

Article rank ■■■■■**AUTOMOTIVE****HONDA'S Q4 PROFIT DROPS 86%****Tax charge, rising yen add to worst fall in 10 years**

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Bloomberg News

TOKYO • Honda Motor Co., Japan's second-largest automaker, reported the biggest drop in profit in at least 10 years as it put aside money for a possible tax settlement and the dollar weakened against the yen.

Net income plunged 86% to ¥25.4-billion (\$248-million), or ¥14.0 a share, in Honda's fourth quarter, which ended in March, from ¥176.2-billion (¥96.70) a year earlier, Honda said in a statement yesterday. Sales fell 1% to ¥3.06-trillion.

Honda took an ¥80-billion provision to cover possible taxes as the Japanese government investigates whether the Tokyo-based company failed to declare income from China. The carmaker, which earns about 70% of operating profit in North America, forecast earnings will drop this year because of a stronger yen.

"The company booked all of its losses now as it expects a difficult year," said Takashi Aoki, who helps manage about ¥130-billion at Mizuho Asset Management Co. in Tokyo. "The stronger yen and higher incentives in the U.S. will hurt them this year."

The carmaker, led by chief executive Takeo Fukui, is being investigated for "transfer pricing taxation" for a five-year period ended fiscal 2006, it said in a statement yesterday. The company failed to report about ¥140-billion in income, the Nikkei newspaper reported, without saying where it got the information. Kunio Endo, a general manager at Honda's accounting division, declined to comment on the report.

"We believe we're paying taxes appropriately in both China and Japan," Koichi Kondo, Honda executive vicepresident, said at a press conference in Tokyo.

Honda expects net income in the fiscal year started April 1 to drop 18% to ¥490-billion, even as sales may rise 1% to ¥12.1-trillion. The yen's 12% gain against the U.S. dollar in the first three months of 2008 is eroding the value of repatriated earnings.

The carmaker forecast operating profit will drop 32% to ¥650-billion. The stronger yen will cut ¥303-billion from operating profit this year, the company said. Global auto sales to dealers may rise 5.5% to 4.14 million vehicles.

Industrywide vehicle sales in the United States, Honda's most-profitable market, may fall this year to the lowest since 1995, according to Standard & Poor's.

"The forecasts represent the worst-case scenario," said Hitoshi Yamamoto, chief executive of Tokyo-based Fortis Asset Management Japan Co., which manages \$5.6-billion in Japanese equities. "They may start to reduce their reliance on the U.S. from this year with aggressive expansion into China and India."

Japanese automakers are also paying more for steel and other raw materials. Nippon Steel Corp. and JFE Holdings Inc., the world's second- and third-largest steelmakers, respectively, will raise wholesale prices for sheet steel by 10% as early as June, traders familiar with price talks said this week.

The boost follows a 25% increase to about ¥100,000 per ton this month and is needed to cover an unexpected tripling in annual coking-coal prices.

The carmaker boosted global auto sales in the fourth quarter by 9.8% to 1.05 million vehicles, led by demand in Asia.

A stronger yen against the U.S. dollar and other currencies hurt Honda's earnings. The yen averaged 105.44 per dollar in the three months ended March 31, compared with 119.36 a year earlier. Every ¥1 gain against the dollar cuts Honda's operating profit by ¥20-billion, according to the company.

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