



## CSR Report 2006

Striving to become a company society wants to exist  
Year Ended March 31, 2006



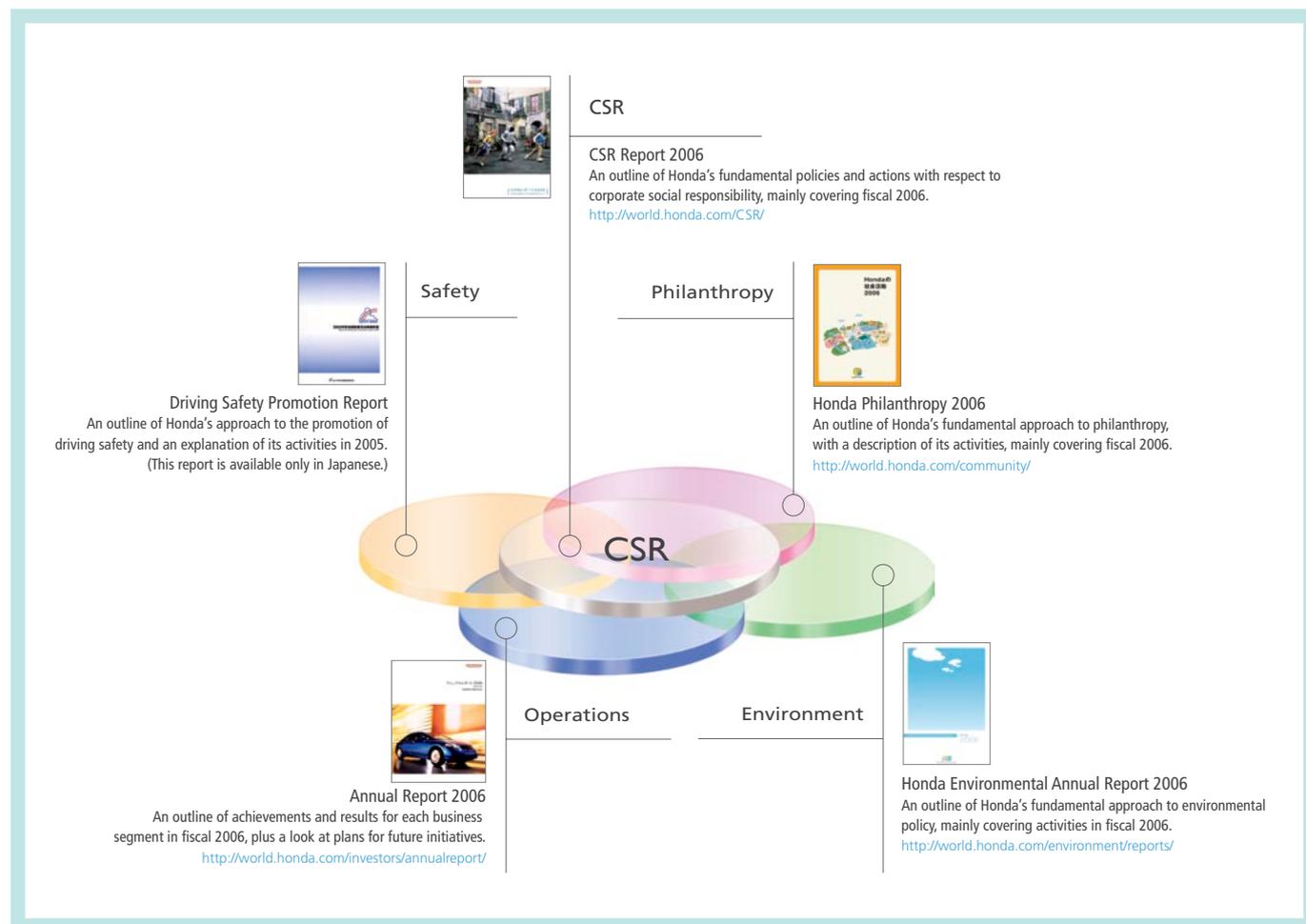
## Prologue

Since the company's foundation, Honda's corporate philosophy has been built upon respect for the individual and what our founder called The Three Joys: the joy of buying, selling and creating. Today, Honda strives to become a company that society wants to exist, and as such proactively seeks to assume all the responsibilities of a good corporate citizen.

Until now, Honda's reporting has covered its business operations and initiatives in such areas as traffic safety, the environment and philanthropy. With this report, Honda presents its first comprehensive description of its policies and actions with respect to corporate social responsibility.

We hope this report will help provide all Honda stakeholders a fuller appreciation of the corporate social responsibility initiatives Honda is undertaking.

## 2006 Honda reports



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## Company overview

**Company Name:** Honda Motor Co., Ltd.  
**Head Office:** 2-1-1 Minami Aoyama, Minato-ku  
 Tokyo 107-8556 Japan  
**Tel:** +81-(0)3-3423-1111  
**Established:** September 24, 1948  
**President & CEO:** Takeo Fukui  
**Capital:** JPY 86 billion (as of March 31, 2006)

## Main products



### Automobiles

- Passenger Vehicles
- Commercial Vehicles
- Special-Needs Vehicles
- Utility Vehicles



### Motorcycles

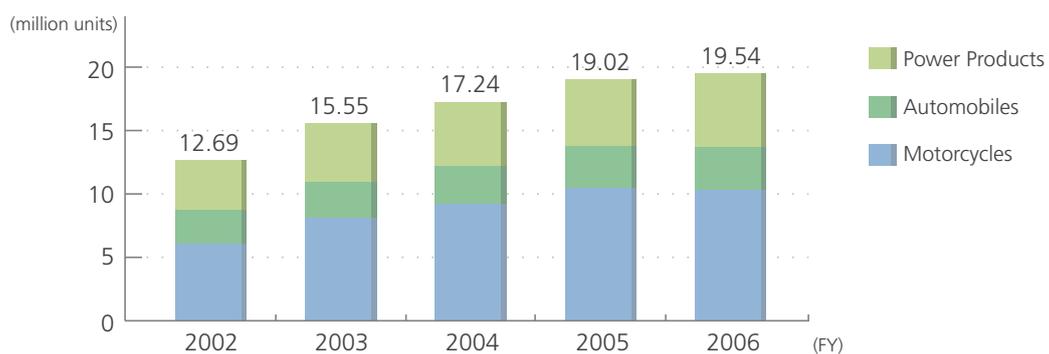
- Scooters
- Sports Motorcycles
- Commuter Motorcycles
- ATVs
- Personal Watercraft



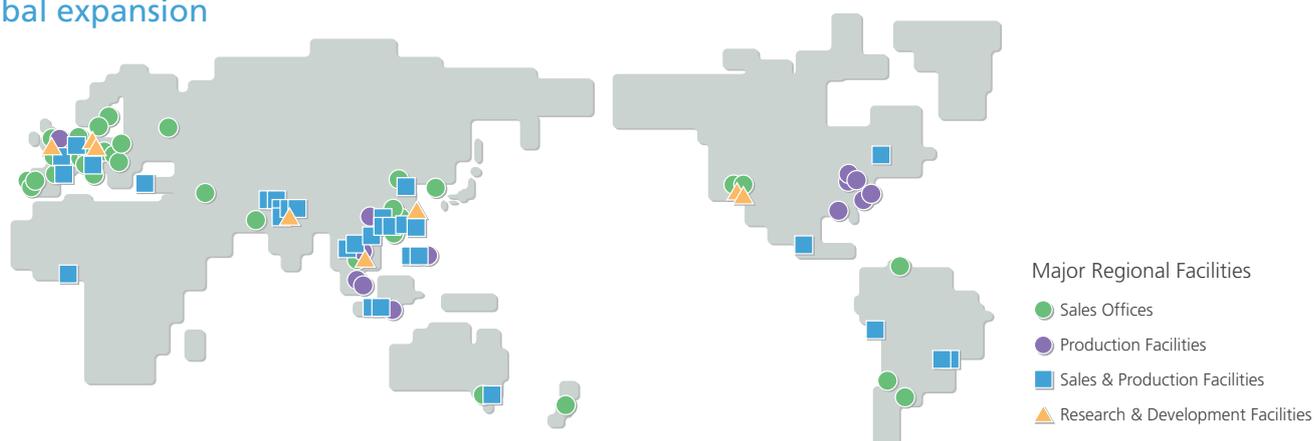
### Power Products

- Power Product Engines
- Tillers
- Marine Outboards
- Generators
- Lawnmowers

## Worldwide sales of motorcycles, automobiles and power products



## Global expansion



### Honda's global operations: expansion through localization

To achieve our goal to provide genuine satisfaction to customers around the world, Honda has developed worldwide operations based on the policy of manufacturing close to the customer.

Our focus on what people all over the world truly need has taken us beyond simply providing the products and services required, and led us to establish production facilities and R&D centers in local communities.

As a result, as of March 31, 2006, Honda manufactures at 134 production facilities in 28 countries, has established 31 research and development centers in 15 countries, and draws strength

from over 140,000 associates worldwide. Sales of motorcycles, automobiles and power products now bring us into contact with over 20 million customers every year.

We empower our global operations by hiring many associates locally, procuring parts locally and collaborating with members of local communities in a wide range of philanthropic activities. Local affiliates enjoy substantial independence, allowing them to manage their own operations and continue expanding Honda's global operations in harmony with local communities.

## Financial information

(Consolidated) (units: millions of yen)	2002	2003	2004	2005	2006	(FY)
Sales and income						
Net sales	7,362,438	7,971,499	8,162,600	8,650,105	9,907,996	
Income before taxes	551,342	609,755	641,927	656,805	814,617	
Net income	362,707	426,662	464,338	486,197	597,033	
Research & development	395,176	436,863	448,967	467,754	510,385	
Capital expenditures	303,424	316,991	287,741	373,980	457,841	
Sales progress						
Japan	1,868,746	1,748,706	1,628,493	1,699,205	1,694,044	
Overseas	5,493,692	6,222,793	6,534,107	6,950,900	8,213,952	
Total	7,362,438	7,971,499	8,162,600	8,650,105	9,907,996	
Average exchange rate (JPY/USD)						
(average for period)	125	122	113	108	113	
Number of employees	120,600	126,900	131,600	137,827	144,785	

CSR Report 2006



Sharing dreams with people everywhere,  
striving to become a company that  
society wants to exist



President & CEO Takeo Fukui

*Takeo Fukui*

### Honda corporate social responsibility: an extension of the Honda philosophy

All Honda activities stem from a corporate philosophy built on the basic principles of respect for the individual and The Three Joys defined by our founder. We believe individuals must respect each other as independent human beings with distinctive personalities. We believe in maintaining relationships based on fairness. And we believe in building trust so that each person's full potential can be realized and we can share true happiness. To maximize The Three Joys of buying, selling and creating, we seek to exceed the expectations of society by providing the highest quality products at a reasonable price.

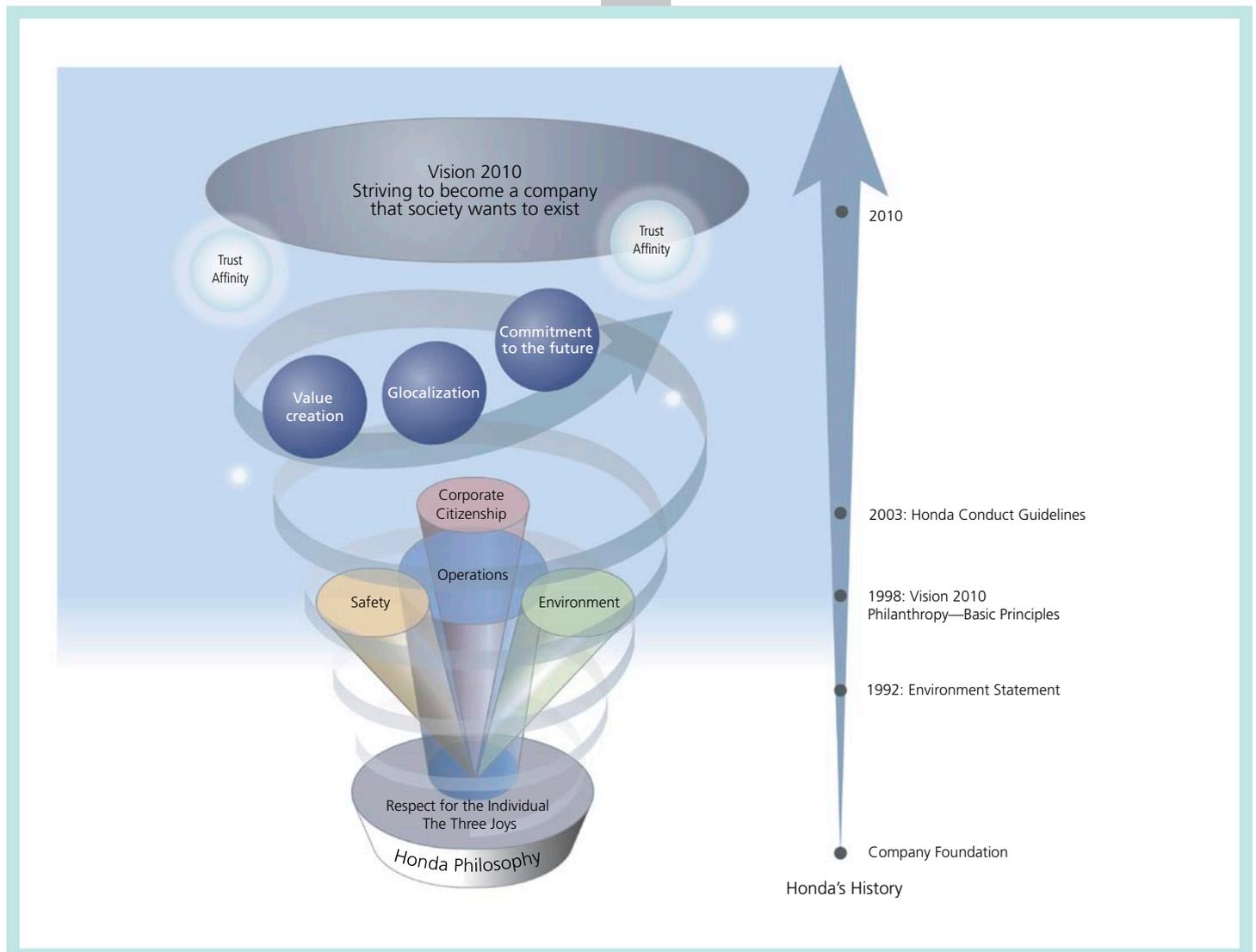
Based on these principles, Honda seeks to share joy with all its stakeholders: customers, partners, associates, shareholders and investors, as well as members of the communities where we live and work worldwide.

Honda proudly accepts its growing corporate social responsibility, seeking to build trust and affinity with people and societies worldwide as we strive to continue the growth we have enjoyed. To this end, we will continue to follow our philosophy in all business operations and philanthropic activities throughout the world, gladly assuming and fulfilling our responsibilities as a corporate citizen.

## Our responsibilities: creating and delivering products of value

Our aim is to be number one in value creation worldwide, so we seek to provide genuine satisfaction to ever-greater numbers of customers. For example, the Super Cub series of motorcycles—first launched in 1958—is now a favorite in more than 160 countries, and at the end of 2005 cumulative production had reached 50 million units. We see such achievements as the result of people the world over appreciating the value of our products. Similarly, in realizing dreams like the creation of the world’s first humanoid robot, ASIMO, our goal is to develop advanced technologies that everyone will truly appreciate.

A key part of our responsibility as a manufacturer is to provide new value in the form of better products and more advanced technologies. Recognizing this, we work constantly to ensure that everything we create is of the highest possible quality.





To provide products that exceed customer expectations, Honda is working to further enhance quality, reinforcing our research and development and manufacturing operations.

In addition, we recognize our responsibilities as an automobile manufacturer in the vital areas of environmental preservation and safety: Honda always aims to go beyond simple compliance with legal regulations as we seek to share joy with societies worldwide. We're leading the way to a greener and safer future.

Honda has always been a leader in the introduction of cleaner vehicles, from the introduction of the CVCC Civic in the 1970s to the development of fuel cell vehicles today. In everything we do, we strive to minimize the environmental impact of our corporate activities.

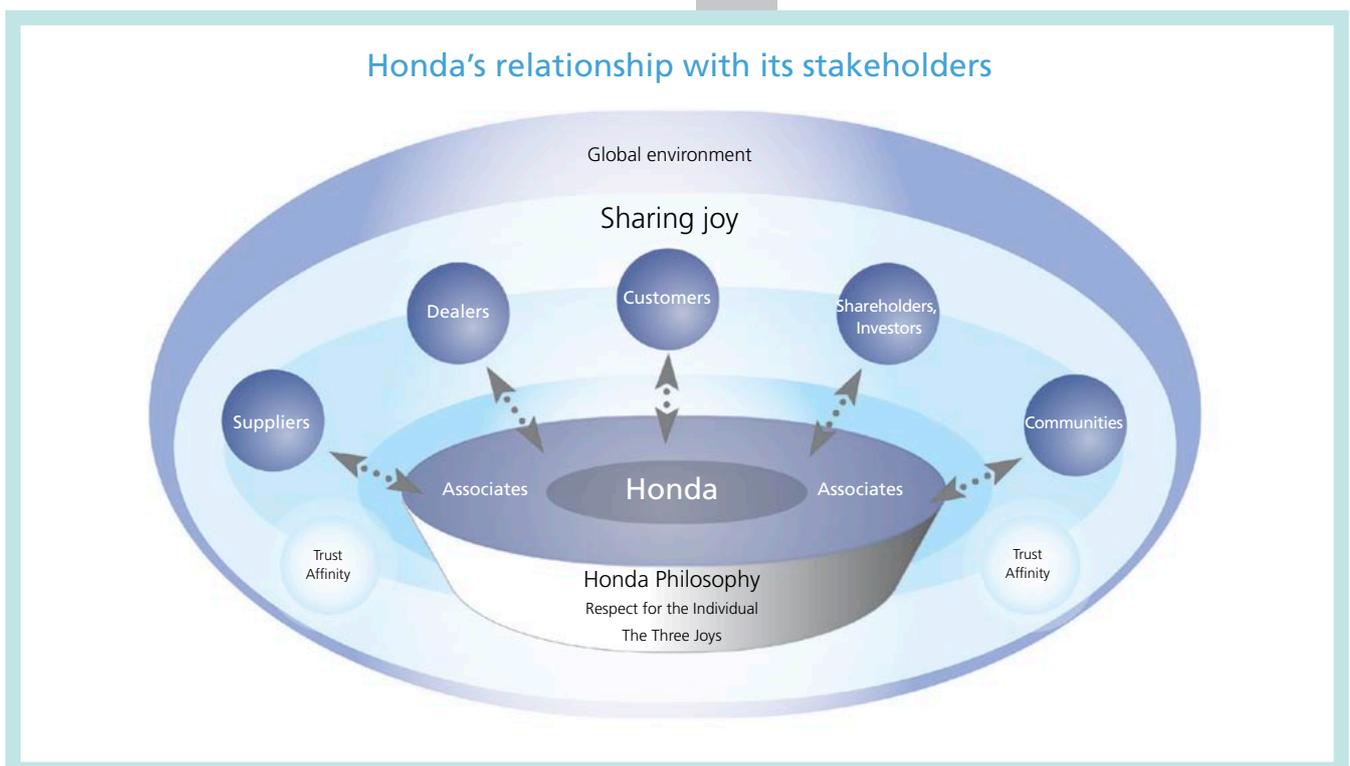
Another of our core beliefs is that safety is the prerequisite

of all true advances in mobility, so a primary focus is the prevention of accidents, and the minimization of injuries and damage resulting when an accident cannot be prevented. From the very beginnings of the company, Honda has been proactive in the promotion of driving safety.

### Earning trust and affinity

We believe a company's first duty is to place no burden on society. Once this is achieved the company must then work even harder, taking positive action to earn the public's trust.

Not only complying with laws and social norms, Honda is also instituting and publicizing appropriate corporate governance and risk management measures aimed at earning the trust of all members of society.



Through proactive engagement with local communities in philanthropic initiatives we seek to deepen our contributions to society.

By establishing Honda Sun Co., Ltd. and Honda Technical College in Japan, as well as Eagle Rock School in the US, Honda is providing opportunities in education and helping those with special needs.

To mark the 50th anniversary of the foundation of the company, Honda defined a set of basic principles to govern its philanthropic activities. By reinforcing efforts to create a future society full of hope and dreams—primarily through initiatives in the three areas of education, environmental preservation and traffic safety—Honda is working to increase and enhance its contributions to society.

## Striving to become a company that society wants to exist

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As part of our efforts to become a company that society wants to exist, Honda focuses all its corporate activities on creating value, expanding value through glocalization, and realizing its commitment to the future.

By creating new value we share joy with our customers. Through glocalization, or development of global operations in harmony with local communities, we expand that joy. And by providing solutions to environmental and safety issues, we help to pass that joy on to future generations.

In order to realize our vision, we consider it essential for each associate to share joy with the societies we live and work in, ensuring that we fulfill our social responsibilities as a company.

We want as many people as possible to feel “I’m glad Honda is there”, and so we aim to be number one in the world in value creation. We require each of our associates to devote his or her

energy to realizing our vision for 2010 of becoming a company that society wants to exist.

In the hope of obtaining a deeper understanding of our activities, we have made every effort to present a clear description in this report of what we’re doing as a company. We invite feedback from all who read it.

Primary Business



## Providing genuine satisfaction to each of our customers in all of the regions of the world

In 1947, at a time when bicycles were as much a means of transporting goods as a mode of personal transportation, Soichiro Honda developed and launched his first product: the A-Type auxiliary engine, attached to bicycles. Driven by the desire to make personal transport more comfortable and convenient, he founded Honda Motor Co., Ltd. in 1948, and Honda introduced its first motorcycle, the Dream D, in 1949. By 2005, Honda Motor Co., Ltd. had produced a total of 150 million motorcycles worldwide. The recent boom in motorcycle production and sales throughout Asia has boosted annual output to more than

10 million bikes, as more and more people recognized the convenience and affordability of Honda products. Honda has continued to grow, developing in accordance with the policy of manufacturing close to the customer. Honda now manufactures products ranging from motorcycles and automobiles to power products such as generators and marine outboards. By acting as a good corporate citizen in local communities, Honda has won fans and earned trust wherever it has established a presence. Throughout today's world, Honda is striving to become a company that society wants to exist.

