-	-	(53,143)	(53,143)
Other comprehensive (expense)/income for the year	-	(1,354)	119,276	117,922
Balance at 31 March 2020	665,550	(6,458)	(1,077,344)	(418,252)
Balance at 1 April 2020	665,550	(6,458)	(1,077,344)	(418,252)
Profit for the year	-	-	61,619	61,619
Other comprehensive expense for the year	-	(4,327)	(174,383)	(178,710)
Balance at 31 March 2021	665,550	(10,785)	(1,190,108)	(535,343)

The notes on pages 22 to 59 are an integral part of these financial statements.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies

Honda Motor Europe Limited (“the Company”) is a company incorporated in the United Kingdom. The Company’s financial statements present information about the Company and its branches. The Company is primarily involved in the distribution and sale of automobiles, motorcycles and power products.

(a) Basis of Preparation

The Company has elected to prepare its financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”). Both financial statements have been approved by the Directors.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s parent undertaking, Honda Motor Co, a company incorporated in Japan includes the Company in its consolidated financial statements. The consolidated financial statements of Honda Motor Co are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the address provided in note 24.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel

Disclosures contained within these financial statements are made in respect of material items. The notes to the financial statements include only the disclosures which the Directors consider material.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(b) Going Concern

The financial statements are presented in Sterling (GBP) and all values are rounded to the nearest thousand (£ '000). They are prepared on the historical cost basis except for derivative financial instruments, which are stated at fair value.

The accounting policies set out below have been applied consistently to all periods presented in the Company financial statements.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have enhanced the Going Concern governance and undertaken a risk assessment to identify the risks that will create material uncertainty on the company's cashflow. The going concern assessment was prepared for a period of 12 months from the date of approval of these financial statements. Pandemic (COVID-19) and Cyber Incident were identified as the two risks that could result in material uncertainties to the Company's cash management. The assessment indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 and any Cyber attack incident on the company's operations and its financial resources, the Company will have sufficient funds through committed and uncommitted facilities from third party banks and funding from its ultimate parent company, Honda Motor Co, to meet its liabilities as they fall due for that period.

In preparing the forecasts the Directors have considered the Company's forecast performance and funding requirements under normal trading conditions ("the base case forecast"). The Directors have also considered a reasonably possible downside forecast including the potential impact of COVID-19 and a Cyber incident. They have undertaken a risk assessment to identify the risks that will create material uncertainty on the Company's cashflow.

This effect of these identified risks includes:

- Reductions in revenue as a result of customers inability to access the Company's products or as a result of reduced consumer confidence;
- Increased storage and logistics costs if the markets the Company serves impose restrictions.

In making this assessment the Directors have considered the actual impacts on the Company's performance due to the various COVID-19 lockdowns and restrictions as well as the Cyber incident across the Company's operations. The Directors have then assumed a gradual recovery in sales volumes based on actual experience since the easing of restrictions across Europe and industry forecasts. The directors have determined that 'Worst case' scenario (100% of sales receipts not received in a month) is unlikely (severe) based on past experience, product diversification, and different credit terms. A 'plausible downside' would be 50% of sales receipts not received in a month based on key risk occurrence in the year.

The Directors have also considered possible mitigations including:

- Extended credit terms on payments for inventory within the Honda Motor Co global group which have been agreed;
- Closer management of working capital, in particular inventory balances; and
- Reductions in discretionary expenditure.

The Directors have not assumed in the forecasts the availability of any government support.

At the date of approval of these financial statements, the Company has:

- Committed bank facilities of £400m which have been renewed, the Company has been able to refinance all committed facilities which expired during the year and subsequently and consequently the Directors consider that the Company will continue to be able to obtain committed facilities on commercial terms.
- Loans from Honda Motor Co of £615m; and
- Uncommitted facilities of £608m. While these facilities are uncommitted, the Company has additional committed support of £700m from Honda Motor Co Ltd ("Honda Motor Co"), this is sufficient cover in the unlikely event that the uncommitted facilities are not available.

In preparing the forecasts the Directors have also assumed that Honda Motor Co will not seek repayment of the amounts currently due to it, which on 31 March 2021 amounted to loans of £615m, and considered their ability and intent to provide additional financial support during that period up to £700m if required. Honda Motor Co has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

(c) Key judgements & estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Key judgements and estimates are noted below and are presented within the relevant notes.

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the Company's financial statements.

(i) Pensions

The measurement of defined benefit obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, future pension increases and the selection of a suitable discount rate.

The Company's pension scheme holds an investment in a Ground lease property fund which is categorised as a level 3 pension asset. The basis of valuation of Ground lease property is fair value. The fair value of Ground lease property is ascertained by reference to the open market having regard to the terms of the lease. Details of significant assumptions and estimates used are included in Note 17.

(d) Impairment of non-financial assets

Non-financial assets (excluding inventories & deferred tax) are tested for impairment by assessing the asset's recoverable amount where there is an indication of impairment or, in the case of intangible assets not yet available for use, on an annual basis.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Profit and Loss.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The recoverable amount of the Company's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration (less than 12 months) are not discounted.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Foreign currency

(i) Foreign currency transactions

These financial statements are presented in Sterling which is the Company's functional currency.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary asset and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Profit and Loss and Other Comprehensive Income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

(ii) Financial statements of foreign operations (branches)

The assets and liabilities of foreign operations are translated to Sterling at foreign exchange rates ruling at the balance sheet date, after the elimination of intra-company balances between the company and its branches. The revenue and expenses of foreign operations are translated to Sterling, after the elimination of intra-company transactions between the company and its branches, at an average rate for the period which approximates to the foreign exchange rates ruling at the dates of transactions. Foreign exchange differences arising on the translation of the opening net assets of foreign operations are recorded in the translation reserve.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(f) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, borrowing costs capitalised, appropriate overheads where they can be measured reliably and any other costs directly attributable to bringing the assets to a suitable condition for their intended use. When parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing proceeds from disposal with the carrying amount of property, plant and equipment. Gains are recognised net within "other income" and losses are recognised within administrative expenses in the Statement of Profit and Loss and Other Comprehensive Income.

An asset classed as under construction is not depreciated until such time the asset is considered ready for use and it is transferred to property, plant and equipment. Assets under construction comprises costs associated with factory modification and the construction of machinery and manufacturing equipment.

(ii) Leased assets

Property, plant and equipment in the statement of financial position include right-of-use assets under lease arrangements. For the accounting for the right-of-use assets, see Note "(p) Leases."

(iii) Subsequent costs

The costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs associated with day-to-day servicing of property, plant and equipment are recognised in the Statement of Profit and Loss and Other Comprehensive Income as incurred.

(iv) Depreciation

Depreciation is charged to the Statement of Profit and Loss and Other Comprehensive Income on a systematic basis over the estimated useful lives of each part of property, plant and equipment. This systematic basis is normally the straight line basis. The estimated useful lives are as follows:

Freehold buildings	10 to 50 years
Machinery and equipment	3 to 10 years
Tools, furniture and other	2.5 to 10 years

No depreciation is provided on freehold land or assets under construction.

(v) Impairment loss and subsequent reversal

Items of property, plant and equipment are considered for impairment when indicators of impairment are identified. Where an asset is considered impaired the expense is recognised in the period in which the impairment is first determined.

(vi) Capitalisation of financing costs associated with qualifying assets

Costs associated with the construction of qualifying assets are capitalised at acquisition date and amortised over the assets' estimated useful lives.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(g) Intangible assets

(i) Research and development

Expenditure on research activities undertaken to improve technical knowledge and understanding, is recognised as an expense when incurred.

Expenditure on development activities is capitalised where the new or improved product is considered technically and commercially feasible and the Company has the technical ability and sufficient resources to complete development and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and appropriate overheads where they can be measured reliably. Other development expenditure is recognised directly in the Statement of Profit and Loss and Other Comprehensive Income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(ii) Software

The cost of acquiring software (including associated implementation and development costs where applicable) is classified as an intangible asset. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that are assessed as likely to generate economic benefits exceeding costs beyond one year, are also capitalised and recognised as intangible assets. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(iii) Amortisation

Amortisation is charged to the Statement of Profit and Loss and Other Comprehensive Income on a straight-line basis over the estimated useful life of intangible assets. Software and development costs are amortised from the date the relevant assets are available for use. The estimated useful lives are as follows:

Software	2 to 8 years
Development costs	2 to 3 years

(h) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Initial recognition and measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component or financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") – debt investment, FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

This category generally applies to trade and other receivables. For more information on receivables, refer to Notes 12 and 13.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(h) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
- substantially all of the risks and rewards of ownership of the financial asset are transferred;
- or the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(vi) Impairment of financial assets

The Company assesses at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Company includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

(i) Trade and other receivables

Trade and other receivables are initially stated at fair value, then at amortised cost, taken as cost less any impairment losses.

