Corporate Governance: Basic Stance

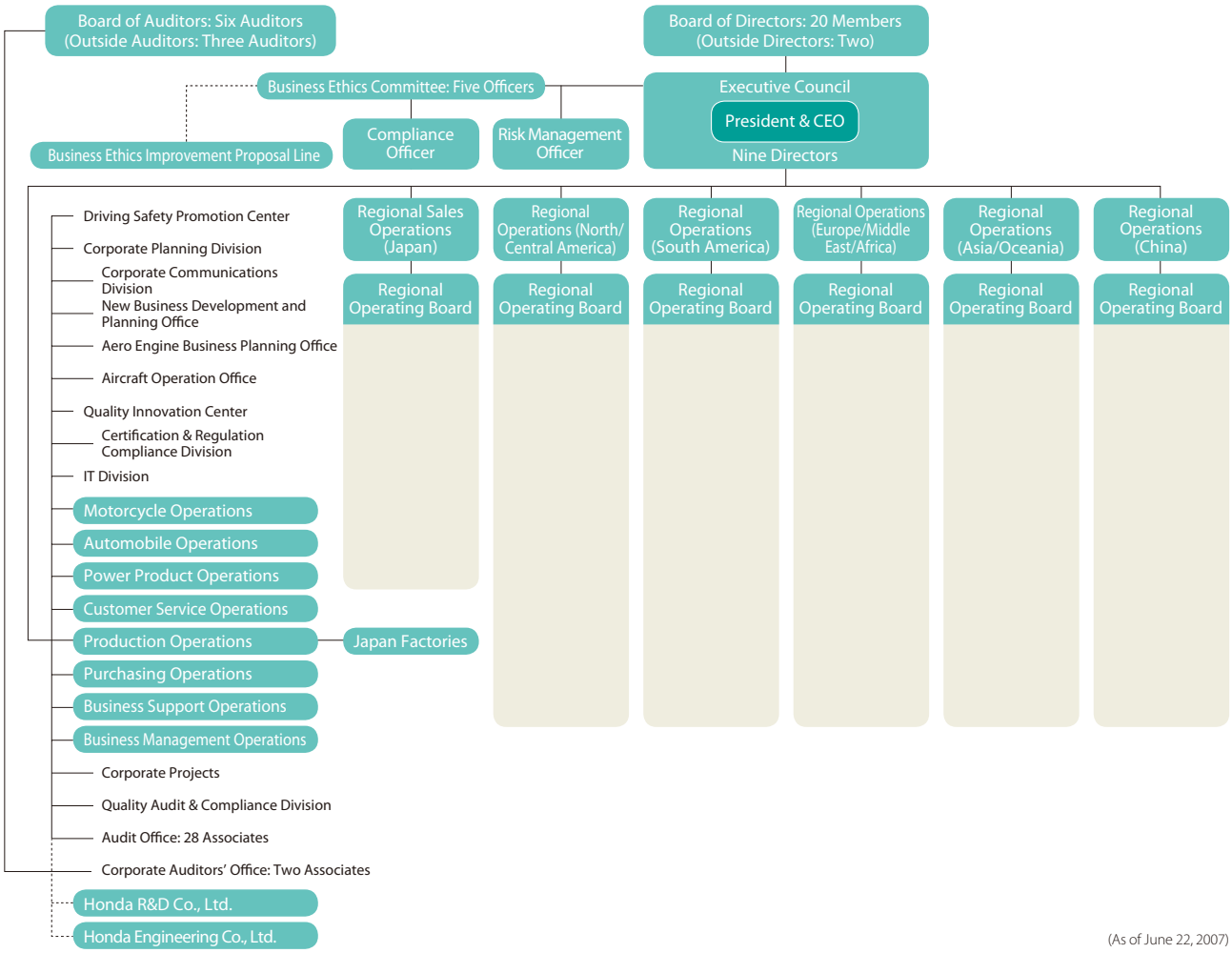
Honda considers corporate governance one of the most important management issues. We're strengthening it on the basis of our fundamental corporate philosophy, aiming to have the global community—including our customers, shareholders and investors—place even greater trust in us as we strive to be a company society wants to exist.

To ensure objective oversight of management, Honda appoints outside directors to its Board of Directors and outside auditors to its Board of Auditors. To strengthen its business execution system in each region and workplace, as well as enhance the supervisory function of the Board of Directors, Honda has introduced an Operating Officer System. To help its Board of Directors respond quickly to changing business environments, as well as to improve the flexibility of its decision-making process, Honda limits directors' assignments to one year and determines their compensation in accordance with business results.

Based on its fundamental corporate philosophy, Honda has refined its organizational structure. A general manager from the Board of Directors or an Operating Officer is now assigned to each administrative region, business and functional division. The Executive Council deals with important global issues, and regional operating councils deal with important regional management issues. Honda has developed a highly effective and efficient business execution system to respond to the needs of customers and societies with swift, optimal decision-making.

In the area of internal controls, each division is engaged

Corporate Governance: Organization



(As of June 22, 2007)

in strengthening compliance and risk management measures. Thorough audits are conducted by the Audit Office to monitor execution.

We issue quarterly reports on financial results and management policy to enhance the trust and respect we earn from shareholders and society. Through these and other measures, we will continue to maintain full disclosure and transparency.