## Global Super Cub production reaches 50 million units

Honda developed the Super Cub and released it in 1958 with the aim of producing a bike that anyone, including women, could easily ride. Two-stroke engines dominated the market at the time, but Honda equipped the Super Cub with a four-stroke engine for its high power output and superior fuel efficiency. This and many other technological innovations, such as the extensive use of plastic parts for reduced body weight, made the practical, convenient Super Cub a huge and lasting hit. Constantly striving to enhance customer satisfaction, Honda has refined every aspect of the Super Cub, including engine performance, design, ease of riding and use, durability and economy. The Super Cub, now manufactured in 13 countries, has won loyal fans in over 160 countries. By 2005, cumulative global production of the Super Cub had reached 50 million units.



Super Cub 50 today



The first Super Cub



The extended Civic family



Civic Hybrid



Ongoing afforestation

## The 8th-generation Civic: delivering on the promise of value

Honda began developing the Civic in 1970, at a time when Japanese society was rapidly urbanizing and becoming more focused on the automobile. The aim was to create a vehicle of optimal size, performance and economy, while still providing sufficient interior space for a comfortable ride. Introduced in 1972 as “the citizen’s car”, the original Civic featured several important innovations, including front-engine/front-wheel drive, four-wheel independent suspension, an overhead cam engine and a unique trapezoidal platform. By the time the Civic reached its 7th generation, global production had reached 16 million units. In September 2005, the Civic evolved again, with the debut of the 8th-generation model. All 8th-generation Civics, including the hybrid version, are equipped with Honda’s most advanced technology and equipment. They feature Honda’s innovative one-motion profile, enhanced handling and ample interior space. The Civic continues to embody Honda’s commitment to deliver genuine value to customers worldwide.

## Community Forests for the 21st Century: putting down roots in communities worldwide

A company that has expanded and established factories and research and development facilities throughout Japan and the world, Honda began in 1976 to foster a new kind of growth with the Community Forests initiative. This program is intended to help restore and maintain the natural ecosystem surrounding each Honda facility through the planting of groves of indigenous trees. The original inspiration came from the image of a grove of trees in an ancient Japanese village shrine. Moving into the 21st century, the scope of the project has grown to encompass environmental education, community-relations initiatives and other activities. Honda is sowing the seeds of long-term success, growing gradually in harmony with our surroundings and local communities.


 Safety Initiatives

## Working to make people and cars even safer. Creating the mobile society of our dreams.

Respect for the individual, a basic principle of Honda's corporate philosophy, leads us to treat safety as a prerequisite of mobility. That's why enhancing the safety performance of our products has always been an objective of vital importance in our research and development. Different countries each have their own safety standards. We have always worked hard not just to comply with them, but to exceed them—and to lead the way in developing groundbreaking safety technologies.

In the 1970s traffic injuries and fatalities rose dramatically. In response, Honda accelerated its R&D on safety technologies, and in the 1980s introduced the first Japanese-made automobile with ABS and SRS airbags. We have also been a leader in implementing advanced safety technologies on our motorcycles. Today, we continue to equip our products with advanced, intelligent technologies that help ensure

the safety not only of vehicle occupants, but also of cyclists and pedestrians—everyone who uses the roads.

In addition to making vehicles even safer, we are also taking positive steps to address the human factor through driver safety education. The Honda Driving Safety Promotion Center, established in 1970, serves as a focus for these initiatives. Currently we have programs in place in Japan and 20 other countries worldwide. In 1974 we founded the International Association of Traffic and Safety Sciences, which is mandated to help resolve traffic-related issues. Through these and related activities, we are working hard to achieve a safer, happier and more mobile society for us all.

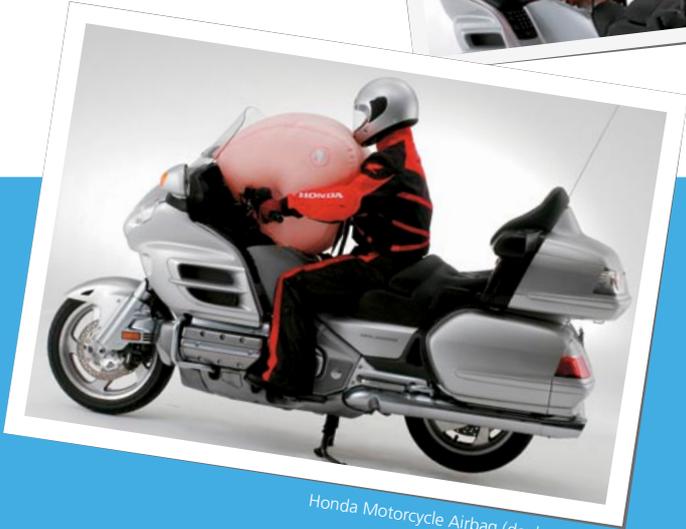


Honda ASV-3 (motorcycle / automobile)

### Advanced Safety Vehicles—the next generation of safety systems

It is estimated that 70% of automobile collisions involving serious injury or fatality are caused by delays in cognition such as when the driver is not focusing sufficient attention on the road. In order to improve traffic safety, therefore, it is necessary to deploy not only technologies that minimize any injuries caused by a collision, but also technologies that prevent collisions from occurring in the first place. In 1991, Honda began contributing to the Advanced Safety Vehicle Project (ASV) under the auspices of the Japanese Ministry of Land, Infrastructure and Transport. Its third phase, ASV-3 (April 2001–March 2006) saw the introduction of Honda ASV-3 vehicles equipped to exchange positional information with

other vehicles using Inter-Vehicle Communication technology. ASV-3 vehicles are also equipped with several new advanced safety technologies developed by Honda: a system that uses cameras and radar to provide drivers with information on approaching vehicles and obstacles in the road; a system that offers driver support through steering- and brake-assist technologies; and an emergency response system designed to facilitate rescue efforts in the event of an accident. Honda is continuing this research with a view to offering some of these technologies in future production vehicles.



Honda Motorcycle Airbag (deployed)



## A world's first for a production vehicle: the Honda Motorcycle Airbag System

In most frontal collisions involving a motorcycle, the rider is thrown from the vehicle by the impact and strikes either the other vehicle or the road surface. Honda began work on the development of a motorcycle airbag to protect the rider as much as possible. By developing advanced computer simulation technology and conducting motorcycle crash tests at its indoor omni-directional Real World Crash Test Facility using motorcycle rider test dummies, Honda has gathered and analyzed a wide array of data on the demeanor of motorcycles during collisions. We applied the expertise gained in developing automobile airbags, then went beyond to resolve some of the challenges specific to motorcycle collisions, and developed the first motorcycle airbag. The system is scheduled for introduction on the new Gold Wing motorcycle in the US in 2006.



## Sharing knowledge around the world: traffic safety programs in the Philippines

Honda has long been involved in traffic safety programs and support activities, especially in Asia, where road infrastructure and education for riders acquiring motorcycle licenses has presented challenges. Honda currently has traffic safety programs in place in 21 countries, including Japan. Nineteen facilities in 13 countries are working to foster safety around the world through dealership-based driver safety promotion and other activities.

As part of these efforts, Honda's motorcycle and automobile affiliates in the Philippines, Honda Philippines Inc. and Honda Cars Philippines Inc., introduced the TeenSMART program at Don Bosco high school in October 2005. TeenSMART is designed to give novice drivers the advanced, real-world skills they need to drive safely and avoid accidents, and focuses on high school students who have not yet obtained their driver's licenses. Students attend lectures on traffic laws and the behavior of other drivers, and participate in hands-on riding safety clinics on the school grounds. In 2006, the program is being expanded to include more high schools in metropolitan areas where accident rates remain high.

## Teaching traffic rules to children: Traffic Safety Caravan

To protect children from traffic accidents, it is important to start teaching them the basics of traffic safety from infancy, as this period has a major influence on their development. The Traffic Safety Caravan is a hands-on traffic safety program for preschool-aged children. The Honda-developed traffic safety education program known as Ayatorii\* Hiyoko is used to explain road safety rules with images, which are presented in a fun way by specialized trainers. The program includes interactive experiences for kids using miniature traffic signals and crosswalks. In 2005 the caravan visited 340 kindergartens and nursery schools in communities in Japan that host Honda facilities.

\* Ayatorii is derived from a Japanese acronym meaning 'simple explanations for traffic safety awareness'. The Hiyoko edition is for preschoolers.



## Tackling environmental problems from a global perspective so future generations can also experience the joy of mobility

Two-stroke engines were once the norm in the motorcycle industry. Then Honda introduced four-stroke engines that generated less exhaust, delivered superior fuel efficiency and had a smaller environmental footprint. This is but one example of how, from early on, Honda developed environment-friendly products in response to the demands of the day. In the US in the 1960s and in Japan in the 1970s, air pollution, urban smog and other pollution-related issues became a major social problem in the US, Japan and other countries. The US signed the Clean Air Act of 1970 into law, requiring airborne contaminants in automobile exhaust be reduced 90% by 1976. Although

many thought such tough standards were unachievable, Honda took up the challenge. With the development of the CVCC engine in 1972, it became the first auto manufacturer in the world to meet the Clean Air Act's criteria. Two decades later, Honda publicly defined its approach to environment issues with the 1992 Honda Environment Statement.

As a responsible global company, Honda naturally recognizes its responsibility for the environment. Honda considers itself a global citizen, and as such continues to act on its commitment to environmental preservation—for the good of all, including future generations.

### Fuel cell vehicles: aiming for the ultimate clean car

Fuel cell vehicles are powered by electric motors that run on electricity generated by the chemical reaction between hydrogen and oxygen. They use no gasoline, generate no CO<sub>2</sub> emissions and emit only water; they are perhaps the ultimate clean cars. In 1999 Honda introduced experimental FCX cars equipped with two different types of fuel cells. It then pursued improvements in practicality and range. In 2002 Honda acquired certification from the Japanese Ministry of Land, Infrastructure and Transport. In the same year, it became the first to receive US government certification for a fuel cell vehicle. Fuel cell vehicles were delivered simultaneously to both the Japanese Cabinet Office and the City of Los Angeles in December of that year.

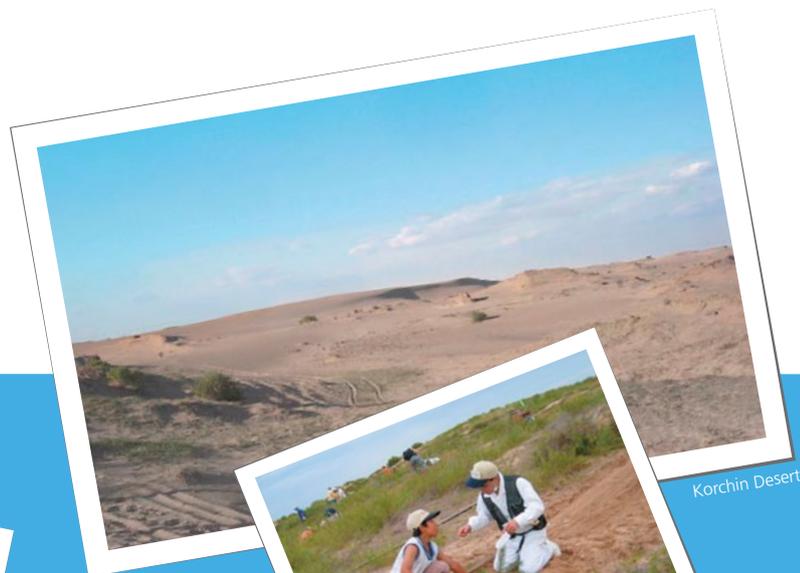
The Honda FC Stack, a next-generation fuel cell that can operate at -20°C, was introduced in 2003. June 2005 witnessed the world's first leasing of an FCX fuel cell vehicle to an individual customer in the US, and Honda continues to make steady advances toward the large-scale commercialization of fuel cell vehicles. Since the development of the Civic CVCC engine, Honda has embraced the challenge of improving combustion technology for gasoline engines. It has also developed an array of clean power trains and automobiles, including electric cars, natural gas-powered cars and hybrids. Honda will continue to move forward toward cleaner mobility.



First Honda FCX leased to an individual



Honda FC Stack



Korchin Desert



Next-generation, thin-membrane solar cell panels on Honda's Wako Building

## Manufacturing solar cells for cleaner energy

Honda began developing solar energy technology as part of its program to optimize energy savings and reduce automobile-related air pollution. A non-silicon solar cell was chosen for development as its manufacture produces less CO<sub>2</sub> and consumes approximately 50% less energy than conventional silicon solar cells. Superior photoelectric conversion rates have also been achieved.

Honda's first step in the practical application of this new type of solar cell was taken in the spring of 2002 when they were put into use at twelve research facilities and factories in Japan and three overseas locations. Valuable data was collected under a variety of conditions. The next step begins this year: starting in the latter half of 2006, sales will be launched in a limited area. Then, in 2007, commercial production is scheduled to begin at Honda's Kumamoto Factory.

The development of solar cells is not only about creating a clean energy source. It is also about creating hydrogen, which is indispensable for the proliferation of fuel cell vehicles. The aim is widely distributed power generation stations that use solar cells for hydrogen production. With a vision that extends both to creating the ultimate clean car and a clean source of energy to serve as its fuel, the Honda Group is working to make good on its commitment to the environment.

## The Joyful Forest Project: planting hope in the Chinese desert

The Joyful Forest Project is a massive, 30-year undertaking in the Korchin Desert, within the Autonomous Region of Mongolia in the People's Republic of China. Its goal is to use afforestation and agriculture to reclaim habitable areas so that people and nature can productively coexist. The project, which is based on a partnership between the Desert Planting Volunteer Association and Honda, began in 2000 with the participation of the local community. To date approximately 67,000 trees have been planted. In addition to Honda's financial support and operational planning, Honda associates, retirees and their families voluntarily participate in tree-planting tours. Their objective is to increase awareness among local school children of the importance of such a collaborative afforestation effort. But the Joyful Forest Project isn't just about helping people plant trees. It's about transcending national boundaries and fulfilling our commitment to the next generation.



Corporate Citizenship Initiatives

## Putting down roots in communities worldwide, and playing our part as corporate citizens to help build a better tomorrow

Honda seeks to be a good corporate citizen and strives for harmonious coexistence by becoming part of the communities that host our facilities. Opening our doors for factory tours, participating in local festivals, leading clean-up campaigns and fostering the growth of forests around our facilities, we're engaging in a broad range of initiatives.

Since establishing Honda Sun Co., Ltd. in 1981 we've been making an extra effort to provide employment

opportunities for individuals with disabilities. Overseas, our approach is equally progressive. In 1994, we opened Eagle Rock School in Colorado, US, to give students facing challenges a new chance to succeed. In 1998, on the 50th anniversary of the company's foundation, a new corporate vision was defined for our philanthropic initiatives. We are now redoubling our efforts in the vital areas of education, environmental preservation and traffic safety.

### Extending the pleasure of mobility to everyone: Honda Techmatic System, Honda Franz System

Honda is striving to extend the pleasures of a mobile lifestyle to as many people as possible by providing safe, comfortable, accessible transportation. We seek to provide more opportunities for people with disabilities to realize their full potential. The automobile can empower people to participate freely in society, and special equipment is required to meet the needs of individuals with various types of disability. The Honda Techmatic System was developed in 1976 to help people with disabilities drive easily and in comfort. This versatile system allows users to select equipment according to their individual needs. Options include a manual driving supplemental device, left-foot-operated accelerator pedal, and steering aid knob. In 1981, Honda introduced the Honda Franz System, a foot-operated driving system for people with disabilities in both arms. It remains the only such system available in Japan. (For more information, see p50.)



Honda Techmatic System



Honda Franz System



Hard at work at Honda Sun

### A workplace that welcomes people with disabilities: Honda Sun

In 1975, when Soichiro Honda visited Japan Sun Industries—a facility designed to provide people with disabilities an opportunity to work and participate more fully in society—he identified with the motto of its founder: “There are people with mental and physical disabilities around us, but there is no such thing as ‘disability’ when it comes to work.” In 1981, Honda Sun Co., Ltd. was founded, and ever since the company has been engaged in the production of components for Honda motorcycles, automobiles and power products. In 1995, the Hiji Plant was opened to expand the work opportunities offered to individuals with disabilities. The factory and residential quarters are designed to accommodate people with special needs, allowing even those with more serious disabilities to enjoy their work and enhance their lives. The facility is also environment-friendly, and in 1999 attained ISO 14001 certification. In 1992, Honda Sun R&D Co., Ltd. was established to handle CAD design, and also conduct research and development related to transportation and special-needs equipment. Associates are active in wheelchair marathons, swimming, Paralympics and many other events.



### A school that provides a life-changing experience: Eagle Rock School

Just outside the town of Estes Park, Colorado, in the foothills of the Rocky Mountains, American Honda Motor Co., Inc. established Eagle Rock School in an effort to further its long-term commitment of contributing to society in areas beyond the imperatives of the company’s day-to-day operations. This boarding school accepts students who have not experienced success in traditional academic programs or who do not expect to graduate from high school, but are passionate about changing their lives. The school does not assign grades for courses (and therefore there are no failures) and does not seek to impose restrictions of time or place. The program is individually structured with an emphasis on students discovering who they are as individuals, what their dreams are, and what they need to learn in order to realize those dreams. What is important is for each of the students to record, express and verify for themselves what they have learned and how they have grown from their experience. Through classes and communal living, students learn the value of visualizing their dreams and working to realize them.

With only 96 students, the school is annexed to an educational training facility and receives numerous visits each year from those active in education and related fields. Eagle Rock School’s mission is to foster young people who have the desire and the determination to make a difference in the world. The school also hopes to exert a positive influence on other educators and help plant the seeds of educational reform.



Dreams & Advanced Technology

## Advanced technology and inspiration turning dreams into reality

In 1954, when the company was barely known outside Japan, Honda announced its intention to compete in the Isle of Man TT motorcycle races—then the most prestigious motorcycle competition in the world. In 1961, Honda rode to a decisive victory, sweeping the top five places. Three years later, in 1964, Honda took up the challenge of Formula One, the pinnacle of international car racing, and scored its first victory the following year.

Next, Honda applied the lessons of the racetrack to the development of low-emission engine technology, resulting in the 1972 introduction of the revolutionary CVCC, the world's first engine to comply with the stringent requirements of the US Clean Air Act.

To realize the dream of bringing the cartoon character Astro Boy to life, Honda began exploring the principles of bipedal locomotion in 1986. By 2000, the two-legged humanoid robot ASIMO was taking bows worldwide. More recently, founder Soichiro Honda's dream of taking the company into another dimension of mobility was realized as the HondaJet took to the skies.

Honda has always aimed high, pursuing lofty dreams and rising to the challenge of fulfilling them—an approach that has led Honda to some amazing breakthroughs in mobility. Propelled by the power of dreams, Honda will continue the work of turning inspiration into reality.

### Challenging the limits of mobility: ASIMO, the humanoid robot

Honda dreamed of creating a new form of mobility—a two-legged humanoid robot—that would live in harmony with people and offer unique benefits to society. The company began working on realizing this dream in 1986, when it started its research on robots. In 1996, while such ideas were still considered fanciful, Honda developed P2, an autonomous humanoid robot. In 2000, Honda's ongoing efforts to enhance the robot's performance while reducing its size and weight led to the introduction of ASIMO, the humanoid robot.

In recent years, Honda has continued to refine ASIMO in the hope that robots may soon be able to help people in their homes and beyond. Debuting in 2005, the latest incarnation of ASIMO is capable of so effectively imitating human movement that it can actually hold hands and walk with a person—a feat Honda accomplished by increasing the robot's sensor count and enhancing sensor performance. Other physical abilities have also been improved. For example, ASIMO can now run at a speed of 6 kph—double the speed of previous models.

It is Honda's dream that ASIMO will truly be of service to humankind, enriching the lives of individuals as well as society as a whole.



ASIMO



### A new dimension of mobility: HondaJet

Since the company's foundation, Honda has dreamed of entering the aviation industry. We first took up the challenge in 1986, beginning research on compact business jets using engines provided by other manufacturers. In 1993, we conducted the first test flight of an experimental jet featuring an all-composite body. While continuing the development of a proprietary engine, Honda began designing a highly aerodynamic, fuel-efficient aircraft body, incorporating advanced Honda technologies in the innovative wing design, the fuselage and other key components.

Honda then developed the experimental HondaJet, with a groundbreaking design that features a significantly larger cabin, as well as fuel efficiency superior to other planes in its class. In December 2003, Honda began test flights of the HondaJet equipped with a Honda engine, the HF118 turbofan—a double feat rarely achieved in the aerospace industry.



Experimental HondaJet



Children's Idea Contest—final judging



The ASIMO Prize—ASIMO visits contest winners' schools

### The joy of helping children bring dreams to life: Children's Idea Contest

The Children's Idea Contest arose from the idea of helping children experience the joy of dreaming and the delight of creating. In the first stage, the contest invites elementary school children from all over Japan to imagine something they think would be really cool, draw a picture of it and send it in. Children are free to draw whatever they want. The top entries are selected by a panel of judges, and the children are then invited to make models of their ideas. Increased participation—from 70 groups and 122 people when it was first held in 2002, to 4,011 groups and 4,500 people for the fourth contest in 2005—is just one indication of the event's growing success. Honda's humanoid robot ASIMO, which represents the realization of one of Honda's own dreams, visits the schools of children who win the top two prizes and teaches a special class. The goal of the contest is to give children the opportunity to experience the wonder and delight of achieving one's dreams.

In 2005, the contest expanded to Thailand, and an exchange of participants between the Thai and Japanese contests will begin in 2006.