(j) Inventories

Inventories are stated at the lower of cost or net realisable value. In determining the cost of inventory, the FIFO method is used and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

The production cost of manufactured inventories and work in progress is determined using the average cost method and is based on normal operating capacity and includes an appropriate share of overheads and direct and indirect labour overheads.

Where inventory is held by dealers on consignment but owned by the Company, the inventory value is included in these financial statements.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts, that are repayable on demand and form an integral part of the Company's cash management, are included as a component of cash and cash equivalents.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(1) Employee benefits

(i) Defined contribution scheme

In the United Kingdom, the Company operates the Honda Pension and Life Assurance Pension Scheme which is a defined contribution scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. There are also defined contribution or government schemes in most other countries. In all cases, the amount charged to the Statement of Profit and Loss and Other Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period.

(ii) Defined benefit scheme

The Company operates a defined benefit scheme in the United Kingdom, France and Germany. Several of the schemes (including the UK scheme from 1 July 2003) are now closed to new members. The assets of the schemes are held separately from those of the Company in independently administered funds. The Directors are able to identify Company's share of the assets and liabilities on a reasonable and consistent basis and have therefore accounted for the schemes in these financial statements as defined benefit schemes.

The Company's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any asset plan is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds (at least AA corporate bond rated) that have maturity dates approximating to Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Company) and the return on plan assets (excluding net interest), are recognised immediately through other comprehensive income in the statement of financial position in the period in which they occur.

Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset at the beginning of the period.

The Company recognises service costs (comprising of current service costs, past-service costs, gains and losses on curtailments and non-routine settlements) in its Statement of Profit and Loss and Other Comprehensive Income split under 'cost of sales', 'administrative expenses' and 'selling expenses'. The Company also recognises the following through finance income and expenses:

- Net interest income on plan assets of funded defined benefit pension schemes.
- Imputed interest on pension scheme liabilities.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(m) Provisions

A provision is recognised at the balance sheet date when the Company has a present legal or constructive obligation as a result of a past event that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Restructuring provisions are recognised only when the Company has a constructive obligation, which is when: (i) there is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and (ii) the employees affected have been notified of the plan's main features.

As stated above, a restructuring provision has been recognised in relation to the announcement to close the manufacturing plant in the United Kingdom.

(n) Trade and other payables

Trade and other payables are initially stated at fair value, then at amortised cost.

(o) Leases

At the inception of a contract, Honda assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When Honda has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use and the right to direct the use of the identified asset, the contract conveys the right to control the use of the identified asset.

An arrangement that is or contains a lease is determined based on the substance of the arrangement by assessment of whether the fulfilment of that arrangement depends on use of a specific asset or group of assets, and whether a right to use the asset is transferred under the arrangement.

When an arrangement is or contains a lease, the lease is classified as a lease if it transfers substantially all the risks and rewards incidental to the ownership, based on the substance of the arrangement.

(i) Leases as a lessee

A right-of-use asset and a lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the amount of initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred by the lessee and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset. For a contract that contains a lease component and non-lease components, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The right-of-use asset is measured based on the cost model and carried at its cost less accumulated depreciation and impairment losses. After the initial recognition, depreciation of the right-of-use asset is subsequently calculated on the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. For the estimated useful lives of underlying assets, see Note "(1) Significant Accounting Policies (f) Property, Plant and Equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise mainly the fixed payments (including the lease payments in an optional renewal period if the Company is reasonably certain to exercise the extension option) and the penalties for termination of a lease unless the Company is reasonably certain not to terminate early.

After the initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest that produces a constant periodic rate of interest on the remaining balance of the lease liability and reducing the carrying amount to reflect the lease payments. The lease liability is remeasured if the Company changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured, the amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, any remaining amount of the remeasurement is recognised in profit or loss.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

(o) Leases (continued)

A leased asset and liability for the future lease payment are initially recognised at the lower of fair value of the leased asset or the present value of the minimum lease payments, each determined at inception of the lease. After the initial recognition, the leased asset is accounted for according to the accounting policies applied to the asset. Lease payments are apportioned between the finance cost and the reduction in the carrying amount of the liability. The finance charge is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Leases as a lessor

The Company sub-leases some of its leased buildings and its properties held as freehold. A receivable from a customer held under a lease is initially recognized at the amount of net investment in the lease which is the gross investment in the lease discounted at the interest rate implicit in the lease and classified as net investment in lease assets in the statement of financial position.

(p) Investments

Investments are held at historical cost less any applicable provision for impairment by the Company. When the Company disposes of all or part of an investment a gain or loss is recognised in profit and loss being the difference between the aggregate of the fair value of the consideration received and the percentage of the carrying value of the investment relating to the percentage of the investment disposed.

(q) Revenue

(i) Automobiles, motorcycles, ATVs, power products and spare parts

The Company recognises the fair value of revenue (net of discounts and rebates) when title and the risks and rewards pass to the dealer/distributor/customer and the Company retains neither continuous involvement nor effective control over the product, the amount of revenue and the corresponding cost can be measured reliably, and collection of the relevant receivable is reasonably assured. This is either upon despatch or invoicing to the dealer, distributor or customer, or, in the case of consignment stock in the UK branch, when risks and rewards pass to the buyer which is typically on registration of the automobile at which point legal title transfers

(ii) Extended warranty, Roadside assistance & Prepaid Maintenance

The company recognises Extended warranty, Roadside assistance and prepaid maintenance which is usually purchased alongside its products in line with IFRS 15 ("Revenue from contracts with customers").

(r) Finance and other non-operating income and expenses

Interest income is recognised in the Statement of Profit and Loss and Other Comprehensive Income as it accrues, using the effective interest method.

Finance and Other non-operating income and expenses comprising interest expense on borrowings, fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade and other receivables), and losses on hedging instruments are recognised in profit or loss.

Dividend income is recognised in the Statement of Profit and Loss and Other Comprehensive Income on the date the entity's right to receive payment is established.

Finance income and expenses related to defined benefit pension plans are discussed in (m) above.

(s) Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Profit and Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Accruals for tax contingencies require management to make judgements of potential exposures in relation to tax audit issues. Accruals for tax contingencies are measured using either the most likely amount or the expected value amount depending on which method the entity expects to better predict the resolution of the uncertainty.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

1. Significant accounting policies (continued)

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Government grants

Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

Grants related to income are deducted in reporting the related expense.

(u) New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2021 that have had a material impact on the Company.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

2. Revenue

Sales revenue for the years ended 31 March 2021 and 2020 consists of the following:

	2021	2020
	£ '000	£ '000
Sale of goods	3,928,370	4,695,301
	<u>3,928,370</u>	<u>4,695,301</u>

3. Profit before tax is stated after charging/(crediting)

	2021	2020
	£ '000	£ '000
Remuneration of the auditor		
The audit of the Company financial statements	1,114	1,282
The audit of financial statements of subsidiaries of the Company	103	937
Other audit-related services pursuant to legislation	609	738
Total fees	<u>1,826</u>	<u>2,957</u>
Depreciation - recognised in cost of sales	1,823	-
Depreciation - recognised in administrative expenses	18,273	23,248
Amortisation of intangible assets - recognised in Administrative expenses	23,496	19,488
Loss on disposal of intangible assets	2,239	3,549
Reversal of impairment loss of held-to-maturity securities	-	(4,376)

4. Other income

	2021	2020
	£ '000	£ '000
Rental income from property subleases	1,494	4,778
Other sundry income	216	323
Gain on sale of property, plant and equipment	1,545	1,609
	<u>3,255</u>	<u>6,710</u>

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

5. Staff numbers and costs

The average number of persons employed (including directors) during the year, analysed by category, was as follows:

	<i>2021</i>	<i>2020</i>
	<i>No.</i>	<i>No.</i>
Motorcycles and ATV	400	410
Automobiles	607	631
Power Products	244	247
	<u>1,251</u>	<u>1,288</u>

The aggregate payroll cost of these persons was as follows:

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Wages and salaries and related costs	87,297	89,006
Social security contributions	12,510	14,523
Expenses related to defined benefit plans	3,692	3,601
Expenses related to defined benefit plan - past service costs*	-	(16,297)
Expenses related to defined contribution plans	3,481	2,722
	<u>106,980</u>	<u>93,555</u>

*The credit to past service cost in the prior year results from the closure of Honda of the UK Manufacturing ("HUM") in 2021 and has been recognized within past service cost in accordance with IAS 19. The company operates a group pension scheme which HUM is a part of. The company as principal owner assumed the liabilities of the other companies in the pension scheme in the year ended 31 March 2019 and the surplus was recognised in full in the company.