Winners of the Children's Idea Contest in Thailand

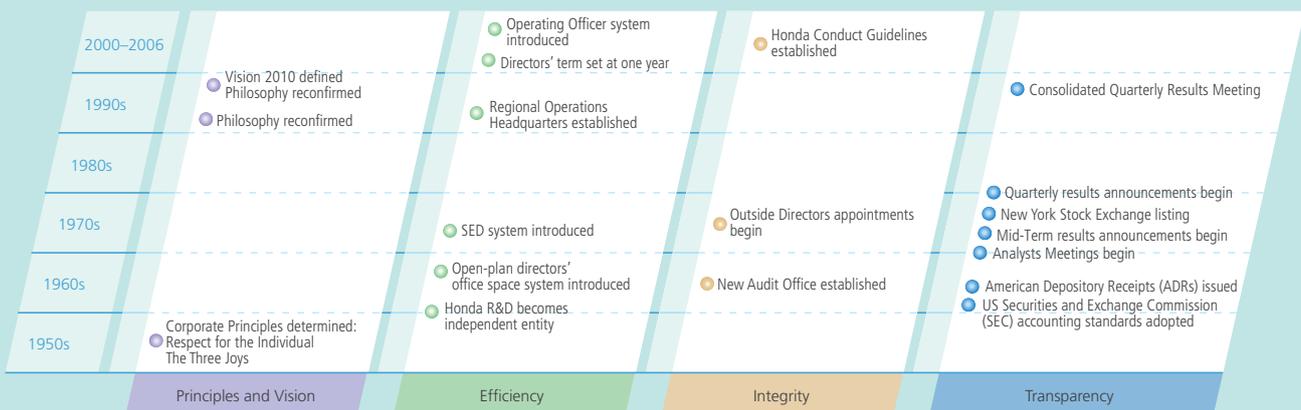
Corporate Governance



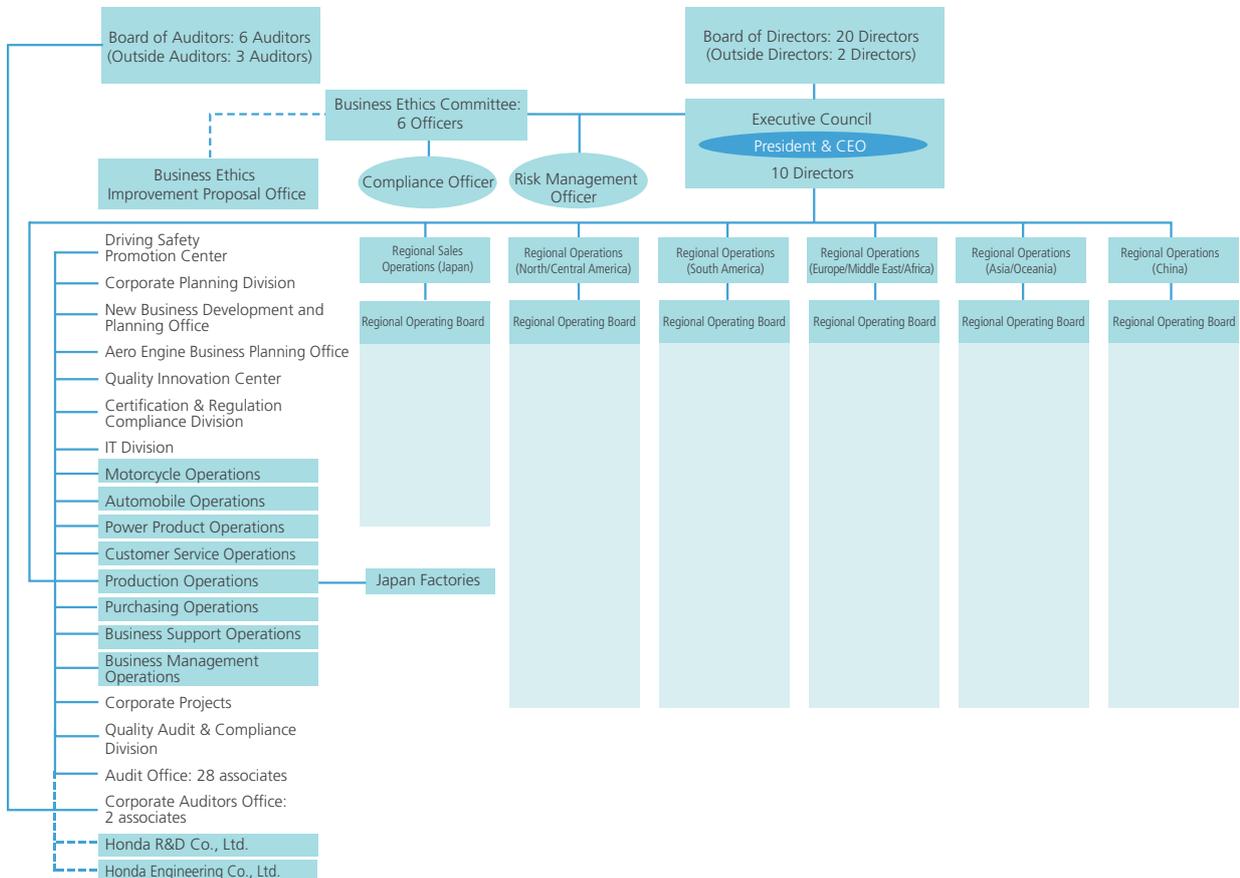
# Corporate governance: basic stance

Based on its fundamental corporate philosophy, Honda is working to enhance corporate governance as one of its most important management issues. Our aim is to have our customers and society, as well as our shareholders and investors, place even greater trust in us and to ensure that Honda is a company that society wants to exist.

## Corporate governance: progress



## Corporate governance: organization



As of June 23, 2006

## Management structure

### Board of Directors

The Board of Directors consists of 20 directors, including two outside directors, and determines important matters that are related to business execution or that are designated by law, and supervises business execution. In June 2005, Honda introduced an operating officer system aiming at strengthening its business execution and improving flexibility in decision-making at the Board of Directors. Honda has also increased the number of outside directors to strengthen the supervisory functions of the Board of Directors.

The Board of Directors met nine times in fiscal 2006.

### Board of Corporate Auditors

The Board of Corporate Auditors consists of six corporate auditors, including three outside corporate auditors. In accordance with Honda auditing standards, auditing policies, apportionment of responsibilities and other such matters as determined by the Board of Corporate Auditors, each corporate auditor audits the directors' execution of duties. Corporate auditors accomplish these audits through various means, including attending meetings of the Board of Directors and inspecting the state of the company's assets and liabilities. In addition, a Corporate Auditors Office has been established to provide direct support to the Board of Corporate Auditors. In fiscal 2006, the Board of Corporate Auditors met 14 times.

The Board of Corporate Auditors has certified Shinichi Sakamoto, a Honda corporate auditor, as an 'audit committee financial expert', as defined in the rules of the Securities and Exchange Commission pursuant to Section 407 of the US Sarbanes-Oxley Act of 2002.

In fiscal 2006, meetings between Honda's corporate auditors and its independent auditor were held on five occasions. At those meetings, the independent auditor provided the corporate auditors with explanations and reports on accounting audit plans and results, and opinions were exchanged.

The corporate auditors coordinate closely with the Audit Office, which is responsible for internal audits, with respect to audit policies and schedules. In fiscal 2006, corporate auditors and the Audit Office, either independently or in collaboration, conducted business audits of a total of 128 companies among Honda's Japan and overseas subsidiaries and affiliates.

### Directors' remuneration

The total amount of remuneration and bonuses of directors and corporate auditors is determined according to criteria that reflect their performance. Remuneration for directors and corporate auditors is paid based on criteria approved by the Board of Directors, and it is paid within the extent of the maximum amount resolved by the Ordinary General Meeting of Shareholders. Bonuses for directors and corporate auditors are paid based on decisions of the Ordinary General Meeting of Shareholders, taking into consideration the company's profits during the fiscal year, past bonuses paid and various other factors.

### Decisions regarding director candidates

Candidates for director are nominated and appointed by the Board of Directors. Candidates for corporate auditor are nominated and appointed by resolution of the Board of Directors, subject to agreement of the Board of Corporate Auditors.

### Accounting audits

In order to ensure proper auditing of the company's accounts, the Board of Corporate Auditors and the Board of Directors receive auditing reports based on the Commercial Code's Audit Special Exceptions Law (Company Law since fiscal 2007), the Securities and Exchange Law and the US Securities Exchange Act. In addition, they supervise the election of independent auditors, their remuneration and their non-audit services.

In fiscal 2005, the company elected Ernst & Young ShinNihon as its independent auditor under the Commercial Code's Audit Special Exceptions Law and the Securities and Exchange Law, and elected AZSA & Co. as its independent auditor under the US Securities Exchange Act.

In fiscal 2006, the company elected AZSA & Co. as its independent auditor under Japanese laws, thus having the same independent auditor under both US and Japanese law, in order to ensure an efficient Group-wide auditing system.



## Business execution system

### Organization

Honda has six regional operations around the world to execute and develop business based on its fundamental corporate philosophy. These operations adopt long-term perspectives and maintain close ties with local communities.

Honda's four business operations—motorcycles, automobiles, power products and components—formulate the medium- and long-term plans for their business development, and each operation aims to maximize its business performance on a global basis.

Each functional operation—such as Customer Service Operations, Production Operations, Purchasing Operations, Business Management Operations and Business Support Operations—supports the other functional operations, with the aim of increasing Honda's effectiveness and efficiencies.

Research and development activities are conducted principally at Honda's independent subsidiaries. Honda R&D Co., Ltd., is responsible for research and development on products, while Honda Engineering Co., Ltd., handles research and development in the area of production technology. Honda proactively carries out research and development in advanced technologies with the aim of creating products that are distinctive and internationally competitive.

### Business Execution Officer System

Honda assigns a general manager from the Board of Directors or an operating officer to each regional, business and functional division, as well as to each research and development subsidiary. By ensuring swift, optimal decision-making in each region and workplace, Honda is building a highly effective and efficient business execution system.

## Management Council

Honda has established the Management Council, which consists of 10 Representative Directors. Along with discussing in advance the matters to be addressed at meetings of the Board of Directors, the Management Council discusses important management issues within the scope of authority conferred upon it by the Board of Directors. The Management Council met 22 times in fiscal 2006.

## Regional Operating Councils

To enhance the independence of each regional operation and ensure swift decision-making, regional operating councils have been established at each regional operation to discuss important management issues in the region within the scope of authority conferred upon it by the Management Council.

## Internal control systems

### Fundamental approach

To earn the trust of customers and society, Honda's divisions, under the guidance of their respective directors-in-charge, have frameworks in place to ensure a systematic approach to compliance and risk management. These include formulation of behavioral guidelines and procedures for self-assessment. Honda also has a system to support the initiatives of each division. Moreover, effective audits are carried out to monitor the execution status of each division.

### Group governance system

#### • Behavioral guidelines

The Honda Conduct Guidelines, formulated to guide the behavior of all employees, is posted on the Honda Worldwide website (<http://world.honda.com/conductguideline/>). In addition, each division produces more detailed behavioral guidelines according to its specific attributes.

#### • Self-assessment checklist

Each division approaches compliance and risk management in a systematic way. For example, each division has a checklist that clarifies specific laws and risks to consider related to its particular business, and conducts regular self-assessments. The results of such assessments are reported to the director in charge of each division, and the overall status of compliance and risk management is evaluated regularly by the Management Council.

## Compliance system

Honda has appointed a Compliance Officer, who is a director in charge of compliance-related initiatives. Other key elements of our compliance system include the Business Ethics Committee and the Business Ethics Improvement Proposal Line.

### • Business Ethics Committee

Honda's Business Ethics Committee is chaired by the Compliance Officer and consists of directors and corporate officers. The Committee deliberates matters related to corporate ethics and compliance. It met four times in fiscal 2006.

### • Business Ethics Improvement Proposal Office

Honda places high priority on open communications. It has also set up the Business Ethics Improvement Proposal Office to receive suggestions related to corporate ethics issues. By devising appropriate responses to suggestions received, Honda is constantly working to enhance corporate ethics. The system is designed to ensure the protection of those who provide information, who can either use their real name or remain anonymous. The Business Ethics Committee supervises the operation of the Business Ethics Improvement Proposal Line and submits status reports to the Board of Corporate Auditors.

## Risk management system

Each division works to address and mitigate its particular set of risks. In addition, the Honda Crisis Response Rules are designed to address company-wide crises, such as major natural disasters. Honda has appointed a Risk Management Officer, who is a director in charge of risk management-related initiatives. It has also established the Company-Wide Response Headquarters to address crisis situations.

## Storage and management of information on execution of business by directors

Documents and other information related to the execution of business by directors are stored and managed appropriately, according to the document management policies of Honda Motor Co., Ltd. and its affiliates.

## Business audits

The Audit Office is an independent supervisory department under the direct control of the President. This office audits the performance of each department and works to improve the internal auditing of affiliates.

## Disclosure Committee

The Disclosure Committee, which consists of members of the Board of Directors, deliberates matters related to the accuracy and appropriateness of corporate information to be disclosed in business results announcements and financial reports.



## Safety for everyone in our mobile society

Honda's goal is greater safety for everyone in our highly mobile society. That's why our safety considerations go beyond protecting the people who use Honda cars and motorcycles to include the occupants of other vehicles, cyclists and pedestrians. We're tackling safety issues from both product and educational perspectives, working to ensure that our vehicles deliver the best possible safety performance while also promoting safe driving skills and awareness among our customers and society at large. Honda has always been strongly aware of the importance of *active safety*—the prevention of accidents before they occur—and has been proactively involved in promoting driving safety to address the human factor in accident prevention. Our proactivity is also amply displayed on the product side as well, as we lead the way in applying intelligent technology and introducing original preventive safety designs and devices.



## Automotive safety technology

### Applying a full range of innovative safety technologies to prevent accidents and minimize injuries

Honda has always been in the vanguard of safety, researching and developing its own advanced technologies and leading the way in bringing to market devices now employed in most automobiles. For example, we were the first automaker in Japan to introduce 3-point seatbelts, the Anti-lock Braking System and SRS airbags. And Honda continues to lead the way forward, creating technologies and devices that enhance safety at every stage, including accident prevention, hazard avoidance, injury minimization and post-accident measures. We support driving safety by developing and implementing leading-edge equipment and systems that feature intelligent technologies, including car bodies designed to help ensure occupant and pedestrian safety.

## Advances in Honda safety

	ACTIVE SAFETY			PRE-CRASH SAFETY	PASSIVE SAFETY		
	Accident Prevention	Hazard Avoidance	Pre-Crash Safety	Injury Minimization			Post-Accident
				Safety Body	Seatbelts	Airbags	
2000s	★2004 Intelligent Night Vision System 2003 AFS 2002 HiDS		★2003 Collision Mitigation Brake System (CMBS) + E-Pretensioners	2003 Advanced Compatibility Engineering body	2003 E-Pretensioner seatbelts	2002 Side curtain airbag system	2003 QQ Call
1990s	1997 High-intensity-discharge headlights	★1997 FWD VSA ★1997 EBD		1998 New collision safety body 1998 Pedestrian injury-reduction safety body 1993 Omni-directional collision safety body	1997 Pretensioner ELR seatbelts with load limiters ★1990 Seatbelt pretensioners	★1998 i-SRS airbag system for driver and front passenger ★1990 SRS airbag system for front passenger	1998 Collision detection door-lock release system
1980s		★1989 FWD TCS ★1987 4WS ★1982 ABS				★1987 SRS airbag system	
1970s	1979 Halogen headlights				1976 3-point ELR seatbelts		
1960s		1960 Disc brakes		1967 Monocoque body	★1964 3-point seatbelts		

★ World's first   ★ First in Japan

For more information: <http://world.honda.com/safety/>



## ACTIVE SAFETY

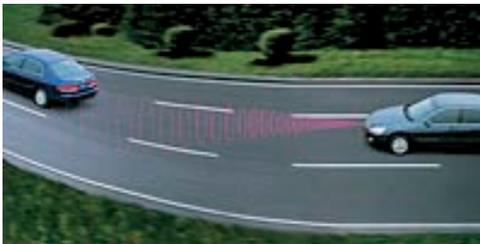
Preventive safety technologies: helping drivers avoid accidents

### Prevention

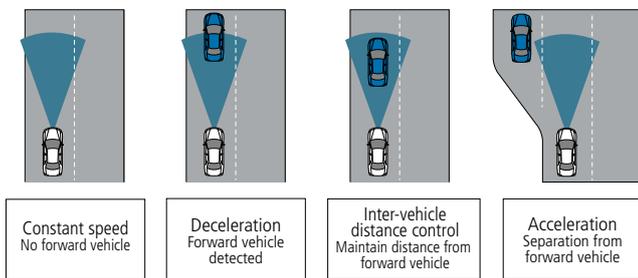
#### Driver support and accident prevention

#### Honda Intelligent Driver Support System (HiDS)

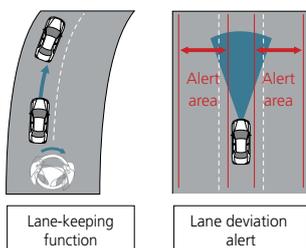
The Honda Intelligent Driver Support System combines Intelligent Highway Cruise Control (IHCC) which helps maintain a constant distance from the vehicle ahead, with Lane Keep Assist System (LKAS), which helps keep the vehicle in the correct lane to reduce the burden on the driver during highway driving.



IHCC with Vehicle Speed and Inter-Vehicle Distance Control Functions



LKAS operation



#### Adaptive Front Lighting System (AFS)

When going around a curve or turning the corner at an intersection, the headlights swivel in coordination with steering to illuminate a larger area of the road surface ahead throughout the curve.



AFS operation

#### Intelligent Night Vision System

During nighttime driving, the Intelligent Night Vision System displays an image obtained from two far infrared cameras and alerts the driver when it detects a pedestrian, using visual and audio cautions.



Image as seen by naked eye



Image seen through Intelligent Night Vision System

#### Hazard avoidance

#### Vehicle control to avoid imminent danger

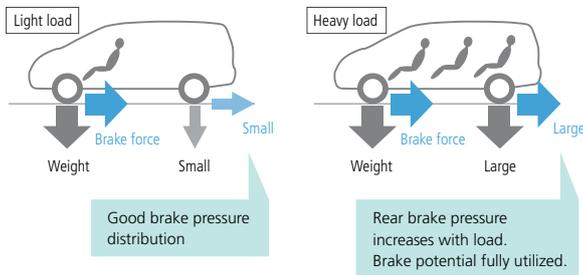
#### Anti-lock Braking System (ABS)

During emergency braking on wet roads, snow or other slippery surfaces, a computer helps implement swift and precise brake pumping to prevent wheel lock.

### Electronic Brake-force Distribution system (EBD)

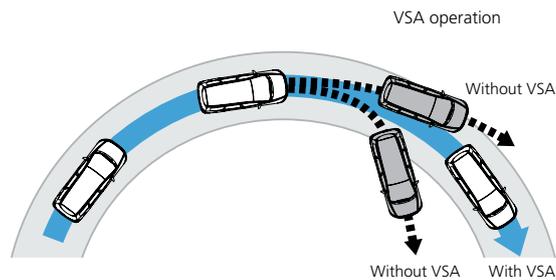
EBD electronically controls front/rear brake pressure distribution according to front/rear weight distribution. This system improves braking stability and performance, particularly with heavy loads.

EBD operation



### Vehicle Stability Assist system (VSA)

VSA combines a sideslip control system with ABS and Traction Control System (TCS) to assist the driver in maintaining control during sudden maneuvers.



### Honda ASV-3 Advanced Safety Research Vehicle

The Advanced Safety Vehicle (ASV) was developed to help prevent accidents and reduce injuries by employing advanced technologies to create an intelligent vehicle with significantly improved safety performance. The Honda ASV-3 advanced safety research vehicle, unveiled in 2005, was designed to exchange positional information with other vehicles using Inter-Vehicle Communication technology. (For more information, see p11.)



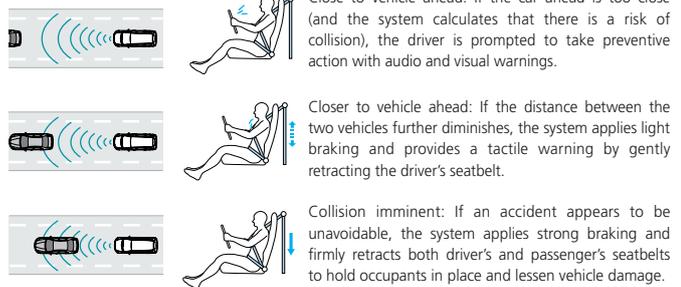
## PRE-CRASH SAFETY

Advanced safety technologies bridging the gap between active and passive safety

### Collision Mitigation Brake System (CMBS)

#### + E-Pretensioners

The system uses millimeter-wave radar to predict collisions and provides brake assist as well as retracting seatbelts, prompting the driver to take action to avoid an accident and helping to mitigate occupant injuries and vehicle damage in the event of an accident.



## PASSIVE SAFETY

Collision safety technologies that minimize injuries in the event of an accident

### Injury minimization

Softening impacts to minimize injuries in collisions



### Side curtain airbag system

In a side collision, side curtain airbags protect vehicle occupants of all sizes, from children to adults, against head and neck injuries. The side curtain airbag deploys over a wide area to offer protection to both front and rear seat occupants, especially against head impacts to the center pillar.



### New collision safety design body

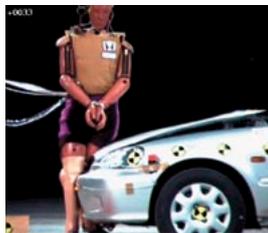
Honda has been an industry leader in adopting body designs that ensure a high level of collision safety, employing its original G-force control technology to reduce the force transmitted to occupants while maintaining a strong survival zone.