Included within wages and salaries and related costs is £438,996 of income related to the Coronavirus Job Retention Scheme (2020: £nil).

Staff costs recognised in the Statement of Profit and Loss are as follows:

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Administrative expenses	<u>106,980</u>	<u>93,555</u>
	<u>106,980</u>	<u>93,555</u>

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

6. Net finance and other non-operating income/(expense)

	2021 £ '000	2020 £ '000
Interest income	963	978
Total finance income	<u>963</u>	<u>978</u>
Interest expense on financial liabilities measured at amortised cost	(11,723)	(21,151)
Net interest income on defined benefit pension plan (see note 17)	<u>11,582</u>	<u>5,065</u>
Net finance expenses	<u>(141)</u>	<u>(16,086)</u>
Dividend income	9,204	32,279
Gain/(loss) on derivatives at fair value through profit and loss	12,488	(24,944)
Other loss	8	(2)
Reversal of impairment loss of held-to-maturity securities	-	(1,228)
Net other non-operating income	<u>-</u>	<u>4,375</u>
	<u>21,700</u>	<u>10,480</u>
Net finance and other non-operating income/(expense)	<u>22,522</u>	<u>(4,628)</u>

7. Tax expense

	2021 £ '000	2020 £ '000
Current tax expense		
Current year	1,725	(702)
Adjustment for prior years	<u>9,212</u>	<u>20,216</u>
	<u>10,937</u>	<u>19,514</u>
Deferred tax credit (excluding OCI)		
Original and reversal of temporary differences	592	83,389
Adjustment for prior years	<u>2,543</u>	<u>4,722</u>
	<u>3,135</u>	<u>88,111</u>
Total tax charge on continuing operations	<u>14,072</u>	<u>107,625</u>
Reconciliation of effective tax rate		
Profit for the year before tax	75,691	54,482
Total tax expense	<u>14,072</u>	<u>107,625</u>
Tax using the Company's domestic tax rate of 19% (2020: 19%)	14,381	10,352
Effects of tax rates in foreign jurisdictions	1,549	1,302
Income not taxable	(3,267)	(8,724)
Change in unrecognised temporary differences	(10,613)	40,414
Deferred tax on pension fund asset	1,632	40,150
Losses surrendered to other group companies	(3)	(3)
Adjustment for prior years	11,755	24,938
Other	<u>(1,362)</u>	<u>(804)</u>
	<u>14,072</u>	<u>107,625</u>

The Company's defined benefit pension is in a surplus and as a result recognises a deferred tax liability at 35% to represent the tax rate applicable in the event the pension surplus is cashed out.

Factors that may affect future tax charges

The deferred tax asset as at 31 March 2021 has been calculated based on 19% being the rate substantially enacted at the balance sheet date.

The UK Government announced in the 2021 budget that from 1 April 2023, the rate of corporation tax in the United Kingdom will increase from 19% to 25%. Companies with profits of £50,000 or less will continue to be taxed at 19%, which is a new small profits rate. Where taxable profits are between £50,000 and £250,000, the higher 25% rate will apply but with a marginal relief applying as profits increase.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

8. Deferred tax assets and liabilities

Movement in recognised net temporary differences during the year

	Balance 1 April 2020	Recognised in income statement	Foreign exchange difference	Recognised in OCI	Balance 31 March 2021	Deferred tax assets	Deferred tax liabilities
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Inventory reserve	(2,448)	788	195	-	(1,465)	51	(1,516)
Accruals and provisions	9,466	1,138	(492)	-	10,112	10,112	-
Property, plant and equipment	(6)	(14)	1	-	(19)	(19)	-
Employment benefit	(149,702)	(4,371)	(1,384)	89,326	(66,131)	12,137	(78,268)
Tax credit carry forward	474	(513)	39	-	-	-	-
Loss carry forward	-	(17)	-	-	(17)	-	(17)
Other	2,002	(146)	(124)	-	1,732	2,265	(533)
Total	(140,214)	(3,135)	(1,765)	89,326	(55,788)	24,546	(80,334)

	Balance 1 April 2019	Recognised in income statement	Foreign exchange difference	Recognised in OCI	Balance 31 March 2020	Deferred tax assets	Deferred tax liabilities
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Inventory reserve	(2,134)	(76)	(238)	-	(2,448)	74	(2,522)
Accruals and provisions	11,421	(2,381)	426	-	9,466	9,466	-
Property, plant and equipment	(15)	9	-	-	(6)	(6)	-
Employment benefit	9,945	(96,554)	533	(63,626)	(149,702)	14,305	(164,007)
Tax credit carry forward	770	(239)	(57)	-	474	474	-
Other	(9,207)	11,130	79	-	2,002	2,174	(172)
Total	10,780	(88,111)	743	(63,626)	(140,214)	26,487	(166,701)

The analysis of deferred tax assets and liabilities reflect offsets where there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Movement in unrecognised temporary differences during the year

	Balance 31 March 2019	Movement in the year	Balance 31 March 2020	Movement in the year	Balance 31 March 2021
	£ '000	£ '000	£ '000	£ '000	£ '000
Deductible temporary differences	37,303	86,411	123,714	(24,924)	98,790
Tax losses carried-forward	512,117	233,292	745,409	16,544	761,953
	549,420	319,703	869,123	(8,380)	860,743

The deductible temporary differences and losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits. The unrecognised deductible temporary differences consist primarily of differences on property, plant and equipment and employee benefit plans.

HONDA MOTOR EUROPE LIMITED
Notes to the Financial Statements
For the year ended 31 March 2021

9. Property, plant and equipment

	<i>Freehold land & Buildings</i>	<i>Machinery & Equipment</i>	<i>Assets under Construction</i>	<i>Total</i>
	£ '000	£ '000	£ '000	£ '000
Cost or deemed cost				
Balance at 1 April 2020	199,422	113,200	3,469	316,091
Additions	19,372	6,621	68	26,061
Reclassification and adjustments	(3,513)	1,966	(3,198)	(4,745)
Disposals	(3,675)	(9,943)	-	(13,618)
Effect of movements in exchange rates	(5,551)	(4,234)	(2)	(9,787)
Balance at 31 March 2021	206,055	107,610	337	314,002
Depreciation and impairment				
Balance at 1 April 2020	99,906	79,877	-	179,783
Depreciation for the year	8,369	11,727	-	20,096
Impairment loss for the year	(1,080)	-	-	(1,080)
Reclassifications and adjustments	(4,675)	(115)	-	(4,790)
Disposals	(2,555)	(6,372)	-	(8,927)
Effect of movements in exchange rates	(2,914)	(3,291)	-	(6,205)
Balance at 31 March 2021	97,051	81,826	-	178,877
Carrying amounts				
At 31 March 2021	109,004	25,784	337	135,125
At 31 March 2020	99,516	33,323	3,469	136,308

Included in the above line items are right-of-use assets over the following:

	<i>Freehold land & Buildings</i>	<i>Machinery & Equipment</i>	<i>Total</i>
	£ '000	£ '000	£ '000
Balance at 1 April 2020	28,403	2,680	31,083
Depreciation for the year	(5,215)	(1,715)	(6,930)
Reversal of impairment loss for the year	3,572	-	3,572
Additions of right-of-use assets	18,651	-	18,651
Effect of movements in exchange rates	(571)	(17)	(588)
Balance at 31 March 2021	44,840	948	45,788

Investment Properties

Included within property, plant and equipment for the Company are investment property balances of £42m (2020: £47m) which are held at cost less depreciation. The investment properties represent freehold properties and associated leasehold improvements. The Company does not believe the fair value of the associated investment properties would materially differ from their carrying value.

HONDA MOTOR EUROPE LIMITED**Notes to the Financial Statements****For the year ended 31 March 2021****10. Intangible assets**

Cost	<i>Development Costs</i> £ '000	<i>Software</i> £ '000	<i>Total</i> £ '000
Balance at 1 April 2020	1,283	175,890	177,173
Additions	-	7,724	7,724
Disposals	(30)	(2,508)	(2,538)
Reclassifications and adjustments	-	(125)	(125)
Effect of movements in exchange rates	(62)	(884)	(946)
Balance at 31 March 2021	1,191	180,097	181,288
Amortisation and impairment			
Balance at 1 April 2020	1,204	115,718	116,922
Amortisation for the year	-	23,496	23,496
Disposals	(30)	(1,697)	(1,727)
Reclassifications and adjustments	-	(80)	(80)
Effect of movements in exchange rates	(59)	(874)	(933)
Balance at 31 March 2021	1,115	136,563	137,678
Carrying amounts			
At 31 March 2021	76	43,534	43,610
At 31 March 2020	79	60,172	60,251

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

11. Inventories

	2021	2020
	£ '000	£ '000
Finished goods	676,240	805,186
Spare parts	3,131	5,906
	<u>679,371</u>	<u>811,092</u>
Less: Inventory reserve	(25,442)	(28,761)
Net value of inventory	<u>653,929</u>	<u>782,331</u>

During the year the Company recognised a reversal of a write-down of inventory of £837,000 (2020: an expense resulting from the write-down of inventory of £181,000).

12. Trade and other receivables

	2021	2020
	£ '000	£ '000
Trade receivables due from third parties	361,496	415,652
Trade receivables due from related parties	291,984	238,803
Notes receivable	11,138	5,604
Other receivables due from third parties	23,424	23,250
Other receivables due from related parties	176,846	200,899
Other receivables due from net investment in leases	5,843	5,986
Loans receivable due from third parties	3,594	2,456
Loans receivable due from subsidiaries	196,642	189,134
Gross trade and other receivables	<u>1,070,967</u>	<u>1,081,784</u>
Less: Allowance for impairment of loan receivables	(52,040)	-
Less: Allowance for impairment of trade receivables	(10,027)	(25,030)
	<u>1,008,900</u>	<u>1,056,754</u>

The ageing of total trade receivables at the reporting date was:

	2021	2020
	£ '000	£ '000
Not past due and aged 0 - 3 months	616,477	639,993
Past due 3 - 6 months	21,005	4,499
Past due 6 - 12 months	10,224	2,551
Past due more than one year	5,774	7,413
	<u>653,480</u>	<u>654,456</u>
Less: Allowance for impairment of trade receivables	(10,027)	(25,030)
	<u>643,453</u>	<u>629,426</u>

The Company has entered into short term financing agreements for which trade receivable balances are used as security over short term lending. The total amount secured against debt at the year-end was £130m (2020: £150m). Details of the terms of these borrowings are disclosed in Note 16.

HONDA MOTOR EUROPE LIMITED
Notes to the Financial Statements
For the year ended 31 March 2021

13. Prepayments and other current assets

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Prepaid expenses	17,366	19,171
Derivative financial assets	5,377	11,797
Advances under Honda employee car scheme	18,996	20,712
VAT and other tax receivables	91,926	72,240
Other current assets	26,382	19,087
	<u>160,047</u>	<u>143,007</u>

14. Cash and cash equivalents

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Cash at bank and in hand	8,165	12,250
Net cash and cash equivalents	<u>8,165</u>	<u>12,250</u>

15. Capital and reserves

Share capital

Ordinary shares

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
In issue at 31 March	<u>665,550</u>	<u>665,550</u>

At 31 March 2021 the share capital comprised 665,549,677 (2020: 655,549,677) ordinary shares. The shares have a nominal value of £1 per share. All shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to a vote per share at meetings of the Company.

The Company did not issue any shares during the year ended 31 March 2021.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of foreign operations. The balance at 31 March 2021 was a deficit of £7m (2020: deficit of £6m).

Dividends

No dividends were declared or paid by the Company (2020: Nil).

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

16. Loans and borrowings

This note provides information about the contractual terms of the interest-bearing loans and borrowings.

	2021	2020
	£ '000	£ '000
Current liabilities		
Unsecured bank loans ¹	470,451	965,934
Loans secured by trade receivables ²	129,993	149,711
Loans from subsidiaries ³	939,721	629,521
Loans from related parties ³	548,660	459,926
Lease liabilities	11,993	11,388
	<u>2,100,818</u>	<u>2,216,480</u>
Non-current liabilities		
Lease liabilities	78,184	79,509
	<u>78,184</u>	<u>79,509</u>

¹Unsecured bank loans

Unsecured bank loans are obtained on an arm's length basis from several banking institutions. The terms and conditions for lending vary between institutions but typically the loans are offered on a short-term basis with a fixed rate of interest payable. Interest rates are comparable to the market rates which existed at the time the financing arrangement was entered into. Where the financing facility is agreed at a variable rate, the Company undertakes interest rate swap transactions to minimise the risk of adverse movements in the variable rate of interest.

²Loans secured by trade receivables

Loans secured by trade receivables are non-interest bearing and receivable defaults are covered by credit insurance, bank guarantees and standby letters of credit.

³Loans from subsidiaries and related parties

Loans from subsidiaries and related parties are unsecured and non-interest bearing, except loans from the ultimate parent company, which carry interest.

HONDA MOTOR EUROPE LIMITED
Notes to the Financial Statements
For the year ended 31 March 2021

16. Loans and borrowings (continued)

Terms and repayment schedule

Terms and conditions of outstanding loans were as follows:

Current	2021					2020				
	Currency	<u>Nominal</u>	<u>Year of</u>	<u>Face</u>	<u>Carrying</u>	<u>Nominal</u>	<u>Year of</u>	Face Value	<u>Carrying</u>	
		<u>Interest Rate</u>	<u>maturity</u>	<u>Value</u>	<u>amount</u>	<u>Interest Rate</u>	<u>maturity</u>		<u>amount</u>	
				£ '000	£ '000			£ '000	£ '000	
Unsecured bank loan	GBP	0.31% - 1.75%	2021	470,407	470,407	0.33% - 1.75%	2020	795,384	795,384	
Unsecured bank loan	EUR	0% - 0.1%	2021	45	44	0.00% - 0.79%	2020	170,550	170,550	
Loans secured by trade receivables	EUR	0.00%	2021	129,993	129,993	0.00%	2020	149,711	149,711	
Loans from Subsidiaries	GBP	0.00%	2021	856,327	856,327	-	0.00%	626,901	627,433	
Loans from Subsidiaries	EUR	0.00%	2021	4,634	4,634	-	0.00%	2,349	2,349	
Loans from related parties	GBP	0.00%	2021	623,999	623,999	0.00%	2020	455,954	455,954	
Loans from related parties	EUR	0.00%	2021	3,421	3,421	0.00%	2020	3,710	3,710	
Lease liabilities	GBP	0.01% - 1.00%	2021	12,080	11,334	0.01% - 1.00%	2020	11,300	10,513	
Lease liabilities	EUR	0.35% - 3.20%	2021	660	602	0.35% - 3.20%	2020	901	818	
Lease liabilities	CZK	1.35%	2021	47	46	1.35%	2020	48	46	
Lease liabilities	HUF	1.35%	2021	11	11	1.35%	2020	12	12	
				2,101,624	2,100,818			2,216,820	2,216,480	

HONDA MOTOR EUROPE LIMITED
Notes to the Financial Statements
For the year ended 31 March 2021

16. Loans and borrowings (continued)

Terms and repayment schedule (continued)

Terms and conditions of outstanding loans were as follows:

	2021					2020			
	<u>Curren</u> <u>cy</u>	<u>Nominal Interest</u> <u>Rate</u>	<u>Year of</u> <u>maturity</u>	<u>Face</u> <u>Value</u> £ '000	<u>Carrying</u> <u>amount</u> £ '000	<u>Nominal Interest</u> <u>Rate</u>	<u>Year of</u> <u>maturity</u>	<u>Face</u> <u>Value</u> £ '000	<u>Carrying</u> <u>amount</u> £ '000
Non-current									
Lease liabilities	GBP	0.01% - 1.00%	2022 - 2083	69,336	65,445	0.01% - 1.00%	2021 - 2083	74,423	74,914
Lease liabilities	EUR	0.35% - 1.35%	2022 - 2030	13,121	12,664	0.35% - 1.35%	2021 - 2030	9,598	9,462
Lease liabilities	CZK	1.35%	2023	64	64	1.35%	2023	113	112
Lease liabilities	HUF	1.35%	2023	11	11	1.35%	2023	23	23
				82,532	78,184			84,157	84,511

HONDA MOTOR EUROPE LIMITED

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For the year ended 31 March 2021

17. Employee benefits

Defined contribution scheme

The total defined contribution pension charge for the year ended 31 March 2021 was £3m (2020: £3m), of which £1m was paid to the UK scheme (2020: £1m).

Defined benefit schemes

The Company operates a number of defined benefit schemes in the United Kingdom, France and Germany. However, only the Honda Group – UK Pension Scheme is material. The assets in respect of the UK scheme are held in separately administered trusts whilst the German and French arrangements are unfunded.