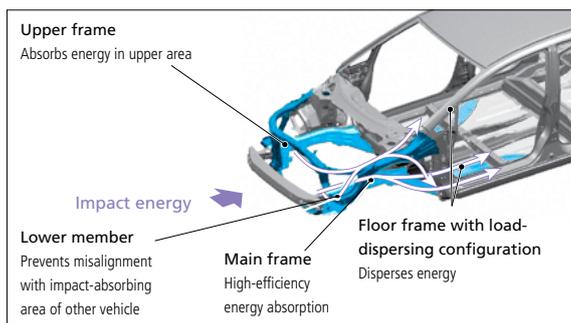
### Pedestrian injury-reduction body

Honda's pedestrian injury-reduction body features a hood that deforms to absorb the force of a collision, lessening the impact on a pedestrian's head and preserving a space between the hood and rigid engine components, as well as hood hinges and other parts that deform to help absorb impact. The latest design expands the areas of injury reduction to include a pedestrian's lower limbs, which are especially prone to serious injury.



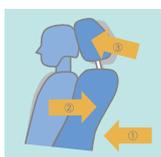
### Advanced Compatibility Engineering (ACE) body

The Advanced Compatibility Engineering body was developed to disperse the force of a collision and efficiently absorb impact energy, while preventing misalignment with the impact-absorbing frame members of another vehicle in a collision. High-efficiency energy absorption in the engine compartment ensures high levels of occupant protection, and at the same time helps reduce damage to the other vehicle.



### Active headrests

Rear-end collisions forcefully press occupants back into the seat, activating a link mechanism in the seatback that moves the headrest forward to support the head.



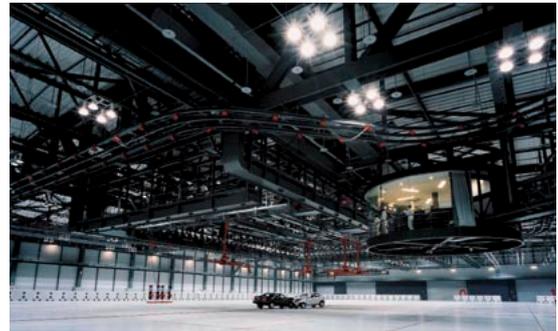
- 1 Collision from rear
- 2 Occupant's body is forced back into the seat, pressing on a plastic plate built into the seatback
- 3 Parallel linkage operates, pushing the headrest up and forward

## Crash safety testing

### Crash testing that replicates real-world conditions

#### The world's first indoor omni-directional Real World Crash Test Facility

To replicate actual crash conditions as faithfully as possible, Honda performs crash tests with cars of different sizes colliding with each other at various angles. Crash tests using Honda's pedestrian dummies help in the collection of more accurate data for research and analysis.



#### Development of world's first pedestrian dummy

In 1998, Honda unveiled the world's first pedestrian crash-test dummy for use in analyzing what happens when a pedestrian is struck by a car. The results were used to determine which parts of the car contribute to pedestrian injury. This helped us design automobile bodies that lessen head injuries in the event of a collision. Honda's 2nd-generation pedestrian dummy was unveiled in 2000. Its legs, which replicated human anatomical structure right down to the menisci in the knees, allow researchers to study serious injuries to the lower limbs.



## Post-accident measures

### Minimizing post-accident dangers

#### QQ Call

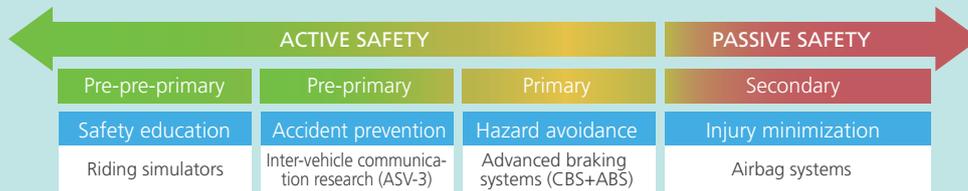
QQ Call is an optional emergency road assistance service for members of Honda's InterNavi Premium Club in Japan. The call center is available 24 hours a day, 365 days a year to contact emergency services on behalf of the driver and provide quick and comprehensive assistance in the event of an accident.



## Motorcycle safety technology

### Research and development for enhanced motorcycle safety

We're working to make motorcycles even safer and more fun. As the world's leading motorcycle manufacturer, we pursue research and development on every aspect of safety technology. Our efforts focus on active safety, including riding safety education, accident prevention and hazard avoidance, and passive safety for the minimization of injuries and vehicle damage.



## ACTIVE SAFETY

### Safety education

Honda has developed original riding safety training products and technologies, such as the Riding Simulator, which allows riders to experience danger in safety. The Riding Trainer is a more compact and affordable implementation of this interactive training technology. Honda is expanding the availability of both products, distributing them mainly to motorcycle dealerships in Japan and overseas.



### Accident prevention

The Honda ASV-3 motorcycle, unveiled in September 2005, is designed to be easier to detect and provide the rider better visibility. Equipped with front and rear cameras that relay information to a display to help the rider anticipate and avoid accidents, the vehicle also features a design that is easier for other riders and drivers to spot. Honda's efforts to improve traffic safety continue through research in inter-vehicle communication. (For more information, see p11.)



### Hazard avoidance

Honda is developing advanced braking systems such as the Combined Brake System (CBS) and the Anti-lock Braking System (ABS) to ensure more effective braking. In accordance with its August 2004 commitment, Honda is expanding the number of motorcycles available with these features in accordance with the characteristics of the models and the regions in which they are sold.

### August 2004 Commitment

- Honda will equip all new 250cc class or larger touring and sports motorcycles and large scooters with an advanced combined brake system, incorporating a conventional brake with an Anti-lock Braking System by the end of 2007.
- By the end of 2010, all Honda motorcycles 250cc class or larger, except off-road models, will be equipped with this type of brake. On- and off-road models will be equipped with ABS.

## PASSIVE SAFETY

### Injury minimization

The motorcycle airbag is the product of many years of research and development at Honda. We took full advantage of advances in automobile airbag technology, but developing this new device also required that we overcome a number of important issues specific to motorcycles, including analysis of collision conditions. (For more information, see page 12.)



### Signatory to the European Road Safety Charter

The European Road Safety Charter, one of the initiatives being implemented by the European Commission in its effort to cut traffic fatalities in half by 2010, challenges governments and corporations to take voluntary measures beyond those required by law. Honda became a founding signatory in April 2004, committing to expanding the application of its Advanced Braking Systems for motorcycles. Then, in November 2005, Honda signed an addendum committing the company to supply 1,000 Riding Trainers by 2007. Honda has taken a position appropriate for Europe's leading motorcycle manufacturer—treating safety as the top priority.



European Commission Road Safety Committee Chairman and Yasuhisa Maekawa, then Vice President of Honda Motor Europe, at the signing ceremony.



## Broadening our commitment to traffic safety— for our customers and for society

Honda provides driving safety leadership training to all sales personnel in Japan and has implemented a Rainbow Dealer certification system to recognize dealerships that offer driving safety seminars. In order to reduce the number of traffic accidents, Honda is acting in many ways to pass on safety expertise to customers. We have established eight Traffic Education Centers in Japan where we provide hands-on workshops designed to meet the diverse needs of drivers and riders, and also children and the elderly—all those who share the road. In order to improve the effectiveness of traffic safety education, Honda is also proactively engaged in developing educational programs for drivers, and training equipment such as the Honda Driving Simulator. Honda is engaged worldwide in a growing range of traffic safety initiatives, offering both traffic safety training and advanced products.

### Honda dealerships nationwide educating customers to help protect them from traffic accidents

#### Automobile dealers (Rainbow Dealer system)

Rainbow Dealers work to pass on safe-driving skills to customers to help them enjoy driving in comfort and safety, and also seek to function as a focal point for driving safety promotion in the community. All of the certified Rainbow Dealer automobile dealerships in Japan (about 2,400 locations) focus on offering their customers quality safety seminars and driver training. Driving instruction and safety guidance are provided by dealership personnel who have qualified either as Safety Coordinators (about 18,000 individuals) or Chief Safety Coordinators (about 3,500 individuals).



Safety seminar



Driving school

#### Motorcycle dealers (Safety Support Dealer system)

At our certified Safety Support Dealer motorcycle dealerships, qualified personnel help customers enjoy riding in greater comfort and safety. These dealerships work closely with their communities to become the focal point for driving safety initiatives. By expanding the Safety Support Dealer network, we're working to promote rider safety. We also aim to provide timely information on matters like traffic law reform governing the carrying of passengers on freeways and on licensing for riders of automatic transmission motorcycles. Also, in fiscal 2006 Honda certified about 30 Honda Dream dealers, which offer sports bikes. The goal is to continue certifying more Honda Dream dealers to get the safety message out to everyone.



Riding school



Traffic safety publications

For more information: <http://world.honda.com/safety/>

## Traffic Education Centers: safety education for all who share the road

Traffic Education Centers at eight locations in Japan offer hands-on learning programs developed on the basis of many years of experience. During fiscal 2006, some 70,000 people received training at the centers, including those seeking motorcycle and automobile licenses as well as a wide range of people of all ages—from small children and high school students too young to drive, to senior citizens. The centers aim to offer all those who share the road lifelong traffic safety education, with a variety of programs from fun motorbike seminars for parents and kids to safety seminars for seniors, all designed to help people learn the rules of the road and travel safely.

### Safety education for individuals of all generations

Traffic safety education is offered to people of all ages, from small children to high school students studying for their driver's licenses, to senior citizens.



Bicycle workshop for elementary school children



Safety seminar for seniors

## Honda Driving School (HDS) and Honda Motorcyclist School (HMS): giving learners a chance to experience danger in safety

A variety of courses are provided to meet the needs of all riders and drivers.



A skid control course at HDS



Tandem training at HMS

## Traffic Safety Forums: safety education for groups

Traffic Safety Forums, held annually at our Traffic Education Centers, provide opportunities for corporate and other groups to present case studies of safety initiatives, and for researchers to report their findings. In addition to presentations and lectures, interested parties are invited to participate in hands-on workshops on such safety-related topics as driver concentration testing.



## Working closely with the community to make traffic safety a part of everyone's life

### Original educational program

Honda recognizes the importance of lifelong traffic safety education in making our mobile society safer. We're working to develop traffic safety education materials appropriate to each local community and designed for everyone from senior citizens to young children—tomorrow's safety-conscious drivers. One program called Ayatorii\*, has been under development in cooperation with Suzuka City since 1993. Along with picture books for 4–5-year-olds, more advanced programs for 8–10-year-olds, and the Ayatorii Bicycle School for children from preschool to elementary school age, a Life-long Ayatorii course is now offered for cyclists and senior-citizen pedestrians. These programs are a fixture in Suzuka, and have been praised for the educational effectiveness of their awareness-raising approach.

\* Ayatorii is derived from a Japanese acronym meaning 'simple explanations for traffic safety awareness'.



Traffic safety teaching materials



A lesson in progress



### Activities to support traffic safety leadership in the community

Society looks to driving schools not only for driver training for beginners, but also as a source of community traffic safety education. Every year, Honda hosts the All-Japan Instructors' Safety Competition to provide driving instructors from around Japan an opportunity to polish their skills and exchange information. The fifth such event, held in 2005 at the Suzuka Circuit Traffic Education Center, attracted the largest number of participants to date, with 196 instructors from 88 schools around Japan competing to demonstrate the superiority of their safe-driving skills.



All-Japan Instructors' Safety Competition

### New driving safety education programs: improving skills by raising awareness

To further improve the effectiveness of driving safety education, Honda is developing new educational programs that focus on the driver. Our approach is to develop students' awareness of problems in their own driving that could lead to accidents and encourage them to come up with solutions and implement them independently. Our programs are designed to take advantage of the Honda Driving Simulator and other interactive technology to allow the student to objectively examine his or her driving behaviors with video and data feedback.

### Driving safety for senior drivers

In a driving safety education program for senior drivers that is currently in the trial phase, video cameras capture the student's driving so that it can be analyzed with an instructor, giving students the opportunity to recognize issues with their own driving and come up with solutions with the guidance of their instructor. Workbooks and danger prediction training materials are available to help maintain awareness after the completion of the course.



A lesson in progress

### Driving safety education using driving simulators

Developed in cooperation with Professor Hiroo Ota of the Tohoku Institute of Technology, the Hazard Prediction Course is primarily for young drivers, who have higher accident rates. The course uses Honda Driving Simulators to review and analyze driving habits. Its effectiveness was confirmed in a study in September 2005, when young drivers who completed it exhibited greater sensitivity to danger and improved driving behavior compared to those who had not taken the course. And Honda Driving Simulators are used not only as driving safety training devices, but also in research by universities and corporations on issues in ergonomics, and road and traffic engineering.



Honda Driving Simulator

## Traffic safety initiatives worldwide

Honda is sharing its traffic safety knowledge and experience in 21 countries including Japan. Currently 19 Traffic Education Centers operate in 13 countries. A diverse range of traffic safety initiatives has been designed to suit local patterns of automobile and motorcycle usage, road conditions and licensing systems, and function in concert with other local dealership activities.

### New initiatives in traffic safety

#### ● China — Guangzhou Honda Automobile

In China, where the number of automobiles is on the rise, one of Honda's affiliates has initiated safe driver education for its associates so that they can act as good examples in guiding their customers.



#### ● Russia — Honda Motor RUS

Two Honda Motor RUS associates were trained at a Traffic Education Center in Japan in October 2005 to form the nucleus of a new Rainbow Dealer system established in Russia in April 2006.



### Reinforcing motorcycle rider safety

#### ● Turkey — Honda Turkiye

Traffic safety activities in Turkey follow a two-pronged strategy: guidance is offered to customers at dealerships and hands-on rider education is available at the Traffic Education Center for police, corporate clients and the general public.



#### ● Pakistan — Atlas Honda

Honda Riding Advisors are stationed at all motorcycle dealerships in Pakistan, helping to promote safe riding by offering safety advice, one-day training sessions and other initiatives.



### Instructors from 11 countries attended the 9th Safety Japan Instructors' Competition—the largest turnout ever

The Safety Japan Instructors' Competition presents an opportunity for safety instructors from Japan and abroad to polish their teaching skills and exchange information. The ninth event, in 2005, featured the largest international turnout ever, with 29 participants from 13 companies in 11 countries, including Indonesia, Australia, South Korea, Singapore, Thailand, China, Turkey, Pakistan, France, Vietnam and Malaysia.



### Driving safety promotional activities around the globe



- Traffic Education Centers: 19 in 13 countries
- Active countries: 20



## Setting high standards: striving for sustainability

Environmental problems are global in scope, and companies doing business worldwide bear a responsibility to discover global solutions, while always being sensitive to local needs. Faced with pressing issues such as global warming, Honda has been active in applying innovation and creativity in the quest for a sustainable society. In the future, we will continue to set and pursue our own high standards, striving to fulfill our responsibilities as a corporate citizen by resolving environmental problems with renewed determination and leading the way in our solutions.



## Reducing environmental impact throughout the product life cycle

In 1992, Honda published the Honda Environment Statement, describing the key points of our environmental policy and objectives. This document expresses our commitment to reducing the environmental impact of our business activities throughout the entire product life cycle, from research and development to distribution and disposal.

### Honda Environment Statement

As a responsible member of society whose task lies in the preservation of the global environment, the company will make every effort to contribute to human health and the preservation of the global environment in each phase of its corporate activity. Only in this way will we be able to count on a successful future not only for our company, but for the entire world.

We should pursue our daily business interests under the following principles:

- 1 We will make efforts to recycle materials and conserve resources and energy at every stage of our products' life cycle from research, design, production and sales, to services and disposal.
- 2 We will make every effort to minimize and find appropriate methods to dispose of waste and contaminants that are produced through the use of our products, and in every stage of the life cycle of these products.
- 3 As both a member of the company and of society, each associate will focus on the importance of making efforts to preserve human health and the global environment, and will do his or her part to ensure that the company as a whole acts responsibly.
- 4 We will consider the influence that our corporate activities have on the local environment and society, and endeavor to improve the social standing of the company.

Established and announced in June 1992

## A comprehensive response to global and local issues

We are fully aware of our responsibility for the environmental impacts of our activities and the use of our products, and are committed to reducing them. In order to establish and maintain appropriate specific policies and objectives, we have implemented a Life Cycle Assessment (LCA) system, which measures, assesses, and analyzes the environmental impacts of all our activities based on all currently known factors. This knowledge equips us to tackle the many problems that face us and implement practical solutions.

Domain	Concerns	Environmental impacts	Major initiatives
Product development	CO <sub>2</sub> Exhaust emissions Noise	<b>Global environmental issues</b>  Global warming Ozone depletion Depletion of natural resources  Air pollution  Waste Water pollution  Soil pollution Noise  <b>Local environmental problems</b>	Cleaner exhaust emissions Fuel economy improvements Noise reduction Recyclability improvements
Purchasing	CO <sub>2</sub> Waste Wastewater		Green Purchasing
Production	Exhaust emissions Noise Chemicals		Green Factories
Transportation	CO <sub>2</sub> Waste		Green Logistics
Sales	Removed parts Freon gas Waste		Green Dealers (automobiles, motorcycles, and power products)
Product recycling (3R)*	End-of-life products		Recovery, recycling and reuse of parts Technical support for the proper disposal and recycling of end-of-life products
Administration	CO <sub>2</sub> Waste		Green Offices

\* For more information, see p41



## What we have achieved

Honda is proactive in addressing critical environmental issues. In 1999, we set basic objectives for cleaner product emissions, fuel efficiency and other key areas of environmental responsibility. We have achieved all of our principal objectives for FY2006.

### Products and production activities—targets for FY2006

Honda has achieved all of the principal product and production targets it announced in 1998 and 1999.

Automobiles	Exhaust emissions (HC, NO <sub>x</sub> )	Reduce total emissions from new automobiles 75% <sup>1</sup>	FY2004	Achieved
	Fuel economy	Improve average fuel economy 25% <sup>1</sup>	FY2002	Achieved
Motorcycles	Exhaust emissions (HC)	Reduce total emissions from new motorcycles two-thirds <sup>2</sup>	FY2001	Achieved
	Fuel economy	Improve average fuel economy 30% <sup>2</sup>	FY2004	Achieved
Power Products	Exhaust emissions (HC, NO <sub>x</sub> )	Reduce average emissions 30% <sup>3</sup>	FY2002	Achieved
	Fuel economy	Improve average fuel economy 30% <sup>3</sup>	FY2006	Achieved
Production	Energy saving	Reduce energy consumption 15% <sup>4</sup>	FY2002	Achieved
	Waste	Achieve zero landfill disposal <sup>4</sup>	FY2001	Achieved

<sup>1</sup> Target for Japan (baseline: FY1996)    <sup>2</sup> Target for Japan, US, Europe, and Thailand (baseline: FY1996)    <sup>3</sup> Global target (baseline: FY1996)

<sup>4</sup> Japan target for FY2002 (baseline: FY1996; announced in 1998) Current target: reduce unit energy consumption 30% by FY2011 (baseline: FY1991)

## New targets

Having achieved what we set out to accomplish by FY2006, we are now setting our sights on new objectives.

### Honda's efforts to reduce CO<sub>2</sub> emissions

#### Climate change and the increasing demand for mobility

The problem of climate change is of global scope—it cannot be solved through isolated regional measures alone. The entire world must work together to face this problem. However, there is still a significant gap between developed and developing countries in terms

of access to convenient transportation. Improvement in the quality of mobility is indispensable to the betterment of people's lives. Consequently, the demand for automobiles and other means of transportation will likely continue to increase. Honda is working to apply advanced technologies to help resolve the conflicting issues of climate change and the growing demand for mobility.

### Products: improving global average fuel economy

Since the internal combustion engine seems likely to remain the primary source of power for human mobility until at least 2020, improving its fuel economy and overall efficiency is an issue of vital importance. In the US, Europe and other regions, automakers are being required to improve the average fuel economy of their products through compliance with tough standards like the US Corporate Average Fuel Economy (CAFE) regulations. However, climate change is a global issue and needs to be addressed on a global level. Honda is shifting from a regional strategy to one based on a global perspective, and from fuel economy targets for product by weight or model to worldwide targets for all product categories.

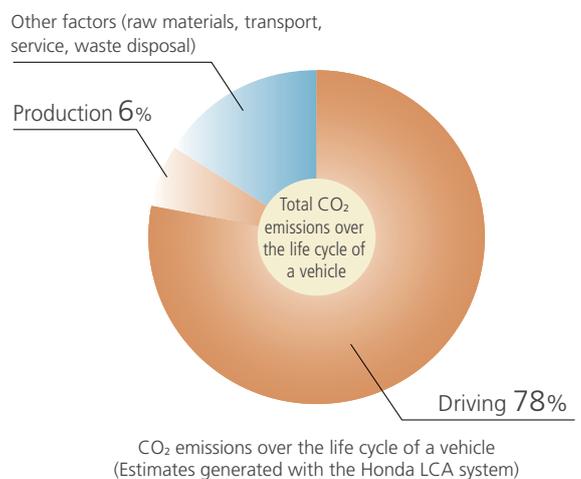
### Production: reducing CO<sub>2</sub> emissions in manufacturing

Honda is committed to improving the efficiency of its production around the world. We have set global targets for reducing the average per-unit CO<sub>2</sub> emissions in manufacturing.

### Product life cycle: setting targets for products and production

Estimates made using the Honda LCA system\* indicate that, of the total CO<sub>2</sub> emitted over the life cycle of an average Honda automobile, approximately 78% can be attributed to use on the road and 6% to manufacturing. By setting global targets for both products and production activities, Honda believes it can reduce CO<sub>2</sub> emissions for over 80% of the product life cycle.

\*The Life Cycle Assessment system, implemented in 2002, provides Honda with a quantitative assessment of the environmental impact of its activities and of its products throughout their entire life cycles.



### Global CO<sub>2</sub> reduction targets for FY2011 (baseline: FY2001)

Honda is accelerating efforts to minimize CO<sub>2</sub> emissions in its products and in the factories that produce them. We are the world's first automaker to announce voluntary global, per-unit CO<sub>2</sub> emissions reduction targets for our products and their manufacture.

#### CO<sub>2</sub> reduction target—products

Average global CO<sub>2</sub> emissions from one Honda product.