In the United Kingdom, the Company operates the Honda Group - UK Pension Scheme which provides benefits based on final pensionable pay and is, by far, the most significant scheme in the Company. The UK Scheme is governed by a trustee board, which is independent of the Company. Contributions to the scheme are determined by a qualified independent actuary, on the basis of triennial valuations. The disclosures in this note are taken from the full actuarial valuation for funding purposes as at 31 March 2019. The final results showed that, at that date, the UK Pension Scheme had a deficit of £78m and a market value of assets of £1,416m. The disclosures have been prepared on a projected unit method using the funding valuation results as at 31 March 2019 rolled forward to 31 March 2021. The net defined benefit asset (i.e. surplus) in relation to the UK scheme was £224m (2020: surplus of £474m). The Directors have concluded that the surplus should be recognised as, following IFRIC 14, the company has an unconditional right to the surplus.

The UK Scheme is subject to UK legislation and funding requirements. The funding methodology and assumptions for the UK Scheme are set out in the Statement of Funding Principles as agreed by the Trustee and the Company. Some of these assumptions differ from those used for accounting purposes. Following a formal actuarial valuation of the UK Scheme, the trustee and Company agree a Schedule of Contributions to meet the cost of ongoing benefit accrual and also the contributions to pay over a reasonable period to meet the deficit (“the recovery plan”).

Honda Motor Europe Limited agreed to pay the remaining contributions under the recovery plan in two parts, the first (£200m) was paid on 31st March 2019 and the second (£222m) on the 20th May 2019. As a result, the company as principal employer had assumed the liabilities of the other companies in the pension scheme and the surplus was recognised in full in the company. As at 31 March 2021 the IAS19 surplus in the scheme was £224m. Honda Motor Co Ltd has provided a parent company guarantee to the scheme.

On 13 May 2019, Honda UK Manufacturing Limited confirmed that their site will be closing on 31 July 2021. This will lead to all active members of the Honda UK Manufacturing Limited pension scheme ceasing all future accrual and losing the salary linkage for their accrued benefits. Due to this, a past service cost of £16.3m was recognised in the 2019 pension cost and balance sheet.

The current service cost and gains and losses on settlements and curtailments are included in operating costs in the statement of profit or loss. The interest income on the plan assets of funded defined benefit pension schemes and the imputed interest on pension scheme liabilities are disclosed as retirement benefit obligation net finance expense respectively in the income statement. Return on plan assets excluding interest income on the assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in respect of defined benefit pension schemes is the present value of the defined benefit obligation less the fair value of the scheme assets, as determined by actuarial valuations carried out at the balance sheet date.

Using the assumptions described below, the market value of the assets of the Company's schemes at 31 March 2021 was £1,516m (2020: £1,517m), which represented 112.0% (2020: 136.6%) of the present value of benefits that had accrued to members at that date (after allowing for projected salary increases). The UK scheme accounted for all of this total: at 31 March 2021 the market value of assets notionally attributed to the Company was £1,516m (2020: £1,517m) which represented 117.3% (2020: 145.6%) of the present value of benefits that had accrued to members at that date (after allowing for projected salary increases).

The Company expects over the year ending 31 March 2021, to have contributed 41.2% of Pensionable Earnings (excluding salary sacrifice contributions paid on a member's behalf where they have opted for this).

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

17. Employee benefits (continued)

Defined benefit schemes (continued)

Defined benefit pension obligation

	<i>2021</i>	<i>2020</i>
	£ '000	£ '000
Present value of wholly or partly funded obligations	1,292,216	1,042,786
Present value of unfunded obligations	60,940	67,416
Total present value of obligations	1,353,156	1,110,202
Fair value of plan assets	(1,515,838)	(1,517,056)
Net defined benefit asset	(162,682)	(406,854)

Movement in the present value of the defined benefit obligation

	<i>Company</i>	
	<i>2021</i>	<i>2020</i>
	£ '000	£ '000
Defined benefit obligations at 1 April	1,110,202	1,214,389
Current service cost	3,692	3,601
Past service cost	-	(16,297)
Interest cost	26,236	29,614
Member contributions paid into the scheme	123	210
Benefits paid out	(31,059)	(27,390)
Administration expenses	(1,451)	(1,265)
Actuarial losses / (gains) due to changes in demographic assumptions	3,989	(19,471)
Actuarial losses / (gains) due to changes in financial assumptions	228,947	(82,997)
Actuarial losses / (gains) due to experience adjustments	400	(9,885)
Exchange differences	(3,167)	2,610
Assumption of pension scheme obligations	15,244	17,083
Defined benefit obligations at 31 March	1,353,156	1,110,202

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

17. Employee benefits (continued)

Movement in the fair value of plan assets

	2021 £ '000	2020 £ '000
Fair value of scheme assets at 1 April	1,517,056	1,194,163
Interest income on scheme assets	37,818	34,679
Employer contributions paid	2,297	225,342
Member contributions paid into the scheme	123	210
Benefits paid out	(29,963)	(27,390)
Administration expenses	(1,451)	(1,265)
Assumption of pension scheme assets	20,331	20,767
Return on scheme assets excluding interest income	(30,373)	70,550
Fair value of scheme assets at 31 March	1,515,838	1,517,056
Actual return on plan assets	7,445	105,229

The fair value of the assets, split by asset class, is detailed below:

	2021 £ '000	2020 £ '000
Liability driven investments	731,148	695,024
Non-government debt	105,526	161,913
Ground lease property fund	124,304	128,925
Infrastructure equity	147,200	-
Alternative alpha strategies	47,482	106,516
Alternative beta strategies	209,045	219,866
Distressed Opportunities	8,773	1,573
Buy & Maintain credit	69,228	69,824
Cash & Cash equivalents	73,132	133,415
Fair value of scheme assets at 31 March	1,515,838	1,517,056

68.2% (2020: 89.5%) of the assets have a readily available secondary market with quoted unit prices (with differing pricing time lags for different asset classes). The remaining 31.8% (2020: 10.5%) of the assets do not have a readily available secondary market. The fair values of these assets are assessed using valuation methods such as net asset values, discounted cash flow method or a comparable valuation technique. These valuation techniques include greater estimation uncertainty than readily available secondary market value. They consist of:

- Private Equity and Global Infrastructure funds (included in Alternative beta strategies) managed by Partners Group;
 - The valuation is based on the most recent fund valuation from Partners Group, allowing for known amounts distributed post the most recent valuation.
- Ground Lease Property managed by PGIM.
 - The valuation is based on the most recent fund valuation from PGIM, excluding income received post the most recent valuation which has been included within the Trustee's bank account as Cash.
 - Ground Lease Property provides exposure to long-term inflation-linked cash flows via a niche area of the property market. Due to the structure of ground leases this cashflow is very secure and this investment is treated as an alternative to index-linked gilts.
- Investment in Infrastructure Equity is through a fund held with JP Morgan.
 - The valuation included above has been estimated by the asset manager.
- An alternative beta strategy fund (secured finance) managed by Ares & M&G
 - The valuation included above has been estimated by the asset manager.
- Hedge Fund investments (included in Alternative alpha strategies) managed by Capula
- The Distressed Opportunities Fund (managed by Knighthead) invests in the debt securities or loans of companies that are stressed, distressed and / or going through restructurings, bankruptcies, liquidations, litigations or other complex process driven situations and in companies with undervalued equity securities. The Fund will be a high conviction fund with a smaller number of larger positions. It will not use leverage, nor will it take any short positions.
- The valuations included above for JP Morgan, Ares, Capula and Knighthead have been estimated by the relevant asset manager.

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Notes to the Financial Statements

For the year ended 31 March 2021

17. Employee benefits (continued)

The Liability Driven Investments (LDI) held by the UK scheme include fixed interest government bonds (gilts), index-linked gilts, cash and various derivative instruments such as inflation swaps, interest rate swaps, gilt total return swaps and gilt repurchase agreements. The aim of these investments is to match the interest rate and inflation exposure of a portion of the Scheme's liabilities, to help reduce the volatility in the funding position.

Investments in multi-asset credit are part of the bond-like portfolio and aim to provide diversification from the Scheme's core investments in liability driven investments (LDI). These have been classified in the table above as non-government debt. Multi-asset credit provides exposure to various credit asset classes, in order to improve expected returns, with a moderate level of risk. The valuation of these assets has been based on a performance estimate calculated by the asset manager.

The alternative alpha strategies include investments in multi-strategy funds and long/short equities. These assets are part of the growth portfolio and aim to outperform the Scheme's liabilities. These assets are actively managed, and the returns are driven primarily by the manager's skill ("alpha"). The managers can take long and short positions and aim to deliver positive returns in different market conditions. This provides diversification away from equity markets to reduce volatility in the growth portfolio.

The alternative beta strategies include convertible bonds, private equity, absolute return strategies and infrastructure funds. These assets are part of the growth portfolio and aim to outperform the Scheme's liabilities. They improve diversification by providing exposure to a range of markets ("beta") including convertible bonds, unlisted equities, infrastructure, currencies and commodities. This provides diversification away from equity markets to reduce volatility in the growth portfolio.

The Buy & Maintain Credit fund invests in investment grade corporate bonds with a view to holding securities to maturity. The fund will invest in global corporate bonds, mostly denominated in US, UK and Euro currencies.

No Group assets are held directly by the pension schemes. It is possible that the fund managers of the pooled funds in which the UK scheme invests may hold securities issued by the Honda Motor Co group from time to time, but the size of the holdings is unlikely to be significant.

Expense recognised in profit or loss

	2021	2020
	£ '000	£ '000
Current service costs	3,692	3,601
Past service cost	-	(16,297)
Net interest	(11,582)	(5,065)
	<u>(7,890)</u>	<u>(17,761)</u>

Actuarial losses / (gains) recognised in other comprehensive income

	2021	2020
	£ '000	£ '000
Actuarial losses / (gains) due to changes in demographic assumptions	3,989	(19,471)
Actuarial losses / (gains) due to changes in financial assumptions	228,947	(82,996)
Actuarial losses / (gains) due to experience adjustments	400	(9,885)
Return on scheme assets excluding interest income	30,373	(70,550)
Amounts recognised in other comprehensive income	<u>263,709</u>	<u>(182,902)</u>

The UK scheme accounts for materially all of the total balance. The principal actuarial assumptions of the UK scheme at the reporting date (expressed as weighted averages) are stated below. The financial assumptions adopted as at 31 March 2021 reflect the duration of the plan liabilities which has been estimated to be 24 years.

Change in discount rate assumptions

The discount rate has been reduced to 2.10% to reflect lower corporate bond yields compared to the prior year. This year the single agency curve used to derive the discount rate included university bonds which was excluded last year. The effect of this change has been deemed immaterial.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

17. Employee benefits (continued)

Weighted average assumptions used to determine defined benefit obligations at 31 March

	2021	2020
Discount rate	2.10%	2.50%
Rate of compensation increases	3.10%	2.10%
Rate of price inflation (RPI)	3.20%	2.60%
Rate of price inflation (CPI)	2.60%	1.60%
Rate of increase to pensions in payment	3.05%	2.60%
Rate of increase to pensions before retirement	2.60%	1.60%

Weighted average assumptions used to determine net pension cost for year ended 31 March

	2021	2020
Discount rate	2.50%	2.50%
Rate of compensation increases	2.10%	2.60%
Rate of price inflation (RPI)	2.60%	3.30%
Rate of price inflation (CPI)	1.60%	2.10%
Rate of increase to pensions in payment	2.60%	3.10%
Rate of increase to pensions before retirement	1.60%	2.10%

For the year to 31 March 2021, the interest income on assets was 2.50% pa (2020: 2.30% pa).

Weighted average life expectancy for mortality tables used to determine defined benefit obligations at 31 March

The mortality assumptions used to assess the defined benefit obligation for the scheme is based on tables issued by the Continuous Mortality Investigation Bureau. At 31 March 2021, the mortality assumptions were based on the adjusted S2Px tables with scaling factors of 104% for males and 96% for females, with future improvements in line with the CMI 2020 model, and a long-term improvement trend rate of 1% per annum. The mortality assumption has been updated from last year, when the CMI 2018 improvements tables were used. The Company has made no explicit allowance for COVID-19 within the mortality assumptions on the basis that it is too soon to tell what the long-term impact will be on life expectancies. The resulting life expectancies are as follows:

	2021	2020
Member age 65 (current life expectancy) Male	21	21
Member age 45 (life expectancy at age 65) Male	22	22
Member age 65 (current life expectancy) Female	24	24
Member age 45 (life expectancy at age 65) Female	25	25

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

17. Employee benefits (continued)

Key risks and sensitivities

The defined benefit pension schemes expose the Company to the following main risks:

- (1) Mortality risk – Increases in the life expectancy of members will increase the liabilities of the schemes. The mortality assumptions are reviewed regularly, and are considered appropriate.
- (2) Interest rate risk – A decrease in bond yields will increase the liabilities of the scheme. Liability driven investment strategies are used to hedge part of this risk as well as investing in bond-like asset classes.
- (3) Investment risk – The pension schemes invest in a range of assets to diversify the risk of any single asset class, and align growth and returns to the long term funding objectives. The investment strategy is reviewed regularly to ensure it continues to be appropriate. In addition, the UK scheme has a long term de-risking plan in place.
- (4) Inflation risk – Some of the liabilities of the schemes are linked to inflation and so an increase in inflation will result in an increase in liabilities. A significant proportion of the UK scheme's benefits are not linked to inflation and have fixed pension increases in payment. There are caps in place for UK scheme benefits to mitigate the risk of extreme increases in inflation on the rest of the benefits.

Any increase in the retirement benefit obligation could lead to additional funding obligations in future years. The figures below provide the sensitivity of the liability to changes in various assumptions. The sensitivity information has been derived for the UK Scheme, which makes up the majority of the liability, using the liabilities calculated for the Scheme valued using the relevant assumptions as at 31 March 2021. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate.

- An increase of 0.25% p.a. in the discount rate.	Decrease in the liabilities of 5.5%
- An increase to the RPI inflation assumptions of 0.25% p.a. to 3.45% p.a. (with a corresponding increase in pension increase and salary increases and CPI inflation.)	Increase in the liabilities of 3.1%
- An increase in the salary increase assumption of 0.25% p.a. to 3.35% p.a.	Increase in the liabilities of 0.2%
- Change the mortality assumption from a 1% long term trend to a 1.25% long term trend	Increase in the liabilities of 1.3%

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

18. Provisions

	Warranty £ '000	Sales related liabilities £ '000	Other £ '000	Total £ '000
Balance at 31 March 2020	14,059	31,553	20,403	66,015
Provisions made during the year	73,934	55,084	9,527	138,545
Provisions used during the year	(1,104)	(55,580)	(4,754)	(61,438)
Reversals of provisions not used	(510)	-	(6,611)	(7,121)
Effect of exchange rate movements	(587)	(1,179)	(99)	(1,865)
Balance at 31 March 2021	85,792	29,878	18,466	134,136
Current	37,093	29,332	11,247	77,672
Non-current	48,699	546	7,219	56,464
	85,792	29,878	18,466	134,136

The provision made in the year in relation to warranties includes £70m which has been reclassified from other liabilities.

Warranty

The warranty provision represents the expected future warranty cost in respect of products manufactured by the Company which are still within the warranty term at the end of the period. The warranty provision is expected to be utilised over the warranty term, which for the majority of products is less than 5 years.

Warranty costs for specific campaigns relating to previously sold products are recognised from the point at which the decision to undergo the campaign is made and are based on the expected cost of the campaign. Where material, the cost is discounted at an appropriate discount rate to reflect the time value of money.

Sales related liabilities

Sales related liabilities include provisions for dealer bonus on incentives campaign and for the underwriting of losses on the return of leased cars. These are utilised over the period of the incentive campaigns and lease periods respectively.

Other

Included in other provisions are amounts in respect of property, insurance and supplier balances which are expected to be utilised over the period of the underlying agreement, which for most of the properties led by the Company is within 10 years.

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For the year ended 31 March 2021

19. Trade and other payables

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Current		
Trade payables due to third parties	52,313	87,309
Trade payables due to related parties	8,602	8,656
Trade payables due to subsidiaries	377,535	269,076
Trade payables due to ultimate parent	230,136	384,927
Other payables due to third parties	70,402	167,641
Other payables due to related parties	56	-
Other payables due to subsidiaries	37,663	37,804
Other payables due to ultimate parent	12	-
Fair value of derivative	2,142	9,140
Accruals and non-trade payables due to third parties	195,931	200,990
Accruals and non-trade payables due to related parties	-	91
Accruals and non-trade payables due to subsidiaries	2,927	3,276
Accruals and non-trade payables due to ultimate parent	484	1,189
	<u>978,203</u>	<u>1,170,099</u>
Non-current		
Long term payables due to third parties	3,527	3,290
Other liabilities due to third parties	8,160	22,066
	<u>11,687</u>	<u>25,356</u>

HONDA MOTOR EUROPE LIMITED
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For the year ended 31 March 2021

20. Financial instruments

Fair values

Fair values versus carrying amounts

The Directors have assessed the fair value of financial assets and liabilities and concluded that it is not materially different to the carrying value.