#### CO<sub>2</sub> reduction target—production

Average global CO<sub>2</sub> emissions during manufacture of one Honda product



Regions covered

Automobiles: Japan, North America, Europe, Asia, Oceania, China, Central America, South America (over 90% of worldwide sales)

Motorcycles: Japan, North America, Europe, Thailand, India, China, Indonesia, Vietnam, Brazil, the Philippines, Malaysia, Pakistan (over 90% of worldwide sales)

Power products (excluding marine outboards): all countries and regions

Production: a total of 72 domestic and overseas Honda companies involved in the assembly of vehicles and other major components, including Honda Motor Co., Ltd., and major parts suppliers (nearly 100% of the Honda Group's consolidated subsidiaries and major affiliates involved in vehicle assembly)



## Advanced environmental initiatives

Seeking to create genuine customer satisfaction, Honda has always been an industry leader in environmental R&D and the early introduction of environment-friendly products.

## Automobiles

### Expediting global development of hybrid vehicles

Honda released the new Civic Hybrid in November 2005. Equipped with the new Honda Hybrid System, it features 20% higher output and 5% better fuel economy\* in a 5% smaller package, along with exhaust emissions that are among the cleanest in the world. Our next goal is to develop a new, more fuel-efficient and affordable hybrid family car, at a price that will make it easier for more of our customers around the world to choose hybrid and do their part in reducing CO<sub>2</sub> emissions.

\*Compared to the previous Civic Hybrid (10-15 mode)



Civic Hybrid MX featuring the new Honda Hybrid System

## A new generation of cleaner diesel engines

In Europe, diesel engines are considered the technology of choice for reducing CO<sub>2</sub> emissions. In December 2003 we introduced Europeans to an Accord powered by our own independently developed diesel engine, the 2.2-liter 4-cylinder i-CTDi. This advanced diesel engine has since appeared in other models, including the FR-V (known as the Edix in Japan), the CR-V and the Civic. Within the next three years, Honda will unveil a next-generation 4-cylinder diesel engine that will meet US EPA Tier 2/Bin 5 requirements for NO<sub>x</sub> emissions equivalent to those of a gasoline engine. We're also working on a cleaner V6 diesel engine.



2.2-liter 4-cylinder i-CTDi engine

## Advanced engines—improved fuel economy

Honda's advanced i-VTEC system, which incorporates VTEC (Valve Timing and Lift, Electronic Control) and VTC (Variable Timing Control) technologies to achieve powerful driving performance and outstanding fuel economy, is featured in a wide range of Honda engines. Our all-new 1.8-liter i-VTEC engine-equipped Civic, released in September 2005, displays class-leading fuel economy of 17.0 km/L. We've also made further refinements to our VCM (Variable Cylinder Management) system, first introduced in the Inspire in 2003. Implementing cylinder idling over a wider range, we've improved fuel economy approximately 11% compared to a conventional 2005 Honda V6 engine.



1.8-liter i-VTEC engine

## Motorcycles

### Better fuel economy through ultra-low friction and VCM technologies

In 2004, Honda became the world's first motorcycle manufacturer to market a 50cc scooter featuring electronically controlled fuel injection (PGM-FI). We will continue to expand the implementation of PGM-FI to other models, featuring it on all scooters sold in Japan by the end of FY2008, and on the majority of our motorcycles worldwide by the end of FY2011. In our next generation of motorcycle engines, we are working to improve the combustion efficiency of our 125cc to 150cc engines—the most popular on the global market—by reducing friction levels to among the lowest in the world. These ultra-low friction engines will achieve 13% higher fuel economy than a conventional 2005 engine, with power to spare. Meanwhile, for our large-displacement bikes, we're developing a motorcycle VCM system for use in combination with Hyper VTEC. Our goal is to improve the fuel economy of our large motorcycles by 30% over 2005 levels.



Variable Cylinder Management system for motorcycles

## Power products

### Intelligent engines and high expansion-ratio engines

Honda has long provided power products that offer superior environmental performance. The electronic-control STR (self-tuning regulator) Governor is the core intelligent technology of the i-GX engine, giving it leading environmental performance and user friendliness. Our high expansion-ratio engines currently under development are expected to achieve a 20% improvement in fuel economy over conventional engines.



i-GX440

## Fuel cell vehicles

### Working toward full-scale commercialization

We are continuing our development of what may well be the ultimate clean car: the fuel cell vehicle, which produces no CO<sub>2</sub> or other harmful emissions while driving. Within three years, we plan to introduce a production version of the model currently under development. (For more information, see p13.)



FCX Concept displayed at the 2005 Tokyo Motor Show

## Solar panels

### Bringing the next generation of thin panels to market

Honda is the first automaker to enter the solar panel manufacturing business. By developing and marketing this new source of clean energy, we're helping to reduce CO<sub>2</sub> emissions and reduce dependence on fossil fuels. (For more information, see p14.)

## Cleaner production

### Minimizing the environmental impact of our factories

To help reduce CO<sub>2</sub> emissions, linked to global warming, we are accelerating the implementation of environmental measures in our production activities. At our five factories in Japan, our goal is to reduce energy consumption by 30% from FY1991 levels by FY2011. We will also improve energy savings and production efficiency through such measures as integrating production processes and replacing existing fuels with cleaner-burning natural gas. At our Tochigi Factory in May 2006 we began a phased introduction of liquid natural gas to replace liquid petroleum gas and kerosene, which had been used to fuel steam boilers in the production process. We plan to complete this replacement process in fiscal 2007.



### Fiscal years 2006 and 2007: learning and planning

In fiscal 2006 we continued our efforts to achieve the challenging goals we had set for ourselves in all domains and covering the life cycles of all our products. We took a hard look at our past performance, analyzed our shortfalls and incorporated the lessons we learned into new programs for fiscal 2007—all with the aim of further reducing the environmental impact of our products.

Major objective	Action		FY2006 targets	FY2006 results	Status	FY2007 targets	
Product development	Clean exhaust emissions	Automobiles	Increase availability of Low-Emission Vehicles	Increase number of Low- and Very-Low Emission Vehicles <sup>1</sup>	Six additional models (11 types) approved as Low- or Very-Low Emission Vehicles (total: 24 models, 50 types) <sup>1</sup>	Continue to increase availability of Low- and Very-Low Emission Vehicles <sup>1</sup>	
		Motorcycles	Expand use of FI technology	Apply to new models	Achieved for three models released in Japan in FY2006	Apply to new models	
		Power products	Comply with pending regulations		Achieved for all 6 models released		
	Fuel economy improvements	Develop new technologies for greater efficiency	Automobiles	Improve average fuel economy by weight	Complied with FY2011 Japanese fuel economy standards in all 7 categories		Further improvements in fuel economy
Motorcycles	Improvements in fuel economy for new models		33.1% improvement in average fuel economy (baseline: FY1996)				
Power products	Further improvements in fuel economy		i-GX440 engine-equipped models: improved by 15% or more <sup>2</sup>				
Development of alternative energy products	Automobiles	Expand product line		Leased more fuel cell vehicles		Continue expansion	
	Power products			Increased cogeneration unit sales			
Purchasing	Promotion of Green Purchasing	Reduce SOCs in suppliers' parts and materials <sup>3</sup>		Promote transition to compliance with Honda's chemical substance guidelines	Completed replacement of lead, cadmium and related compounds with other substances Replacement of hexavalent chromium (except for use in rustproof black/green chromate coating) with other materials—nearly complete	Continue to promote compliance with Honda's chemical substance guidelines	
		Environmental management applied to suppliers' manufacturing processes		Reduction of suppliers' CO <sub>2</sub> emissions	Carbon intensity reduced 6.6% compared to FY2001 (for affiliates)		Reduce suppliers' CO <sub>2</sub> emissions
		Reduce suppliers' landfill waste		Reduce suppliers' landfill waste	96% reduction compared to FY2001 (for affiliates)		Reduction in suppliers' landfill waste
		Introduction of environmental management systems by suppliers		Promote ISO 14001 certification for all suppliers	396 companies (96%) certified		Promote ISO 14001 certification for all suppliers
Production	Promotion of Green Factory initiative	Improve energy efficiency		22.5% reduction in unit energy consumption <sup>4</sup> CO <sub>2</sub> emissions: 456,000 tons <sup>4</sup>	Unit energy consumption reduced by 22.6% CO <sub>2</sub> emissions: 470,000 tons	24.0% reduction	
		Zero landfill disposal		(Maintaining zero landfill disposal)	(Maintaining zero landfill disposal)		(Maintaining zero landfill disposal)
		Reduce waste (including by-products)		Recyclability rate: 98% Reduce internally incinerated waste 85% (baseline: FY1999)	Recyclability rate: 98.9% Internally incinerated waste reduced 85.7% (baseline: FY1999)		Recyclability rate: 99.0% Reduce internally incinerated waste 89.0% (baseline: FY1999)
		Reduce Volatile Organic Compounds (VOC) emissions		VOC emissions (automobiles): 35.0 g/m <sup>2</sup> <sup>6</sup>	VOC emissions (automobiles): 34.3 g/m <sup>2</sup>		VOC emissions (automobiles): 34.8 g/m <sup>2</sup> <sup>5</sup>
		Implementation of environmental management system by distribution partners		Joint implementation by four main partners	Regular coordination with four main partners		Continue implementation by four main partners
Transportation	Promotion of Green Logistics	Improve shipping efficiency		CO <sub>2</sub> emissions: 115,332 tons (transport of completed automobiles)	CO <sub>2</sub> emissions: 105,820 tons (transport of completed automobiles)	CO <sub>2</sub> emissions: 110,650 tons <sup>7</sup> (transport of completed automobiles)	
Sales	Promotion of Green Dealers/Green Distributors	Automobiles	Environmental management for dealerships	Expansion of Best Green Dealer certification	2,489 dealerships certified	Further expansion of Best Green Dealer certification	
		Motorcycles	Environmental management for distributors and dealerships	Increase of eco-friendly Honda Dream dealerships	Launch of 19 eco-friendly Honda Dream dealerships (total: 66)	Increase of eco-friendly Honda Dream dealerships	
		Power products	Environmental management for dealerships	Increase of eco-friendly dealerships	3 dealerships/1 dealer (total: 6 dealerships/2 dealers) certified	Continue expansion (increase environmental awareness among dealers)	
Disposal and recycling	Improved recyclability	Improve recyclability	Automobiles	Improve recyclability	Newly released or redesigned models over 90% recyclable	Further improve recyclability and reduce use of polyvinyl chlorides (PVCs)	
			Motorcycles		Newly released or redesigned models over 95% recyclable		
			Power products		Newly released or redesigned models over 95% recyclable		
Disposal and recycling	Increased parts recovery, reuse and recycling	Integrate remanufacturing and reuse		Expand use of recycled parts and recycled parts-compatible models	Targets not achieved	Continue efforts to expand use of recycled parts and recycled parts-compatible models	
	Technical support for proper disposal and recycling of end-of-life products	Develop technologies for proper disposal and recycling of end-of-life products		Stabilize recycling systems for automobiles and motorcycles	Stable operation of recycling systems for automobiles and motorcycles	Maintain stable operation of recycling systems for automobiles and motorcycles	
Administration	Promotion of Green Office initiative	Reduce environmental impact of office and administrative activities		Improve energy efficiency	CO <sub>2</sub> emissions: 11,557 tons <sup>8</sup>	CO <sub>2</sub> emissions: 11,326 tons <sup>8</sup>	
				Reduce waste	Waste generated: 522 tons <sup>8</sup>	Reduce waste generation to 512 tons <sup>8</sup>	

<sup>1</sup> Low-Emission Vehicle defined as having emissions 50% lower than FY2006 standards; Very-Low Emission Vehicle defined as having emissions 75% lower than FY2006 emissions standards  
<sup>2</sup> i-GX440 engine-equipped products sold in FY2006  
<sup>3</sup> SOC: Substance of Concern  
<sup>4</sup> Quantitative target differs from previous year due to change in coefficient

<sup>5</sup> FY2007 targets for CO<sub>2</sub> and VOC emissions have increased compared to FY2006 results due to increased production and launch of new businesses  
<sup>6</sup> Quantitative target differs from previous year due to change in calculation method  
<sup>7</sup> Based on Honda calculations, including energy recovered  
<sup>8</sup> Total emissions from four office buildings in Japan (in Aoyama, Wako, Shirako and Yaesu)

## Implementing environmental management systems to achieve objectives

Honda's environmental action plans are formulated by individual departments based on mid-term policies developed by the Executive Committee. The plans are then discussed and evaluated by the Environmental Committee. Individual departments are responsible for the implementation of our initiatives, which are carried out at the regional level (Japan, North/Central America, South America, Europe/Middle East/Africa, Asia/Oceania and China). The results are then evaluated by the Environmental Committee and taken into account in the development of future targets and plans, thus completing the PDCA\* cycle. Issues of global significance are reported to the World Environmental Committee and incorporated into the Mid-Term Policy Statement. The hallmark of Honda's approach is that it directly involves the individual associates of every department, rather than leaving planning and execution in the hands of specially appointed personnel. It is a matter of official Honda policy that "All members of the Honda organization are individually engaged in a positive commitment to environmental issues as part of their own duties." \*PDCA: Plan, Do, Check, Action

## Organization

Honda created the Environmental Committee (currently the Japan Environmental Council) in December 1991 to play a central role in addressing environmental issues in Japan. The organizational framework was later expanded to include North/Central America, South America, Europe/Middle East/Africa, Asia/Oceania and China. In March 1995, we established the World Environmental Committee to develop and promote global planning.

### Environmental management at Honda facilities ISO 14001 & EMAS

In addition to Honda's company-wide environmental management systems, each of our factories independently implements its own system in an ongoing effort to protect the environment and control hazardous substances. Our production divisions in particular have been proactively working to comply with the ISO 14001 environmental standards set out by the International Organization for Standardization (ISO) and the European Union's Eco-Management and Audit Scheme (EMAS).

## Environmental assessment

Environmental preservation at Honda facilities in Japan is carried out in accordance with our environmental management program, based on annual targets and the Mid-Term Environmental Plan set out by the General Environmental Administrators' Committee. In-house environmental audits and inspections by external certification agencies are conducted at our factories and offices to confirm that environmental management systems are being appropriately implemented and continuously improved.

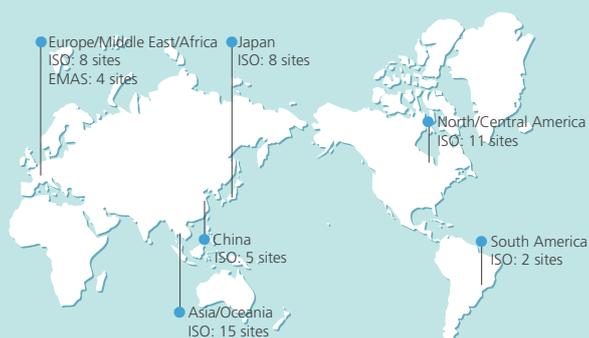
## Environmental accounting

Honda is proactively working to identify costs related to its environmental preservation activities. This will allow us to use management tools to facilitate environmental preservation and provide indices for corporate evaluation and public disclosure.

## Environmental education

Honda believes that an effective environmental management system begins with a high level of environmental awareness and the active participation of all Honda associates, and therefore includes environmental programs as part of basic training. Each worksite schedules ongoing training and education programs in accordance with its environmental management system. These programs include standard courses for all associates, specialized training and education for in-house environmental auditors.

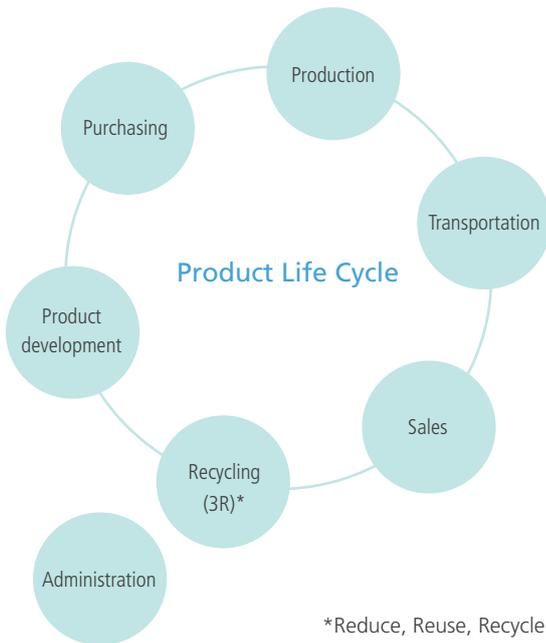
ISO 14001 and EMAS-certified sites as of fiscal 2006





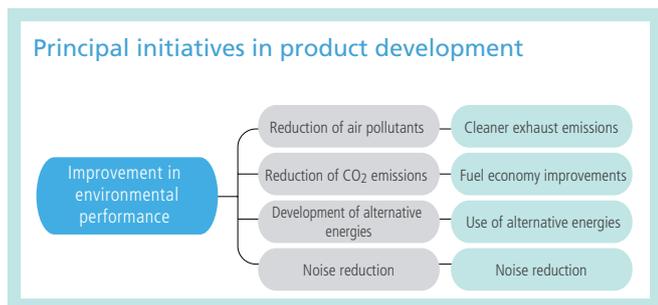
### Comprehensive environmental preservation

Honda's approach to environmental preservation encompasses every stage of the product life cycle, from product development through purchasing, production, transportation, sales, recycling (3R)\* and administration. Our goal is to create products with maximum environmental performance at factories with minimal environmental impact.



### Product development

Honda is actively involved in reducing the environmental impact of its products during use, as this is the stage in their life cycles where environmental measures are most effective. We have demonstrated our commitment to improving the relationship between people and the planet by establishing our own strict, voluntary targets for cleaner emissions, better fuel economy, and reduced CO<sub>2</sub> emissions, and through the development of alternative energy sources.



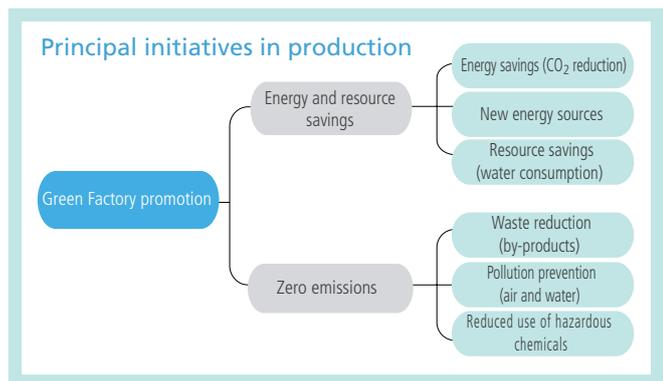
### Purchasing

It is vital for automakers and their suppliers to work together if we are to reduce the environmental impact of each product throughout its entire life cycle. Honda encourages its suppliers to take a greener approach to their operations by adhering to ISO 14001 standards and by adopting other green, energy-efficient techniques, including those set out in Honda's green purchasing guidelines. We are firmly committed to working closely with our suppliers to further reduce the environmental footprint of Honda products.



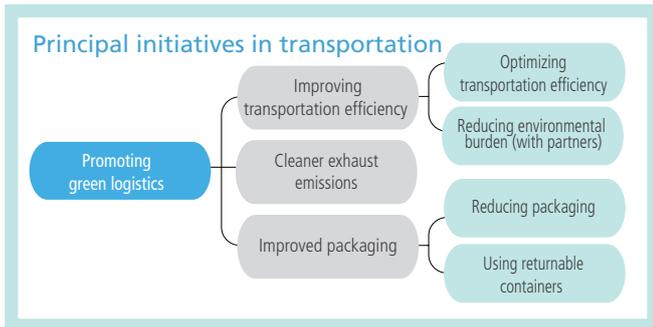
### Production

Production involves the mobilization and processing of energy and materials to create goods. Honda is working to minimize the impact of our production activities on the earth's environment. We continually strive to improve working environments and our standing with local communities. With our global Green Factory initiative, we are creating facilities that are models of environment friendliness.



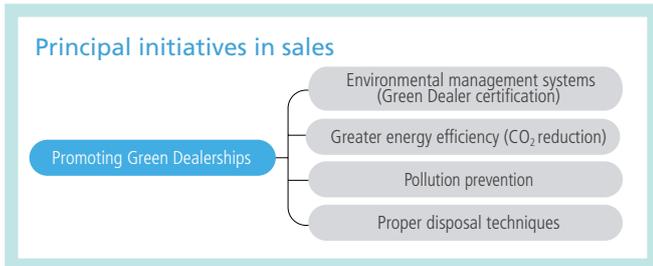
## Transportation

Honda is improving its transportation efficiency by promoting a modal shift to ship and rail, and by cooperating with other companies in joint transportation ventures. We are also collaborating with transport companies to develop environmental management systems, and working together to roll out a variety of green logistics initiatives. In the area of packaging, we continue to reduce the amount of materials we use by utilizing simpler packaging, reconsidering materials used, refining specifications and increasing our use of returnable containers.



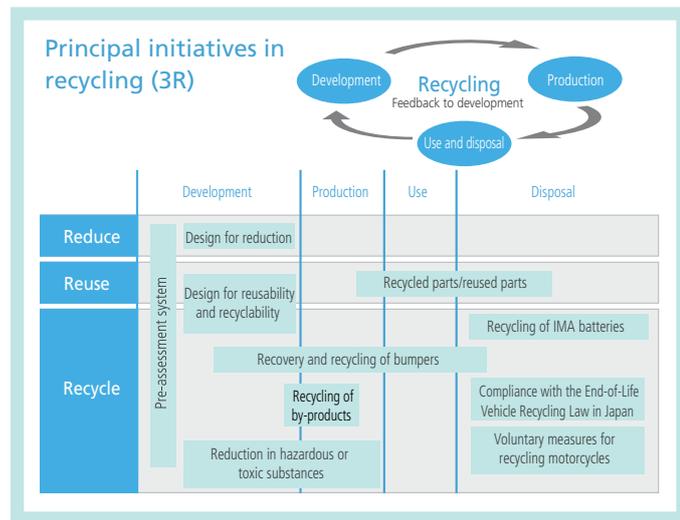
## Sales

Honda is developing its own original environmental management and Green Dealer certification systems to promote environmental awareness in all of its sales and service activities. We encourage our dealerships to actively promote environmental preservation and continually strive to make their operations more eco-friendly, and thus be welcome and trusted members of their local communities.