Fair value hierarchy

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: quoted prices (unadjusted) in active markets for identical assets & liabilities;

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices), or

Level 3: inputs for the asset or liability that are based on observable market data (unobservable inputs).

2021	Level 1	Level 2	Level 3
Derivative financial assets / (liabilities)	£ '000	£ '000	£ '000
Forward exchange contracts (assets)	-	5,377	-
Forward exchange contracts (liabilities)	-	(2,142)	-
2020	Level 1	Level 2	Level 3
Derivative financial assets / (liabilities)	£ '000	£ '000	£ '000
Forward exchange contracts (assets)	-	11,797	-
Forward exchange contracts (liabilities)	-	(9,140)	-

There have been no transfers to or from level 2 in the year (2020: none).

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

21. Leases

Leases as lessee

The Company leases warehouses, offices, retail shop facilities, manufacturing equipment and vehicles. The leases typically run for a period of 2 to 10 years, with an option to renew the lease after that date.

Lease payments are negotiated periodically to reflect market rates. Some leases provide for additional rent payments that are based on changes in local price indices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets are not used as security for borrowing purposes.

The majority of the leased properties have been sub-let by the Company. Generally, the lease and sub-lease run over the same period of time.

Right-of-use assets for which the Company is a lessee is presented in the Property, Plant and Equipment note 9.

Lease liabilities for which the Company is a lessee is presented in the Loans and borrowings note 16.

During the year the Company recognised interest expense on lease liabilities of £4.73m (2020: £5.52m).

Break clauses

The Company sometimes negotiates break clauses in its property leases. The Company performs a period review to assess whether the absence of a break clause would expose it to excessive risk.

At 31 March 2021, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided by exercising break clauses because it was considered reasonably certain that the Company would not exercise its right to exercise any right to break the lease.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases held by the Company. Some property leases contain extension and termination options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The majority of extension and termination options held are only exercisable by the Company and not by the lessors. The Company assesses at commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

21. Leases (continued)

Leases as lessor

The Company sub-leases its properties held as freehold. The Company has classified sub-leases as net investment in lease assets.

The future minimum lease payments under the non-cancellable leases are as follows:

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Less than one year	1,371	1,650
Between one and five years	4,442	5,132
More than five years	2,375	2,563
	<u>8,188</u>	<u>9,345</u>

During the year ended 31 March 2021, £1.4m was recognised as rental income in the Statement of Profit and Loss and Other Comprehensive Income (2020: £3m).

Net Investment in Lease

During 2021, the Company subleased buildings which are presented as net investment in lease assets.

During the year the Company recognised interest income on lease receivables of £0.54m. (2020: £0.47m).

The below table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Less than one year	5,843	5,986
Between one and five years	19,447	21,555
More than five years	16,872	22,276
	<u>42,162</u>	<u>49,817</u>

Net investment in lease due in less than one year is included within note 12 trade and other receivables.

Lease liabilities

The maturity analysis of lease liabilities, based on contractual undiscounted cash flows is as follows:

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Not later than one year	12,476	12,260
Later than one year and not later than five years	47,323	61,390
Later than five years	35,532	22,769
	<u>95,331</u>	<u>96,419</u>
Less: future finance charges	<u>(5,154)</u>	<u>(5,522)</u>
Lease liabilities	<u>90,177</u>	<u>90,897</u>
Current	11,993	11,388
Non-current	<u>78,184</u>	<u>79,509</u>
	<u>90,177</u>	<u>90,897</u>

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

22. Related parties

Key management personnel compensation

The Company considers Directors of the Company to be key management personnel. In addition to their salaries, the Company also provides non-cash benefits to Directors.

Key management personnel compensation comprised:

	2021 £ '000	2020 £ '000
Salaries	932	1,020
Pension Contributions	105	106
Other employee benefits - non cash	60	67
Other employee benefits - interest on loans	3	2
	<u>1,100</u>	<u>1,195</u>

The emoluments of the highest paid director were £318,800 (2020: £296,300), pension contributions were £2,300 (2020: £8,400). Two directors participate in the European Company Pension Schemes under the same terms and conditions as other members of the schemes (2020: two directors) and aggregate contributions in respect of this were £92,800 (2020: £85,900).

Interest on Director loans is reportable as a cash benefit and is calculated as 2.3% (2020: 2.5%) of the outstanding loan balance.

The total balance of Director loans outstanding is disclosed below.

Director loans

Honda Motor Europe Limited operates an interest free car loan scheme open to all eligible employees on equal terms to enable employees to acquire cars for their own use. The relevant amounts in respect of Directors of the Company are as follows:

	2021 £ '000	2020 £ '000
Movements in loans during the year		
Loans at 1 April	115	77
Movement	(1)	38
Loans at 31 March	<u>114</u>	<u>115</u>

Other related party transactions

The aggregate values of transactions and outstanding balances relating to other related parties are as follows:

	2021 £ '000	2020 £ '000
Assets		
Ultimate parent of the Company	234,997	246,245
Subsidiaries	186,633	143,409
Liabilities		
Ultimate parent of the Company	826,785	812,344
Subsidiaries	1,103,438	769,740
Sales of goods and services		
Ultimate parent of the Company	1,028,360	1,242,734
Subsidiaries	46,681	70,998
Expenses - purchases of raw materials, finished goods, spare parts		
Ultimate parent of the Company	871,043	1,148,319
Subsidiaries	1,501,123	2,124,975

HONDA MOTOR EUROPE LIMITED
Notes to the Financial Statements
For the year ended 31 March 2021

23. Subsequent events

There have been no significant events affecting the Company since the year end

24. Ultimate Holding Company

The Company is a wholly-owned subsidiary of Honda Motor Co., Ltd, a company incorporated in Japan which is the ultimate parent company. The only group in which the results of the Company is consolidated is that headed by the ultimate parent company. Copies of the Honda Motor Co., Ltd group statutory accounts may be obtained from Honda Motor Co., Ltd, 1-1, 2-chome, Minami-Aoyama, Minato-ku, Tokyo 107-8556, Japan.

25. Investments

Movements in Investments in subsidiaries

	<i>2021</i>	<i>2020</i>
	<i>£ '000</i>	<i>£ '000</i>
Balance at 1 April	498,289	499,239
Effect of movements in exchange rates	(259)	260
Impairment	<u>-</u>	<u>(1,210)</u>
Balance at 31 March	<u>498,030</u>	<u>498,289</u>

Impairment

The investments in HUM and HTR were impaired following the 19th February 2019 factory closure announcements. The total impairment is £nil (2020: £1m).

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

25. Investments (continued)

Honda Motor Europe Branches

The branches of Honda Motor Europe Limited at 31 March 2021 are as follows:

	<i>Principal Activity</i>	<i>Country</i>
Honda Deutschland Niederlassung der Honda Motor Europe Limited	Sales	Germany
Honda Motor Europe Limited	Sales	France
Honda Motor Europe Limited - Italia	Sales	Italy
Honda Motor Europe Limited - Sucursal en España	Sales	Spain
Honda Motor Europe Limited - Sucursal em Portugal	Sales	Portugal
Honda Austria Branch of Honda Motor Europe Limited	Sales	Austria
Honda Motor Europe Limited organizační složka Česká republika	Sales	Czech Republic
Honda Motor Europe Limited Slovensko, organizačná zložka	Sales	Slovakia
Honda Motor Europe Limited Magyarországi Fioktelepe	Sales	Hungary
Honda Motor Europe Limited (Spółka z ograniczoną odpowiedzialnością) Oddział w Polsce	Sales	Poland
Honda Motor Europe Limited Belgian Branch	Sales	Belgium
Honda Motor Europe Limited filial Sverige	Sales	Sweden
Honda Motor Europe Denmark Filial Af Honda Motor Europe Limited	Sales	Denmark
Honda Motor Europe Limited Norge norsk avdeling av utenlandsk foretak	Sales	Norway
Honda Motor Europe Limited Eesti filiaal	Dormant	Estonia
Honda Motor Europe Limited, Suomen sivuliike	Dormant	Finland
Honda Motor Europe Limited	Sales	Netherlands
Honda Motor Europe Limited Succursale de Satigny/Genève	Sales	Switzerland