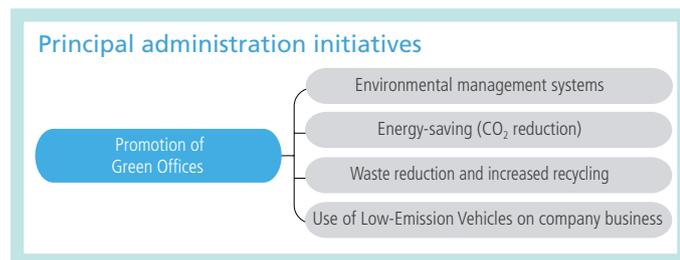
## Recycling (3R)

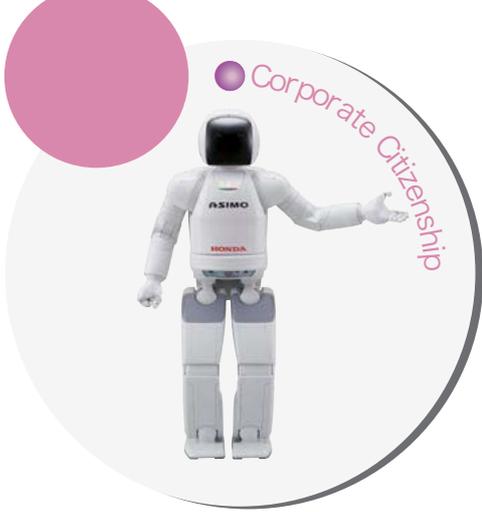
Our ultimate goal is to reduce to zero the amount of resources we extract from the planet. To achieve this, we have implemented our own original program to promote reduction, reuse and recycling at every stage of the product life cycle, from development and production to use and disposal.



## Administration

Honda is also implementing sweeping environmental preservation measures in administrative offices. We hope that through sound environmental practices in our daily operations and sales activities we will exert a positive influence on our factories, suppliers and customers, thereby promoting greater environmental awareness.



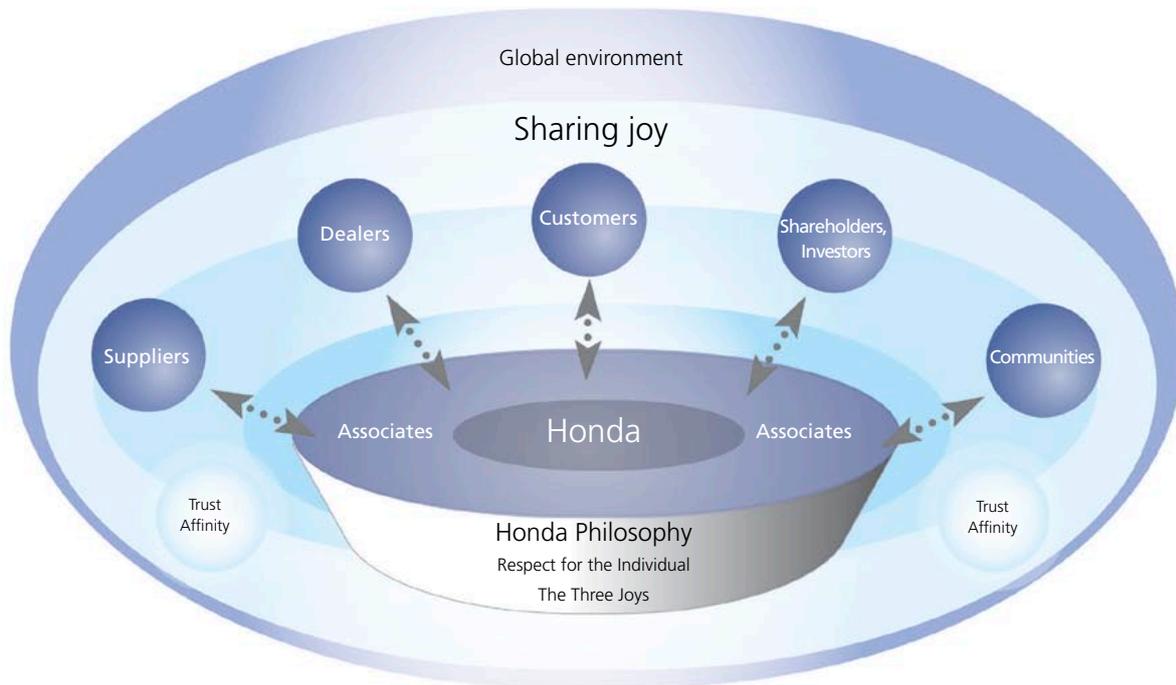


# Sharing joy with all our stakeholders

We consider our customers, dealers, suppliers, associates, and investors, and the members of the communities where we live and work to be Honda stakeholders. And since Honda's presence spans the globe and our contacts with these communities are many and diverse, relationships with our stakeholders connect us with people and societies everywhere. In striving to become a company that society wants to exist, we seek to share with each and every one of our stakeholders.

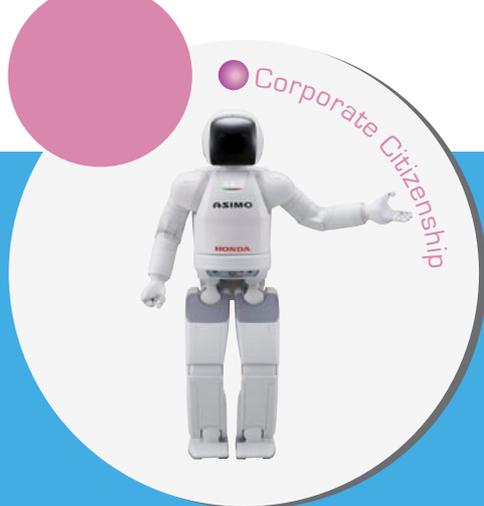


## Honda's relationship with its stakeholders



### Honda and its stakeholders: fundamental approach

Customers	Providing products and services of the highest quality, we seek to share joy with our customers worldwide.
Dealers	Honoring independence, fairness and trust in accordance with the principle of respect for the individual, we are building partnerships and offering customers the joy of buying, and sharing the joy of selling with dealers.
Suppliers	Honoring independence, fairness and trust in accordance with the principle of respect for the individual, we are building partnerships to share the joy of creating products of the finest quality to provide customers with the opportunity to experience the joy of buying.
Associates	Honoring independence, fairness and trust in accordance with the principle of respect for the individual, we seek to ensure that each associate enjoys appropriate autonomy, and is managed in accordance with fair principles and in a way that inspires mutual trust. Our desire is for associates to be highly motivated and to share joy with other people and societies, and to take bold initiatives and face important challenges in their work.
Shareholders and investors	We strive to provide all appropriate information on company activities. By ensuring full and frank communication with shareholders and investors, we seek to enhance trust and affinity.
People everywhere	Seeking first not to be a burden, we seek through all our activities to be truly welcomed in the communities and regions where we live and work.



## To achieve lifelong customer satisfaction

In accordance with the basic principle of The Three Joys of buying, selling and creating, Honda has always worked closely with the people at its dealerships to maximize customer satisfaction. Our goal is to get our customers to feel truly glad to have visited a Honda dealership and bought a Honda. The key principle of our customer satisfaction policy is that we wish to make sure that no one's contact with Honda is limited to a single occasion—to do our best to ensure that each customer enjoys lifelong satisfaction owning a Honda.

### Enhancing customer satisfaction

Honda is working closely with its dealerships to ensure compliance with all policies and the warmest possible welcome for our customers. Our goal is to make sure that each person who visits us is warmly greeted, receives clear explanations and feels comfortable in the physical environment of the dealership, so that our bond with that customer is deepened and enhanced with each new contact. One encouraging sign that our efforts to enhance lifetime customer satisfaction are showing results is Honda's top ranking in the J.D. Power Asia Pacific 2005 Japan Sales Satisfaction Index Study<sup>SM</sup> for Japanese automakers.\* We took another step forward in September 2005 when we established Honda Consulting Co., Ltd., which specializes in associate education. The objective: to provide training that is appropriate to the experience and expertise of each associate, enhancing associate skills and reinforcing Honda's fundamentals through effective interventions which lead ultimately to enhanced customer satisfaction.

\*J.D. Power Asia Pacific 2005 Japan Sales Satisfaction Index Study<sup>SM</sup>. Study based on a total of 5,983 responses from new passenger vehicle owners (excluding mini-cars) regarding sales experience at dealers when purchasing their new vehicles. <http://www.jdpower.co.jp>

### Enhancing service

To ensure that all Honda customers continue to receive the same high level of speedy service and the same warm welcome everywhere in the world, we strive to maintain excellence at our dealerships worldwide. We're also working to make sure that vehicles are repaired promptly by making sure dealership personnel receive superior training and are equipped with the most advanced diagnostic and repair equipment available. We take pride in the work of our technicians, who form a vital link to our customers. Another key is smooth communication between sales and service personnel, which helps maintain optimum sharing of information and expertise. Soichiro Honda once said that when we repair a customer's car, we're actually working on that customer's feelings toward Honda. We put that thought into practice by ensuring that the people who deliver Honda service understand its underlying philosophy.



A contest for service technicians in the Europe/Middle East/Africa region



## Promoting good communications

At our dealerships and affiliates, wherever Honda associates are in direct contact with customers, our policy is summed up by the phrase: "For the Customer". The objective: to respond politely, clearly and quickly, delivering the same high quality in our communications as in our products, always striving to achieve genuine customer satisfaction, always trying to make a positive impression.

### Just a phone call away

A team of well-trained associates fields customer enquiries by phones and by deploying computerized services after hours. In fiscal 2006, 190,071 customers received assistance in Japan alone.



Enquiries handled daily by well-informed associates

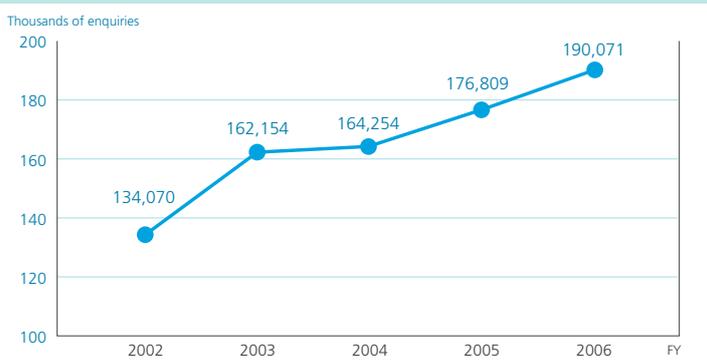
## Listening to our customers, putting good ideas to work

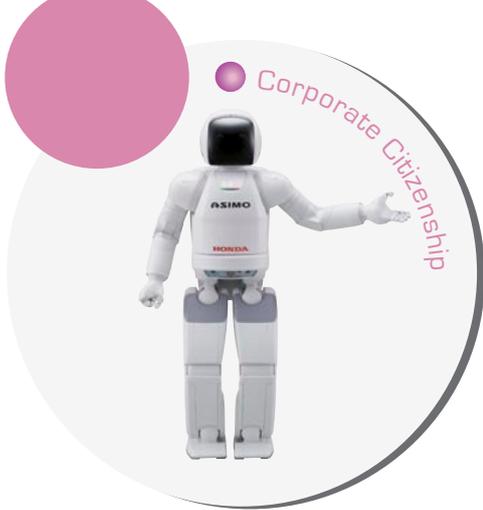
We believe in listening to our customers and in taking full advantage of the guidance they provide. We regularly pass on customer feedback to our associates in research, production, service, sales and management. We are also implementing systems that give all Honda associates direct access to customer comments, proposals and requests. We want to make sure that our daily work on the development and delivery of new products is always seen from the customer's perspective.

### Listening to customers worldwide

In order to enhance our products and services, we continually gather and analyze customer feedback worldwide. The results of this vital user input is compiled and presented in a communications program called Voice of the Customer. We dedicate sections within our major affiliates worldwide to respond to customer enquiries, tasking them with providing appropriate advice to associates on customer requests and customer care. We pay particular attention to rapidly growing markets like those in Asia, where we've established special sections responsible for immediately applying lessons learned via customer feedback and resolving any customer issue as quickly as possible.

### Enquiries handled by Honda's Customer Relations Center in Japan





## Quality enhancement

Honda considers the ongoing challenge of quality enhancement to be of the highest priority. We're working on it on a daily basis, seeking to enhance customer satisfaction with respect to all of our products and services.

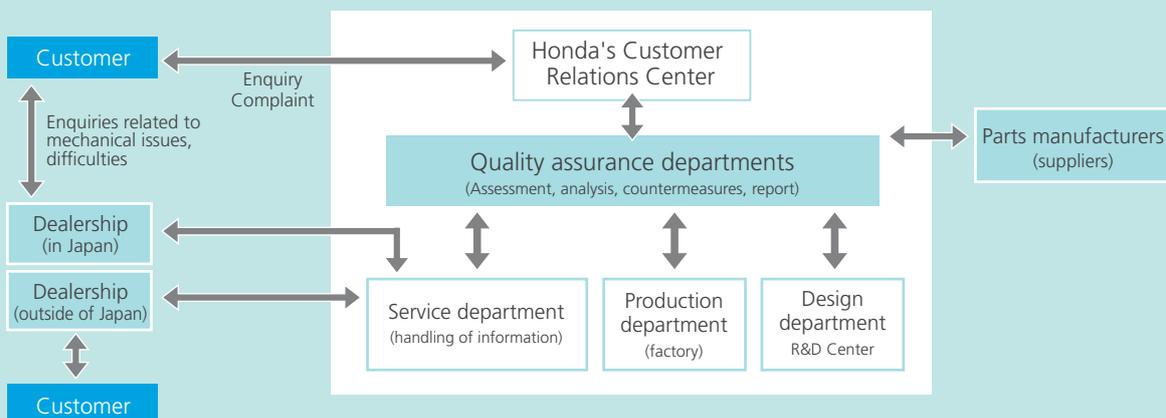
## Quality assurance

Honda has established Quality Innovation Centers worldwide to prevent avoidable product quality issues from arising and to enhance our capacity to swiftly resolve difficulties whenever they arise. Specialized service departments at these centers are equipped to handle cases referred to them by local dealerships. They provide timely diagnosis and resolution of any quality issues, and keep customers and technicians fully up to speed by disseminating the latest updates on recommended maintenance procedures. By carefully documenting issues and solutions, then sharing them with the rest of the organization, our dedicated associates are working both to resolve issues and prevent them from recurring.

## Promoting quality worldwide

Honda facilities around the world are certified under ISO quality assurance and environmental management systems standards, and special product quality assurance systems have been developed and implemented in many local markets. Since Honda manufactures products and procures both parts and materials in many different countries, however, a global quality assurance system is required. To that end, we are currently implementing the Global Honda Quality Standard, or G-HQS, with a view to simultaneously ensuring the quality of every single Honda product, regardless of where it is purchased. Under the direction of top management, our facilities around the world are working constantly to harmonize both their products and their services to this global standard, taking care to prevent any recurrence of known issues and to deliver to the customer products of the highest possible quality.

### Systematic response to customer issues



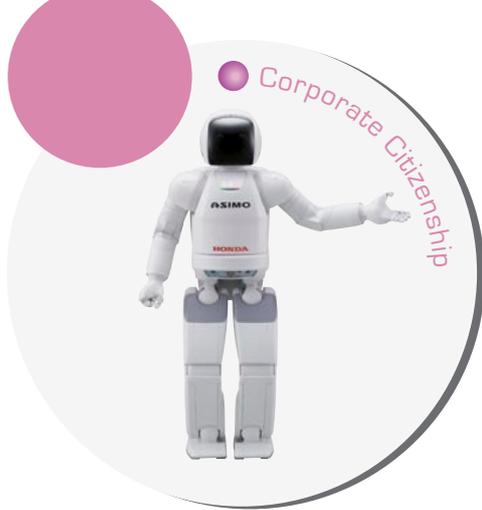
## Recall system

Recall and repair procedures are essential forms of customer service that help prevent accidents and protect vehicle occupants. Honda's policies and procedures are designed to make sure that recalls and repairs are handled appropriately. Honda's goal is to help minimize exhaust emissions, help maintain traffic safety and prevent injuries and damage. If a model defect is discovered and repairs are deemed necessary, announcements are made immediately and in accordance with the laws and regulations of the countries involved. Offers are issued by mail, telephone and other means of communication from local dealerships to owners of the affected vehicles to handle the required repairs at no charge.

## Protecting personal information

Honda has always regarded customers' personal information as important and private, and has taken appropriate measures to protect that privacy. In view of the new Personal Information Protection Act enacted in Japan on April 1, 2005, Honda has instituted new measures that are even more comprehensive and rigorous. We have organized training seminars and distributed communications aids to dealerships to ensure that every member of the Honda team in Japan handles this important issue with due diligence and care.





**Environmental, safety and special-needs dealership initiatives**

Our certification system distinguishes dealers in Japan who achieve superior standards in environmental preservation, safety and special needs, earning Honda ever-greater customer trust.

**Green Dealers**



Green Dealers are proactively involved in improving environmental efficiency, eliminating waste, and saving energy and resources at many of the locations where Honda automobiles, motorcycles and power products are sold and serviced. Dealers who demonstrate compliance with environmental preservation regulations and take steps to clean up the area around their dealerships are certified as Good Green Dealers, while those who go even further in improving the environmental efficiency of their operations are certified as Best Green Dealers. As of the end of March 2006, 50 Good Green Dealers and 2,489 Best Green Dealers were certified in Japan. The Green Dealer system is now being expanded to include a growing number of motorcycle and power product dealerships, in addition to automobile dealerships.

Environmental event



Clean-up campaign near dealership

**Rainbow Dealers**



Rainbow Dealers offer customers driving safety training and seminars, aiming to help minimize traffic accidents. At automobile dealerships, Safety Coordinators are trained to advise customers. Based on the number of qualified coordinators and the quality of their educational programs, dealerships are certified either as Good Rainbow Dealers or Best Rainbow Dealers. As of the end of March 2006, 2,034 Good Rainbow Dealers and 326 Best Rainbow Dealers were certified in Japan. Starting in April 2005, Honda safety certification programs began to extend to motorcycle dealerships, with a new Safety Support Dealer System instituted to recognize dealerships that offer regularly scheduled rider training. Sales personnel are expected to qualify as Riding Advisors and offer customers safety guidance.



Driving school



Safety seminar

**Orange Dealers**



Orange Dealers provide barrier-free showrooms that contribute to the local community by focusing on assisting customers with disabilities and senior citizens. Such dealerships display special-needs vehicles and make them available for test driving. Dealerships that are wheelchair-accessible, providing parking spots suitable for wheelchair users and ensuring that there are no steps between the parking lot and the entrance to the dealership for ease of access of all customers, are certified as Good Orange Dealers. Those that provide wheelchair-accessible restrooms are certified as Best Orange Dealers. The goal is to reinforce the readiness of all sales personnel to provide guidance regarding special-needs vehicles, making sure all customers feel truly welcome. As of the end of March 2006, 1,676 Good Orange Dealers and 391 Best Orange Dealers were certified in Japan.



## Special-needs vehicles

Fun for Everyone—that’s what we’re after. In Japan, Honda offers special-needs vehicles to extend the pleasures of a mobile lifestyle to as many people as possible by providing safe, comfortable, accessible transportation. At the same time we seek to provide more opportunities for people with disabilities to realize their full potential. The automobile can empower people to participate freely in society, and special equipment is required to meet the needs of individuals with various types of disability. Honda makes it a priority to create vehicles that meet the diverse needs of individuals, thus helping people with disabilities achieve greater independence. And with the aging of society, more and more of us may find ourselves looking for innovative ways to get around more easily. Honda is working to meet everyone’s special needs.

### Special-needs vehicles: achievements

- 1975: Delivery of special-needs vehicles to the Driver’s License Testing Office in Fuchu, Tokyo, Japan
- 1976: Honda Techmatic System for Civic released
- 1982: Honda Franz System released
- 1995: Wheelchair-ready Acty Almas released

### Special-needs vehicles (for those who need assistance getting in and out of a vehicle)

Honda’s Almas series includes automobiles with passenger seats that swivel and can be raised and lowered (passenger lift-up seat vehicle); 2nd-row seats that swivel and can be raised and lowered (side lift-up seat vehicle); and passenger seats that swivel to facilitate access for people who use wheelchairs (passenger swivel seat vehicle). All swiveling seats offer the same superior level of comfort as standard Honda seats.



Side lift-up seat vehicle

### Driving assist systems (for drivers with physical disabilities)

Honda has developed and released driving assist systems to help those with physical disabilities enjoy the pleasure and comfort of driving: the Honda Techmatic System and the Honda Franz System, which allows drivers who have lost the use of both arms to drive with foot controls. The Honda Techmatic System can be installed on any automobile sold by Honda. It offers a manual driving supplemental device, a left-foot-operated accelerator pedal and a steering aid knob, among other options—the system can be adjusted to meet many special needs. The Honda Franz System

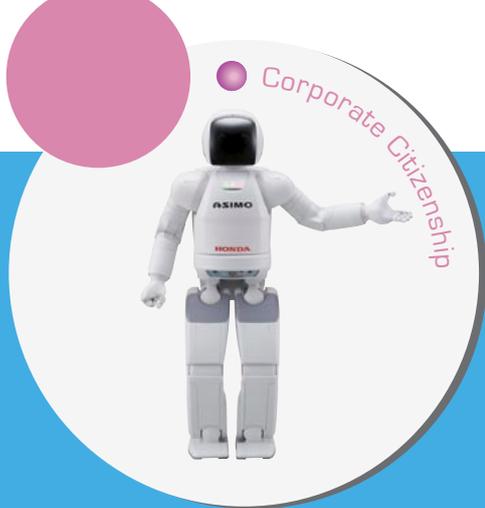
is Honda’s improved version of a system created by Eberhard Franz that won broad popularity in Europe upon its release in 1965. In 1981, after receiving technical guidance from the system’s inventor, Honda augmented the system with original technology to make it even easier to operate. All systems are customized to best fit the individual driver. Honda offers comprehensive support, from helping disabled drivers obtain a driver’s license to the provision of driving instruction. The Honda Franz System is currently the only foot-operated driving system available in Japan.

### 4-wheel scooters (for people who have difficulty walking)

The MonPal 4-wheel scooter was released in 1999 to help people who have trouble walking or riding a bicycle maintain an active lifestyle. Accorded the same status under Japanese law as pedestrians, MonPal users need no driver’s license. The all-new ML200 model released in 2006 offers further improvements in safety, comfort and attractive styling, and has been very well received among senior citizens.



ML200 MonPal

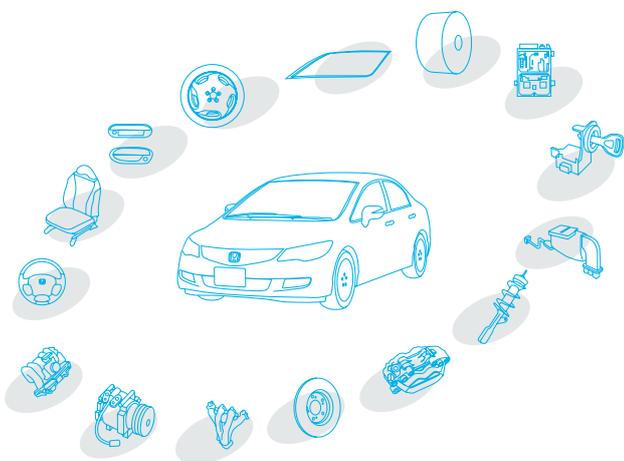


## Sharing dreams with our suppliers and growing together

Honda procures parts and materials from thousands of suppliers worldwide. We view the long-term stability of these relationships as vital and work constantly to foster the trust that will allow us to continue to grow with our suppliers. To that end, in making purchasing decisions, we take care to set fair conditions and use appropriate practices, always respecting the independence of our suppliers and treating them as equals. Our door is always open to new suppliers who wish to enter into relationships with Honda anywhere in the world.

### The key function of purchasing

The quality of Honda products depends on the quality of the parts and materials that constitute them. We select a great many parts, from glass to tires to door handles, and integrate them in the assembly of our vehicles. Associates in our purchasing departments bear the responsibility for procurement.



### Transparent purchasing policy

In Japan and at principal overseas facilities we hold regular meetings with our suppliers as part of our effort to optimize procurement quality, cost and delivery, or QCD. At a March 2006 meeting in Japan that was attended by some 280 firms, we reaffirmed policies intended to further Honda's key objectives as defined in Vision 2010: creating value for customers; globalization, developing global operations in harmony with local communities; and living up to our commitment to future generations by providing solutions to environmental and safety

issues. Similar meetings are held at principal overseas facilities with a view to clarifying how Honda policies and strategies are to be applied in each country and region. We also hold New Year awards ceremonies and celebrations with suppliers who have made particularly significant contributions to QCD in their area. In fiscal 2006, 45 firms received awards in Japan.



Making purchasing policy clear



## For customers and society

As customer requirements diversify and customers demand increasingly high quality, we need strong partnerships to ensure excellence in product QCD. As part of our effort to optimize cost and quality, our R&D and purchasing experts work closely with our suppliers from the initial stages of product development, exchanging information as we collaborate to create value that exceeds our customers' expectations. And we're also working with our suppliers to develop new technologies to further improve the environmental performance and safety of our products. By creating new value for our customers and society at large, we seek to fulfill our commitment to finding solutions to environmental and safety issues, thereby helping to build a better world for future generations to enjoy.

## Purchasing that respects regional differences

In accordance with the policy of manufacturing close to the customer that was first defined by our founder, Honda has expanded its manufacturing operations all over the world. In order to contribute to local societies and economies, we have proactively pursued opportunities to procure parts and materials from local suppliers. Similarly, in Japan, Honda has cultivated relationships with local firms that provide employment for disabled individuals.

## Green Purchasing

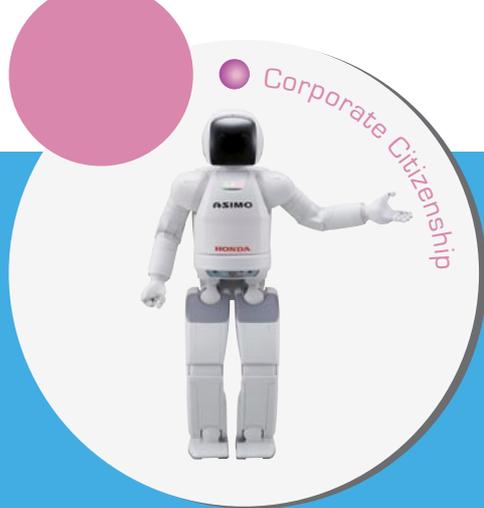
Seeking to take an environmentally responsible approach to procurement, in fiscal 2002 Honda established Green Purchasing Guidelines in Japan. By sharing information on parameters and target values with our suppliers, we're improving environmental performance together. We're working to reduce or eliminate the use of lead, mercury, hexavalent chromium, cadmium and other materials believed to have adverse effects on the environment from automobiles, motorcycles and power products manufactured in Japan. Together with our suppliers, we're implementing the Honda Life Cycle Assessment (LCA), which aims to reduce carbon dioxide emissions and the output of industrial wastes destined for landfills. Furthermore, to promote the establishment of environmental management systems, we are urging all our suppliers to secure ISO 14001 environmental management certification—and we're pleased to say that 96% of our suppliers in Japan (396 firms) have been certified as of fiscal 2006. In addition to these broad policy directions, Honda also holds Green Conferences to recognize

achievement in environmental performance, sharing information on better environmental management with its suppliers, and strives in a myriad of ways to help reduce the overall impact of its business activities on the environment.



Honda Green Conference





## For our associates: respecting independence, ensuring fairness and fostering mutual trust

In accordance with the basic principle of respect for the individual, Honda believes that human beings are born to think, to create and to express their individuality, realizing their hopes and dreams. We strive to attract individuals who share this belief and who will respect each other's individuality. We seek to foster an atmosphere of mutual trust and fairness in which our associates are able to realize their potential and share in the joy of creating new value for society. Our goal is to create an environment in which each person's ambitions and abilities can be fully developed and put to the best possible use. We seek to maintain organizational structures and personnel policies that foster a free and open atmosphere, encouraging each associate to face new challenges and achieve new successes.

### Three principles for personnel management

#### 1. Respecting independence

Honda expects associates to express their individuality and independence. As our founder said, "He who knows best should speak up, and he who can do best should act." In that spirit, today's associates are encouraged to think for themselves, take action and accept responsibility. Associates interested in earning new qualifications are expected to volunteer to take on the challenge. Anyone with ideas and proposals is expected to express them. In all things, the independence and ambitions of individual associates are accorded respect.

#### 2. Ensuring fairness

Honda offers a simple compensation system with the same fair rewards for anyone with similar abilities handling similar work with similar results, without regard for race or nationality or gender, making no distinctions on the basis of educational associations or career history, objectively assessing each person's individual strengths and aptitudes. Honda is careful to handle appointments and personnel deployment issues fairly and in a manner appropriate to the individual's abilities and aptitudes.

#### 3. Fostering mutual trust

Tolerance and mutual respect are the underlying foundations on which trust is built and obstacles are overcome. And of course trust is crucial in a broad range of relationships, including those between employees and employers, companies and labor unions. In our interaction with labor unions, Honda has fostered its own tradition of mutual appreciation and respect, creating both trust and mutually beneficial long-term relationships.

Number of associates in each region (consolidated)

Region	March 2004	March 2005	March 2006
Japan	61,224	61,064	61,697
North/Central America	33,680	34,989	36,057
Europe/Middle East/Africa	8,702	9,033	9,630
Others	28,004	32,741	37,401
<b>Total</b>	<b>131,610</b>	<b>137,827</b>	<b>144,785</b>

## Building the foundation for success

### Human resources development

Through extensive training programs, Honda provides associates the opportunity to gain experience, expertise and the confidence needed to handle new responsibilities. In accordance with the specialized skills and technological capabilities needed in each department and section, Honda is proactively developing its on-the-job training programs. It is also providing time and resources for associates to benefit from off-the-job training. And to maximize the impact of on-the-job training, we also provide training in such areas as career formation, issue resolution and risk management. For associates who take the initiative to learn new skills, acquire knowledge and cultivate themselves in order to more fully realize their own potential, we offer opportunities for language learning, distance education and inter-industry exchanges.

### Working hours

Honda has always been an industry leader in introducing shorter workweeks, in 1970 instituting a system in which associates worked 6 days every second week and 5 days other weeks; and instituting the 5-day workweek in 1972. Other initiatives enjoyed by associates for more than 30 years include the banning of overtime on Wednesdays and Fridays, and the introduction of a policy encouraging all associates to use their full vacation allotments. As a result, regular working hours in 2005 averaged 1,768.6 and cumulative working hours averaged 1933.2. In the same year, associates averaged 19.4 attributed vacation days and 19.9 paid vacation days—an impressive 102.6% vacation usage, which puts Honda in the top tier of the automobile industry.

### Respecting diversity

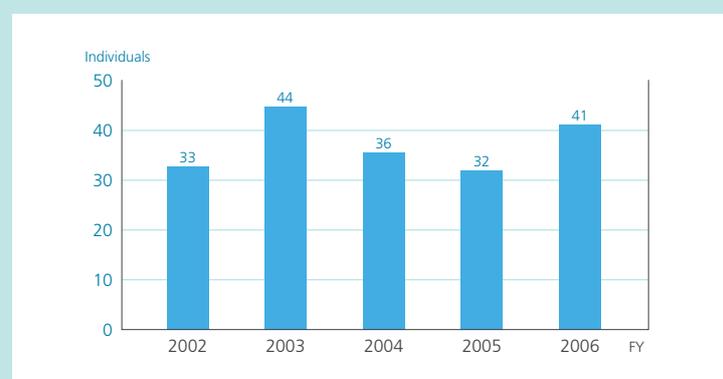
#### • An open-door employment policy

Even since the days when Japanese corporations tended to favor employing only graduates of a few elite educational institutions, Honda has had an open-door employment policy, hiring the most capable and motivated individuals available. In addition to hiring new graduates, we also welcome talented individuals in mid-career, enriching the company with a diverse mix of personalities and experience.

#### • Striking a balance between work and family life

In accordance with the introduction of new laws governing parental leave in Japan, Honda submitted a two-year plan to the Ministry of Health, Labor and Welfare, with a view to providing a working environment that helps young parents balance the requirements of their jobs with the responsibility of looking after young children. Taking into account the timing of children's admittance into day-care institutions, the program continues until the April after the year the child reaches the age of three. The option of off-hours work is also made available to working parents until the child enters elementary school.

Parental leaves over the last 5 years

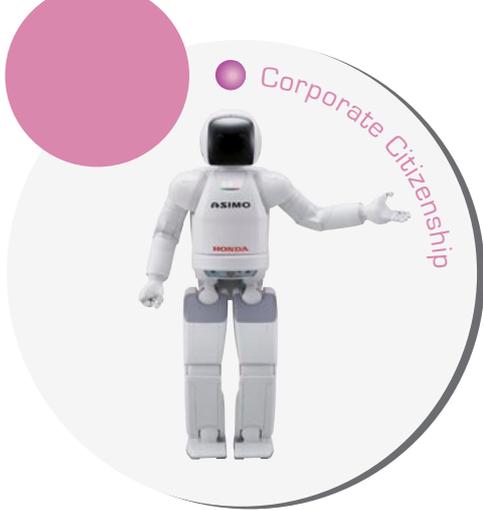


#### • Employment of disabled individuals

In addition to providing employment at affiliate Honda Sun Co., Ltd. (est. 1981) and Kibounosato Honda Co., Ltd. (est. 1985) and in our factories in Japan, Honda strives to create jobs in which disabled individuals can integrate the general working population. As of March 2006, employment of disabled individuals at factories in Japan stood at some 2.3%, well above the legally prescribed level of 1.8%.

#### • Rehiring retirees

Even before the introduction of laws governing the employment of retired individuals in April 2003, Honda had in place policies to create opportunities for those associates who reached retirement age. Retirees with special technical skills, talents and expertise are invited to return to the company in a new capacity.



## Occupational health and safety

In accordance with the principle of respect for the individual, Honda considers the safety and well-being of all associates among its principal responsibilities. We strive to ensure workplace safety as well as traffic safety for associates on their way to work. We promote a healthy lifestyle among associates. In the spirit of the founder's words, "No safety, no production", Honda strives to be a world leader in occupational health and safety.

### Workplace safety

Honda is proactive in instituting measures to prevent workplace accidents. It strives to optimize the health and safety of all associates. We're actively implementing risk assessments and other initiatives to raise the awareness of associates and supervisors about health and safety issues. As part of the effort to make the workplace more associate-friendly, ergonomics guidelines have been published jointly in Japan and the US. Work processes are continually evaluated with a view to minimizing undue physical burdens.

## Keeping everyone healthy

Offering comprehensive health promotion plans, Honda encourages associates to stay healthy and avoid lifestyle-related illnesses. Associates are offered many opportunities for exercise, a key to good health. Supervisors are trained to detect and help prevent mental health problems, associates are provided access to counselors for guidance on health issues, and various other avenues to better health are offered. Associates posted overseas are given opportunities to consult company doctors on a regular basis.

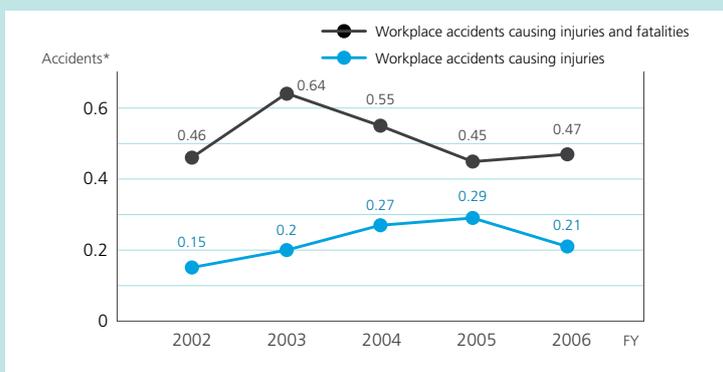
## Stimulating independence

### NH Circle activities

The NH Circle activities began in 1973 as a forum—or 'circle'—in which associates could exchange ideas and boost each other's motivation. The abbreviation "NH" stands for "Now, Next and New Honda"—in short, it means how to take new steps in the now to create the next great Honda improvement. The key theme in NH Circle activities is teamwork. Each year five regional



Incidence of workplace accidents



\*per million operational hours

The 2004 NH Circle World Convention

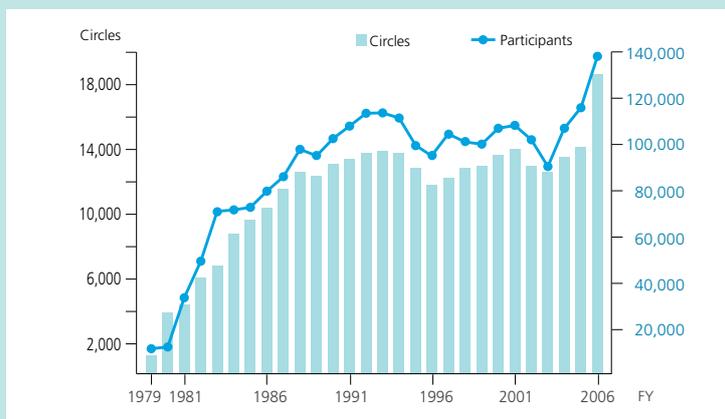
contests are held. Every second year the NH Circle World Convention is organized as an opportunity for global exchange and education. In fiscal 2006, some 18,520 circles were active worldwide. A total of 139,456 people participated, including representatives of affiliates, dealerships and partner firms. The 2006 NH Circle World Convention will be held in the UK in the fall of 2006.



President Fukui being briefed on suggestions from associates



### NH Circle participation



### Improvement suggestion system

Since 1953, Honda has had in place a system for encouraging all associates to make proposals as to how the company's work could be improved, whether in large ways or small. Such innovation could take the form of a grand technological or organizational breakthrough or consist of the tiniest improvement in any of the myriad techniques that are applied to create new Honda value. The objective is to take full advantage of the youthful insight and creativity of each associate. Honda seeks to encourage independence of spirit and innovation, fostering the growth and refinement of skills and capabilities. This initiative functions throughout the organization and contributes significantly to the development of the company. Each year, some 100,000 suggestions are received, and some 90% of them are implemented. As of July 2005, a total of 7.7 million suggestions had been contributed since the initiative was first implemented.

### Honda corporate culture

At Honda, everyone's ideas are warmly welcomed. The company has a tradition of holding *waigaya* discussions, during which considerations of hierarchy and seniority are set aside. Participants freely exchange ideas and seek new perspectives in order to solve problems. This is one more way Honda fosters independence and a supportive working environment based on trust and equality. According to regular associate surveys, some 80% express a high level of job satisfaction, with many attributing it to their sense of identification with the Honda philosophy. This appreciation of Honda philosophy, shared by more than 140,000 associates worldwide, drives our efforts to contribute to the well-being of people and societies.



## Clear communications

Honda strives to achieve transparent communications with our shareholders and investors worldwide by publishing useful, timely and accurate information, as well as by representing the financial and operational status of the company in a clear, factual manner. We work to optimize investor relations by distributing publications and holding informative meetings for investors. We strive to make our annual Ordinary General Meeting of Shareholders as informative as possible, and always aim to provide shareholders and investors with full and clear information about company activities.

### Honda history on the stock exchanges

Established in 1948, Honda Motor Co., Ltd. began offering its shares on the Tokyo over-the-counter stock market in 1954. After being listed on the Tokyo Stock Exchange in 1957, the shares were listed on all national exchanges in Japan. Overseas, the company issued American Depositary Receipts (ADRs) in 1962 and, in 1977, the ADRs were listed on the New York Stock Exchange. Honda shares were listed on major exchanges worldwide: in 1981 on the London Stock Exchange; in 1983 on the Swiss Stock Exchange; and in 1985 on the Paris Stock Exchange (now known as Euronext Paris).

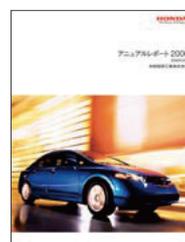


Celebrating the 25th anniversary of Honda's listing, ASIMO rings the opening bell at the New York Stock Exchange.

### Honda investor relations today

As a law-abiding corporate citizen, Honda always honors its basic policy of maintaining good communications with shareholders and investors worldwide. This is accomplished by publishing useful, accurate information as it becomes available, and by representing the company's operations and financial

situation in a clear, factual manner. In addition to an annual report, we publish quarterly reports and a shareholders bulletin. We also hold quarterly meetings with representatives of the media, analysts and institutional investors. On the day our financial results are released, teleconferences are held with overseas investors. We also hold quarterly meetings for principal overseas investors in Europe and North America in order to present our financial position and future management plans. These publications and reports, as well as presentation materials from financial results meetings and other informative documents can be found at the Investor Relations section of the Honda Worldwide website (<http://world.honda.com>), along with news on the corporation's global business development. In November 2005, Honda received the Japan Investor Relations Association's IR Good Company Prize, which is awarded to corporations that show a thorough appreciation of investor relations, work proactively to optimize their IR initiatives, and, as a result, enjoy strong support from the market. To facilitate investment by individuals and broaden its investor base, Honda Motor announced that its common stock would be split 2-to-1, effective July 1, 2006. Bringing the price of a single share below JPY 500,000, this measure is expected to encourage investment by individuals in Japan.



Annual Report



Shareholder Bulletin

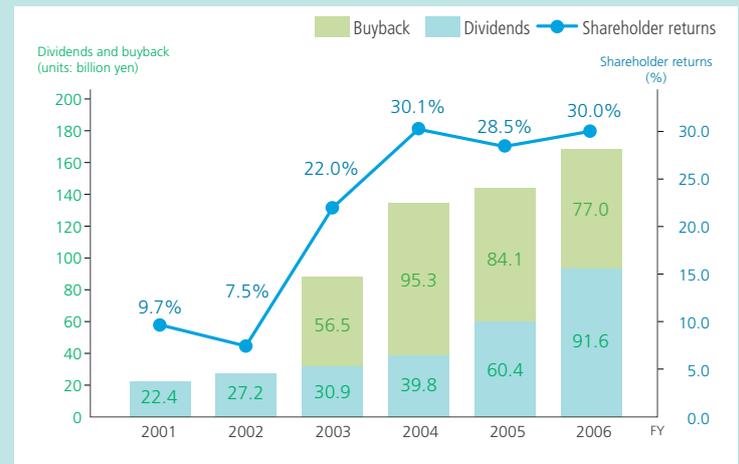
## Profit distribution policy

Honda strives to carry out its operations from a global perspective and to increase its corporate value. With respect to the redistribution of profits to our shareholders, which we consider to be one of the most important management issues, Honda's basic policy for dividends is to make distributions after taking into account our long-term consolidated earnings performance. Honda will also acquire its own shares at optimal times with the goal of improving efficiency of the company's capital structure. The present goal is to maintain a shareholder return ratio of approximately 30%. Retained earnings will be allocated toward financing R&D activities that are essential for the future growth of Honda and capital expenditures and investment programs that will expand operations for the purpose of improving business results and strengthening Honda's financial condition.