Honda Motor Europe Subsidiaries

	<i>Principal Activity</i>	<i>Country</i>	<i>Percentage of ordinary shares held, directly or indirectly</i>
Honda of the UK Manufacturing Limited	Manufacture of automobiles	United Kingdom	86.32%
Honda France Manufacturing SA	Manufacture of power products	France	100%
CIAP Spa	Manufacturing	Italy	5.2%
Honda Finance Europe plc	Dealer and retail financing	United Kingdom	100%
Honda Bank GmbH	Dealer and retail financing	Germany	100%
Honda Bank GmbH, Branch in Spain	Dealer and retail financing	Spain	100%
Honda Motor Europe Logistics NV	Sales and distribution	Belgium	100%
Honda Türkiye A.S.	Sales and manufacture of automobiles	Turkey	100%
Montesa Honda S.A.	Manufacture of motorcycles	Spain	100%
Honda Italia Industriale SPA	Manufacture of motorcycles	Italy	100%
Honda Motor Russia LLC	Sales and distribution	Russia	99.99%
Honda Access Europe NV	Sales and distribution	Belgium	100%
Garage City Servette SA	Sales	Switzerland	100%
Honda Retail Group SA	Sales	Switzerland	100%
Garage du Golf	Sales	Switzerland	100%
Garage des Jordils SA	Sales	Switzerland	100%
Garage Villars Chandolan SA	Sales	Switzerland	100%
Letzigraben Garage AG	Sales	Switzerland	100%
Honda Versicherungsdienst GmbH	Sales	Germany	100%
Versicherungsvermittlungen			
Honda Center GmbH*	Sales	Germany	100%
Honda Ukraine LLC	Dormant	Ukraine	100%
Honda Group-UK Pension Scheme Trustee Limited	Dormant	United Kingdom	100%

All Shares held are ordinary shares.

* Honda Center GmbH is released from the application of the regulations of the First, Third and Fourth Subsections of Section Two of Book Three (§§ 238-342 e) of the German Commercial Code (HGB) concerning the preparing, audit and disclosure of its annual financial statement.

HONDA MOTOR EUROPE LIMITED

Notes to the Financial Statements

For the year ended 31 March 2021

25. Investments (continued)

The addresses of the subsidiaries and branches of the Company at 31 March 2021 are as follows:

Country and company/branch name	Legal Status	Address
United Kingdom		
Honda of the UK Manufacturing Limited	Subsidiary	Highworth Road, South Marston, Swindon, Wiltshire, SN3 4TZ, United Kingdom
Honda Finance Europe plc	Subsidiary	Cain Road Bracknell. RG12 1HL, United Kingdom
Honda Group-UK Pension Scheme Trustee Limited	Subsidiary	One Glass Wharf, Bristol, BS2 OZX, United Kingdom
Honda Motor Europe Limited	Subsidiary	Cain Road Bracknell. RG12 1HL, United Kingdom
UYS Limited	Equity investment	Garsington Road, Cowley, Oxford OX4 2BW, United Kingdom
Austria		
Honda Austria Branch of Honda Motor Europe Limited	Branch	Hondastrasse 1, Weiner, Neudorf, Austria
Belgium		
Honda Motor Europe Logistics NV	Subsidiary	Langerbruggestraat 104, B-9000 Gent, Belgium
Honda Access Europe NV	Subsidiary	Wijngaardveld 1, 9300 Aalst, Belgium
Honda Motor Europe Ltd. Belgian Branch	Branch	Sphere Business Park Zoning, Doornveld 180-184, B-1731, Zelik, BE 0467. 016.396, Belgium
Honda Motor Europe Ltd. Aalst Branch	Branch	P/A Industriezone Noord V, Wijngaardveld 1, B-9300 Aalst, Belgium
Czech Republic		
Honda Motor Europe Limited organizační složka Česká republika	Branch	Bucharova 2641/14 158 00 Praha 5, Czech republic
Denmark		
Honda Motor Europe Denmark Filial Af Honda Motor Europe Limited	Branch	Kokholm 13, DK-6000 Kolding, Denmark
Estonia		
Honda Motor Europe Limited Eesti filiaal	Branch	Meistri 12, EE-13517 Tallin, Estonia
Finland		
Honda Motor Europe Limited, Suomen sivuliike	Branch	Vanha Nurmijarventie 62, 01670 Vantaa, Finland
France		
Honda France Manufacturing S.A.S	Subsidiary	Pole 45 - 2 Rue Des Chataigniers 45140 Ormes, France
Honda Motor Europe Ltd Succursale France	Branch	1 Allée du 1er Mai, 77183 Croissy-Beaubourg, France
Germany		
Honda Bank GmbH	Subsidiary	Hanauerlandstrasse 222-224, 60314Frankfurt am Main, Germany
Honda Versicherungsdienst GmbH	Subsidiary	Hanauerlandstrasse 222-224, 60314Frankfurt am Main, Germany
Honda Center GmbH	Subsidiary	Hanauerlandstrasse 222-224, 60314Frankfurt am Main, Germany
Honda Deutschland Niederlassung der Honda Motor Europe Limited	Branch	Hanauerlandstrasse 222-224, 60314Frankfurt am Main, Germany
Hungary		
Honda Motor Europe Limited Magyarorszagi Fioktelepe	Branch	H-2014 Budaors, Puskas Tivadar UT 1, 2040 Hungary
Italy		
CIAP Spa	Subsidiary	40054 Canaletti Di Budrio (BO) Italy - Via San Vitale 35, Italy
Honda Italia Industriale SPA	Subsidiary	Via Genova 9/11 - 66041 Atessa (Chieti), Italy
Honda Motor Europe Limited. Sede secondria Italiana	Branch	Via Della Cecchignola 13 - 00143 - Rome, Italy

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Notes to the Financial Statements
For the year ended 31 March 2021

25. Investments (continued)

Country and company/branch name	Legal Status	Address
Netherlands		
Honda Motor Europe Limited (Netherlands)	Branch	Beechavenue 54, 1119, Schiphol-Rijk, Nederland
Norway		
Honda Motor Europe Limited Norge norsk avdeling av utenlandsk foretak	Branch	Box 1534, N-3007 Drammen, Norway
Poland		
Honda Motor Europe Limited (Spółka z ograniczoną odpowiedzialnością) Oddział w Polsce	Branch	Ul. Pulawska 381 02-801 Warszawa, Poland
Portugal		
Honda Motor Europe Limited - Sucursal em Portugal	Branch	Rua do Centro Empresarial, Lote 310, EE13, Esc: 2.16, Quinta da Beloura, 2710-444, Sintra, Portugal
Russia		
Honda Motor Russia LLC	Subsidiary	Russian Federation, 108809, Moscow, Russia Marushkinskoe district, Building 1, Sharapovo settlement, Pridorozhnaya str,
Slovakia		
Honda Motor Europe Limited Slovensko, organizačná zložka	Branch	Cesta na Senec 2/A 821 04 Bratislava, Slovak Republic
Spain		
Montesa Honda S.A.	Subsidiary	C/ Mar Del Nord S/N - Poligono Industrial Can Roca - 08130 Sta. Perpetua De Mogoda - Barcelona, Spain
Honda Bank GmbH, Branch in Spain	Branch	Carrer del Mar del Nord, 1 Pol. Ind. La Torre del Rector 08130 Santa Perpetua de Mogoda Barcelona, Spain
Honda Motor Europe Limited Sucursal en España	Branch	Carrer del Mar del Nord, 1 Pol. Ind. La Torre del Rector 08130 Santa Perpetua de Mogoda Barcelona, Spain
Sweden		
Honda Motor Europe Limited filial Sverige	Branch	Videortsvagen 2, 23291 Arlov, Malmo, Sweden
Switzerland		
City Garage Servette S.A.	Subsidiary	Rue de la Servette 30, 1201 Genève, Switzerland
Honda Retail Group S.A.	Subsidiary	Chemin de Saugy 11, 1023 Crissier, Switzerland
Garage du Golf S.A.	Subsidiary	Z.I. Sous le Grand Pré, 1860 Aigle, Switzerland
Garage des Jordils S.A.	Subsidiary	Route du Vignoble 13, 2018 Boudry, Switzerland
Garage de Villars Chandolan S.A.	Subsidiary	Route de Moncor 8, 1752 Villars-sur-Glâne, Switzerland
Letzigraben Garage AG	Subsidiary	Letzigraben 77, 8003 Zurich, Switzerland
Honda Motor Europe Limited, Bracknell, Satigny/Geneva Branch	Branch	Rue de la Bergère 5, 1242 Satigny, Switzerland
Turkey		
Honda Turkiye A.S.	Subsidiary	Sekerpınar Mahallesi Yanyol Sokak No 1 41420 Cayirova, Kocaeli, Turkiye
Ukraine		
Honda Ukraine LLC	Subsidiary	73 Lesi Ukrainky Str. 08132 Vyshneve, Kyiv Region, Ukraine