## Communicating with all our shareholders

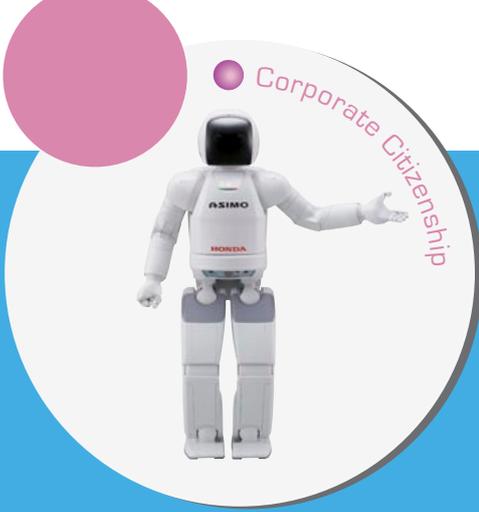
Honda considers the annual Ordinary General Meeting of Shareholders a vital opportunity to optimize communications with all shareholders. We strive to make the presentation of company information ideally clear, using illustrations and video as appropriate, and fielding the broadest possible range of opinions and questions. Displays of Honda automobiles, motorcycles and power products are arranged to provide an opportunity for shareholders to examine the products first hand, and of course ASIMO is sure to be on hand. To facilitate the participation of those shareholders who are not able to attend in person, Honda has provided for Internet-based voting via computer or portable telephone terminals since 2003, with comprehensive documentation also distributed. And each autumn, company visits are held for interested shareholders, featuring factory tours and presentations and question-and-answer sessions led by Honda directors. It is our hope that by inviting shareholders to have a close look at what goes on inside of Honda, we will enhance the bond of trust and affinity that links us.

### Shareholder returns



### Dividends per share: trend





## Sharing joy with people worldwide: the history of Honda philanthropy

Since the company's foundation, Honda has followed its basic principles of Respect for the Individual and The Three Joys, contributing to society by providing new value in the form of high quality products and technologies and through a broad range of initiatives designed to ensure our harmonious coexistence with the communities where we live and work. In 1998, on the occasion of the 50th anniversary of the company's foundation, a new corporate vision was defined: "Sharing dreams with people around the world, Honda will strive to become a company that society wants to exist." In order to respond to the expectations of people around the world, Honda Philanthropy Offices have been established and basic principles for Honda philanthropic activities determined. In 2006, a new symbol and key phrase were announced to represent Honda's increasingly proactive stance toward philanthropy.

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### Honda philanthropy: basic principles

- As a company with a global viewpoint, we are dedicated to contributing to the well-being of local communities around the world through our products and technologies
- As a good corporate citizen, we will deepen our commitment to all local communities where we do business
- We will contribute to the nurturing of a society where caring and energetic individuals actively participate in socially responsible activities

### Global directions

Striving to create a future society in which everyone can pursue their dreams, Honda shall:

- Support educating our youth for the future
- Work to preserve global environments
- Promote traffic safety through education and training

### The key phrase: Together for Tomorrow

The phrase "Together for Tomorrow" and the new symbol capture the spirit of Honda philanthropic activities throughout the Honda Group. Worldwide, Honda is working hand-in-hand with local communities to create a future full of dreams.



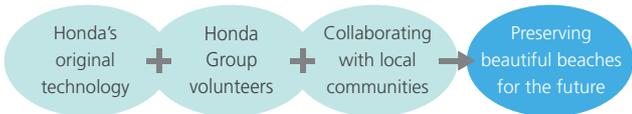
**Together for Tomorrow**

## Honda technology and Honda people at work in 2006: another new initiative

Environmental preservation has always been a key focus of Honda philanthropy. Current and retired associates are joining forces with concerned citizens worldwide and taking action. Honda technology is helping, too. In the new Beach Clean-Up Project, which began in May 2006, energetic individuals and innovative Honda technology are working to pass on a cleaner world to future generations.

### Barefoot beaches for future generations

Today, one of many environmental problems confronting the entire globe is seashore pollution. In Japan, heavy equipment and volunteers from local communities are pressed into service in various clean-up efforts, but year after year beach litter problems get worse. Honda associates wanted to help clean up the seashore in the hope that in future people could enjoy walking barefoot on the beach. They developed a compact, easy-to-use Towable Beach Cleaner. A group of current and retired associates assembled a volunteer caravan to work with municipal authorities to put the Beach Cleaner to work removing rubbish from sand. In this first year of the project, they plan to visit 20 locations, and are taking great care to maintain correct, safe operations. Honda hopes to extend the beach-cleaning project overseas.



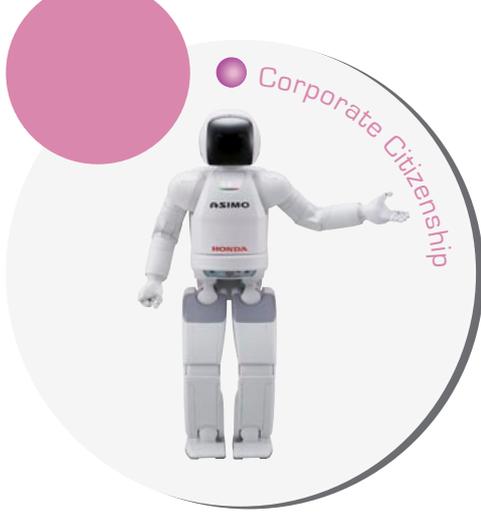
Cleaning Kotobiki Beach, Kyoto Prefecture



In action at Katase West Beach, Kanagawa Prefecture



A simple yet ingenious towable sand screen separates litter from sand



## Educational initiatives

### Honda Team-based Program

The imagination to dream up an idea. The creativity to make that idea a reality. That is what we want to foster in our children. It was with this aim that the Honda team-based, live-in research study program was born. The location of the three-day program is Twin Ring Motegi. Children are divided up into teams of ten, and each team holds discussions based on their experiences at the facility in preparation for the presentations on the final day. This process of experience, discussion and understanding helps guide the children toward new insights.



### Student Formula Challenge

The Student Formula SAE Competition of Japan is an educational program organized by the Society of Automotive Engineers of Japan (JSAE) to give budding engineers hands-on experience in designing and building their own formula race cars. Vehicle performance is not the sole criterion of excellence. Cost-benefit analysis and presentation skills are also taken into consideration. Honda's involvement is not limited to sponsorship. The Honda Meister Klub, a volunteer group of retired Honda engineers, provides technical instruction and support, teaching the student-



participants the basics of the skills and processes involved in car-making and the set-up and tuning of engines and suspensions.

### Nature Wagon

How old is that tree? Why is this flower such a pretty color? Nature's many mysteries are all around us. That's why Honda started the Nature Wagon. It's an environmental learning program on wheels—a van filled with natural objects from the ocean and the forest. The Nature Wagon travels to elementary schools and community centers, bringing nature to the city. Volunteer retired Honda associates teach about the workings of nature and the importance of environmental preservation. Crafts using wood and rocks are introduced, and children are encouraged to explore and discover nature and the environment for themselves.



### Dream Hands

We want children to experience the fun and excitement of making things with their own hands. That's why Honda started the Dream Hands program in regions where our facilities are located. Dream Hands is an introductory handicraft program combining original Honda cardboard crafts and nature crafts using materials from the forest. The program gives kids firsthand experience of the fun of making things. Current and retired Honda associates volunteer their time to assist and guide the children. Honda hopes that participation in this program will help children discover the joy of making things.



## Environmental initiatives

### Honda TreeFund

The Honda TreeFund ensures that, for every new Honda sold, ten native trees are planted. The program was created in 2004. Trees are planted in association with regional councils all over the country to help absorb atmospheric carbon dioxide.

In the two years since it was started, the Honda TreeFund has contributed enough funds to plant about 150,000 saplings. And it is not just Honda that contributes to the fund. Honda customers are invited to donate to the Honda TreeFund at time of purchase, and are further invited to join in the planting of the trees in conjunction with the Honda Agent Staff and their local council. In this way, people can play a part in supporting the greening of their community.



### School Environment Challenge Awards

Launched in 1999 to mark the 72nd birthday of the King of Thailand, the School Environment Challenge Awards gives schoolchildren the chance to present their own ideas for conserving and improving the natural environment in the regions where they live. Honda affiliates in Thailand work together with Thai government ministries in charge of the environment, energy, education, and public health to help implement this program. Elementary schools across Thailand are invited to submit a project plan. The best plans are given financial support, and children from the selected schools are given 8 months to put their project into action, under the guidance of local community leaders. Each project is assessed at various stages by panels of judges and representatives of third-party organizations. The best project is awarded the prestigious King's Cup.



### Watershed preservation

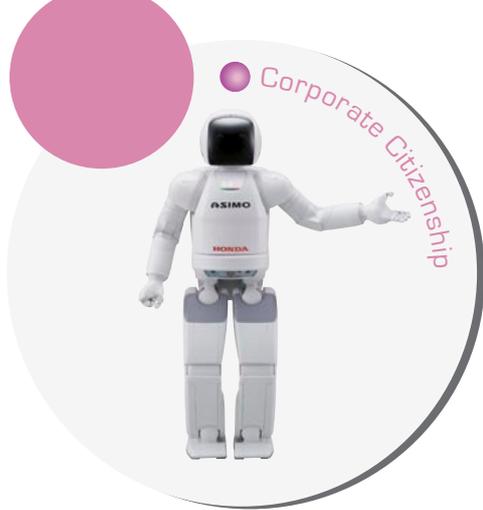
The rivers that provide us fresh water find their sources in the alpine forests that collect and retain water over long periods of time before releasing it toward the sea. Striving to preserve these precious watersheds for future generations, Honda volunteers from facilities throughout Japan are hard at work on forest conservation projects.

The headwaters of the Tama River, which supplies water to the region around Tokyo, are threatened by deforestation in Kosuge Village, Yamanashi Prefecture. Striving to help preserve this vital watershed, Honda is collaborating with Kosuge Village and OISCA International in a reforestation project. The first group of 48 Honda volunteers started work in spring 2005, planting some 500 maple saplings.

The Suzuka River supplies water needed in the cities of Suzuka and Yokkaichi. To combat the degradation of its headwaters in Kameyama City, Mie Prefecture, Honda began preservation work in March 2006. Other projects are underway to preserve the headwaters of rivers near the Saitama, Hamamatsu, Kumamoto and Tochigi factories.



Tree planting in Kosuge Village, Yamanashi Prefecture



## Traffic safety initiatives

### HART (Honda Australia Roadcraft Training)

Honda Australia established HART in 1999 as part of its global focus on increasing road user safety for drivers, passengers, and motorcycle riders. Traffic safety education provided by HART is built on a theme of 'street smart' techniques. A majority of crashes are the result of poor judgment: to combat this, HART programs concentrate on risk-lowering techniques rather than teaching advanced driving skills. A variety of programs are in place to meet the needs of everyone from children to seniors, with the aim of contributing to the Road Traffic Agency's objective of halving the current road toll by 2010. As part of its ongoing effort to improve road safety, Honda currently has similar programs in place in Australia's five provinces and in a total of 20 countries.



## International Association of Traffic and Safety Sciences (IATSS)

The International Association of Traffic and Safety Sciences was founded in 1974 as a forum for free discussion and research on the present and future state of transportation in mobile societies through endowments from founder Soichiro Honda and Takeo Fujisawa, as well as from Honda Motor itself. With a membership that includes leading scholars and experts from various fields, the association sponsors a broad range of studies and proposals related to traffic safety, as well as scientific conferences, exchanges and publications and awards for those making outstanding contributions to driving safety. It also provides support for traffic safety-related programs that respond to pressing concerns of the day.



### IATSS Forum

The IATSS Forum is a research program that focuses on the education of promising young Asian youth. Young professionals from ASEAN countries are invited to Japan for a session of "Thinking and Learning Together." This consists of lectures, seminars, case studies, group research projects and related activities, as well as cultural exchanges covering many different fields of study. A total of 663 researchers have participated so far.



## Other Honda Group initiatives

Since the company's foundation, as the expansion of Honda operations has brought us into contact with more communities and many countries, we have always sought harmonious coexistence and acted as a good corporate citizen. Our efforts to become truly welcome are often led by the people at our dealerships and Group companies, and the members of our labor unions. These efforts are expanding worldwide.

### Dealerships / Honda Group companies (In Japan and overseas)

In accordance with Honda policy, our dealerships and Group companies in Japan and overseas are engaged in a range of initiatives focused mainly on education, environmental preservation and traffic safety, always in harmony with the special characteristics of the local community and its needs. Sharing joy with people everywhere, we're striving to create a future full of hope and dreams.

### Honda Motor Workers' Union

Over 40,000 members strong, the Honda Motor Workers' Union marked its 40th anniversary in 1992 by establishing a social contribution fund. Just a few of the notable achievements have been the establishment of a Honda Repeat Hotline and a group of volunteers involved in wheelchair refitting, mobilizing wheelchair marathon organizers, and helping those struck by disaster through emergency relief and fundraising drives.

## Foundations

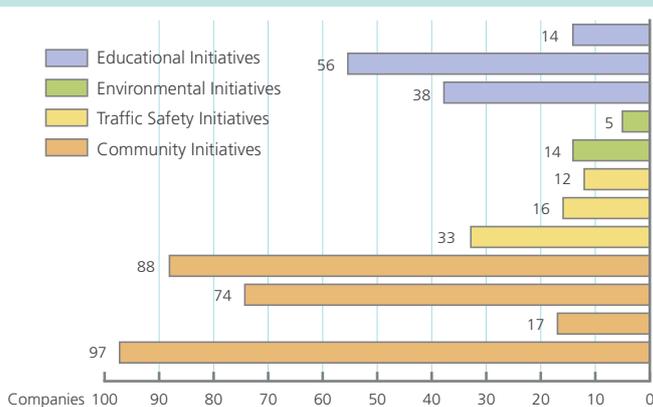
### The Honda Foundation

The Honda Foundation was established in 1977 through a private grant from Honda founder Soichiro Honda and his brother Benjiro. Its goals: contributing to the creation of a truly humane civilization and putting the finest inventions of modern society to work for the peace and well-being of mankind. The foundation advocates the development of eco-technology—technology that promotes harmony between human activity and the environment—and has developed initiatives such as the Honda Prize international award for advances in eco-technology, symposia and seminars, and starting in 2006, a new award for young Asian engineers and scientists.

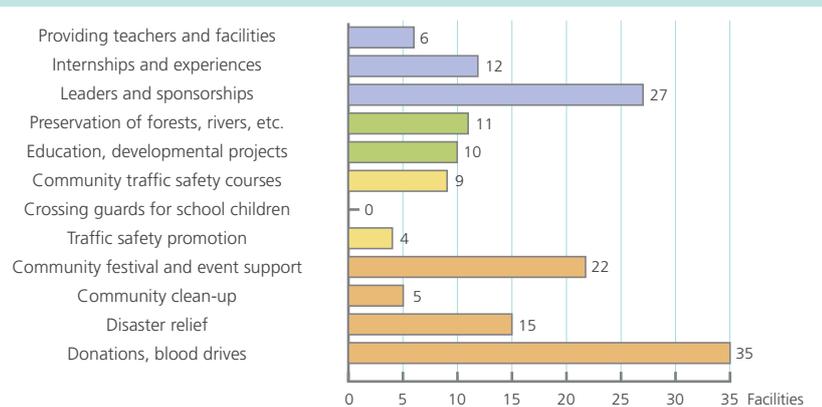


Dr. Raj Reddy receiving the 2005 Honda Prize

Philanthropic initiatives by Honda Group companies and dealerships, fiscal 2006 (137 companies)



Philanthropic initiatives by overseas affiliates, fiscal 2006 (46 facilities)



Guided by the Honda Philosophy, Honda has developed its operations worldwide through the pursuit of dreams and the determination to make them come true. Thanks to these efforts, we have satisfied customers and established trust with individuals and societies in many countries. Striving for continuing growth through our regional entities, Honda encourages associates worldwide to take initiatives on behalf of the company, always acting in compliance with company policies. Each associate is issued a copy of the Honda Conduct Guidelines to help ensure that we shall continue to earn the trust of people everywhere and become a company that society wants to exist.

## Compliance

**Representing Honda, a company which abides by the law scrupulously, we will demonstrate sincere respect for the law in all our actions.**

### I) Respect for the Law

#### ● Proper understanding of the law

We will understand and abide by the letter as well as the spirit of applicable laws, stay informed of any revisions to the law and take the necessary courses of action.

#### ● What to do in case of unclear interpretation

Whenever there is a doubt or unclear interpretation of the law, we will consult with the legal department, government bodies and/or outside experts.

#### ● What to do if the law has been violated

Whenever a violation of the law or the risk of such an occurrence is noticed, we will immediately report to or consult with the supervisor or the legal department, or make a proposal to the Business Ethics Proposal Office.

#### ● Report/notification to government agencies

We will properly make reports/notifications to government agencies as required by law.

### II) Respect for Company Rules

#### ● Proper understanding of company rules

We will understand and abide by the letter as well as the spirit of company rules, stay informed of any revisions and take the necessary courses of action.

#### ● What to do in case of unclear interpretation

Whenever there is a doubt or unclear interpretation of a company rule, we will consult with the department that created the rule to confirm proper understanding.

#### ● What to do if rules have been violated

Whenever a violation of a company rule or the risk of such an occurrence is noticed, we will report to or consult with the supervisor or make a proposal to the Business Ethics Proposal Office.

#### ● Report/notification

We will properly make reports/notifications as required by company rules.

### III) Respect for Social Norms

As members of society, we will behave ethically and in accordance with the common sense of the community in which we operate.

## Traffic Safety

**In order for Honda to be a leader in traffic safety, we will abide by traffic rules and drive safely.**

## Environmental Protection

**To help Honda actively promote environmental protection, we will proactively seek the means to protect the environment.**

#### ● Proper processing of waste and pollutants

We will strive to minimize and properly process waste and pollutants at each step of our activities, in development, production, logistics, sales, service, and, ultimately, disposal.

#### ● Efficient use of natural resources and recycling

We will strive to make efficient use of energy and other natural resources, and continue to advance our recycling efforts.

#### ● Legally required measurements, recording and reporting

We will conduct measurements, recording and reporting on the environment related to soil, underground water, air, noise, smells, etc., as required by environmental laws or company rules.

## Contributions to Society

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In order for Honda to be a good corporate citizen with strong roots in the community and society at large, we will actively participate in activities that contribute to the well being of society.

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### ● Community Participation

We will become active members of the local community and participate in local activities.

### ● Social welfare

We will actively support people with mental and physical difficulties.

### ● Disaster relief

We will actively support disaster relief activities.

### ● Volunteer activities

We will actively encourage, support and participate in volunteer activities.

## Management of Information

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In order for Honda to properly manage customer- and business partner-related information, we will pay the utmost attention to the appropriate handling of confidential information.

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### ● Management of Information Security

We will appropriately manage information security such as by locking of storage cabinets, and carefully managing computers and security passwords.

### ● Confidential Information Disclosure Prevention

We will not release confidential information or personal information regarding customers, business partners, or associates.

## Safety and Hygiene

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We will strive to provide a safe, hygienic and comfortable work environment for every Honda associate.

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### ● Providing for a comfortable working environment

We will provide a comfortable working environment by maintaining an orderly, well-organized and clean workplace.

### ● Respect for smoking rules

We will respect rules and etiquette regarding smoking.

### ● Accident prevention

We will strive to manage potentially dangerous processes and areas to prevent injuries on the job.

### ● Action to be taken when an unsafe operation is discovered

Whenever an unsafe process or area is noticed, we will immediately report to the supervisor.

### ● What to do in case of disaster

Whenever a disaster occurs, priority must be given to protecting human life and preventing the disaster from worsening.

### ● Emergency contacts

To ensure quick action, everyone will be informed in advance of what to do and who to contact in the event of an emergency situation.

## Discrimination

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In order to make sure Honda is a fair, discrimination-free company, we will affirmatively accept the uniqueness and differences of people around the world and act in adherence to the principle that all people are created equal.

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### ● Prevention of discrimination

We will not discriminate according to place of birth, nationality, beliefs, religion, sex, race, ethnic origin, age, physical or mental disability, legally protected medical condition, hobbies, education, or status within society.

### Prohibition of Use of Discriminatory Language

We will not use words/expressions considered discriminatory or that may be interpreted as discriminatory.

## Protection of Privacy

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To make sure Honda emphasizes the privacy of individuals, we will do our utmost to respect and protect privacy.

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### ● Respect for Privacy Protection Laws

We will abide by the letter as well as the spirit of laws protecting individual privacy.

### ● Prevention of Unauthorized Revelation of Private Information

Before providing private information to a third party, we must first obtain the approval of the person(s) concerned.

## Business Transactions

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To make sure Honda maintains a fair and sound relationship with our business partners, we will conduct fair, sound transactions.

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### ● Selection of business partners

When we need to purchase products or services, we will select a business partner by comparing and evaluating in an impartial manner the terms and conditions offered by various business partners.

### ● Prohibition on excessive gifts and benefits

In our dealings with business partners, we will neither offer nor accept gifts or benefits beyond that normally considered appropriate.

### ● Prohibition on improper exercise of positions and authorities

We shall not exercise positions or authorities inappropriately to exact improper benefits from business partners; nor will we give business partners improper benefits.

## Relationships with Governmental Agencies

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As representatives of an independent corporation, we will conduct our relationships with government officials in a straightforward and sincere manner.

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### ● Abiding laws and regulations for ethics

We will act in a manner that recognizes government officials' ethics and what are considered conflicts of interest under the relevant laws and regulations.

### ● Prohibition on excessive gifts and benefits

We will not offer government officials any gift or benefit exceeding the social custom or socially accepted limits.

## Communication

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As a highly accountable company, we will value communications with society.

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April 1, 2003

● Fiscal 2006 Edition (April 2005 – March 2006)

This is the first edition of the Honda Motor Co. Ltd. CSR Report. Certain regional initiatives and other events described herein may extend beyond the designated timeframe.

● Organization described: Honda Motor Co., Ltd.

This Report focuses primarily on Honda Motor Co., Ltd. It also includes some information on principal affiliates in Japan and overseas.

● This Report and the Honda Worldwide website

This Report has been edited in an effort to present the activities of the Honda Group in an easy-to-understand format. Further details may be available at the Honda Worldwide website (<http://world.honda.com>) as indicated in the Report.

● Disclaimer

In addition to factual information regarding the past and present status of Honda Motor Co., Ltd., this Report contains plans, perspectives and forecasts based on corporate philosophy and management strategies as of the date of publication. Sections of the Report dealing with such plans, perspectives and forecasts is based on information available at the time of publication. Please note that actual results and events may differ.

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● This Report is also available for download in PDF format at Honda's Worldwide website:

☞ <http://world.honda.com/CSR/>

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# HONDA

The Power of Dreams



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