Corporate Governance: Policy

Management Structure

• Board of Directors

The Board of Directors has 20 members, two of whom are external appointees. It supervises the execution of Honda's business affairs and makes decisions on matters of importance to the company, including legal issues. The board met eight times in FY2007.

• Board of Corporate Auditors

The Board of Corporate Auditors consists of six corporate auditors, three of whom are external appointees. Each corporate auditor audits the directors' execution of duties in accordance with Honda auditing standards, auditing policies, and apportionment of responsibilities and decisions of the Board of Corporate Auditors. Corporate auditors conduct these audits through various means, such as attending meetings of the Board of Directors and reviewing the status 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.

Honda has established standards to ensure timely and precise reporting to auditors. In accordance with these standards, reports are filed from time to time on the structure and implementation of internal controls at Honda and its subsidiaries, and in any situation where the company's actions may significantly impact society. Auditors are invited to attend meetings of the Executive Council and other important meetings. In FY2007 the Board of Corporate Auditors met 13 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. Mr. Sakamoto also qualifies under Section 121, Article 8 of Japan's Company Law as a person of advanced knowledge of finance and accounting.

In FY2007 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. A frank exchange of views took place.

With respect to audit policies and schedules, the corporate auditors closely coordinate their activities with the Audit Office, which is responsible for internal audits. In FY2007 corporate auditors and the Audit Office, either independently or in collaboration, conducted business audits of a total of 130 companies from among Honda's subsidiaries and affiliates in Japan and elsewhere.

• 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.

• Director Remuneration

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

• Accounting Audits

To ensure proper auditing of the company's accounts, the Board of Corporate Auditors and the Board of Directors receive auditing reports based on Japan's Company Law and Securities and Exchange Law, as well the US Securities Exchange Act. In addition, they supervise the election of independent auditors, their remuneration and non-audit services.

In FY2007 Honda appointed Azsa & Co. as its independent auditor for the purposes of Japan's Company Law and Securities and Exchange Law, as well as the US Securities Exchange Act.

Business Execution System

• Organization

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

Honda's four business divisions—motorcycles, automobiles, power products and components—formulate medium- and long-term business plans. Each division aims to maximize its performance on a global basis. Each functional operation, including 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 operational efficiency.

Research and development activities are conducted principally at Honda's independent subsidiaries. Honda R&D Co., Ltd. is responsible for product research and development, while Honda Engineering Co., Ltd. handles research and development in the area of production technology. The Honda Group proactively conducts 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 administrative, 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 maintains a highly efficient business execution system.

Founding Spirit

Column

The Big Boardroom: Honda's corporate culture and decision-making

There is no president's office at Honda, and no separate offices for directors. There is simply a Directors' Room—a big room with desks for each of the representative directors, plus large tables around which directors gather to discuss management issues, sometimes inviting associates to join them. The Big Boardroom concept was introduced in 1964 by one of the men who created Honda: Vice President Takeo Fujisawa. Mr. Fujisawa believed that to create new value the company needed more than what individuals working in isolation could provide. Honda needed to create an environment in which its leaders could freely exchange ideas, synergistically forming a powerful leadership team. By working face to face every day, the directors formed stronger bonds of trust, sharing information and affirming opinions.

The Big Boardroom system also provides a form of internal management auditing, encouraging open, expeditious decision-making in everyday matters and emergencies alike. Introduced as a creative way to run a company, the Big Boardroom is also highly appropriate, given contemporary imperatives of corporate governance and risk management.

The open-mindedness and vitality of Honda's corporate culture have their origins in traditions like the Big Boardroom, and are reaffirmed every time associates bounce ideas off each other in Y-gaya (brainstorming) sessions. This spirit of egalitarianism keeps Honda strong, fueling innovation for the future.

The Directors' Room in the era of Honda's second President, Kiyoshi Kawashima

The Directors' Room today

• **Executive Council**
Honda has established an Executive Council, which consists of nine representative directors, including the president and vice presidents. Along with discussing in advance the agendas of meetings of the Board of Directors, the Executive Council discusses important management issues within the scope of authority conferred upon it by the Board of Directors. The Executive Council met 27 times in FY2007.

• **Regional Operating Councils**
To enhance the independence of each administrative region and ensure swift decision-making, regional operating councils have been established in each administrative region to discuss important regional management issues within the scope of authority conferred upon them by the Executive Council.

Internal Controls Systems: Fundamental Approach and Current Status

To earn the trust of customers and society, Honda's divisions have implemented frameworks to ensure a systematic approach to compliance and risk management in accordance with policies determined by the Board of Directors regarding internal controls systems, and under the guidance of their respective directors-in-charge. These include the formulation of performance guidelines and procedures for self-assessment. Honda also has a system to support the initiatives of each division. Effective audits are carried out to monitor the execution status of each division.

• **Conduct Guidelines**
Honda Conduct Guidelines have been created to guide the actions of all associates. In addition, each division produces more detailed performance guidelines according to its specific attributes.

Web Honda Conduct Guidelines are available at
http://world.honda.com/conductguideline/

• **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 Executive Council.

• **Compliance System**
Honda has appointed a compliance officer to act as 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 on matters related to corporate ethics and compliance. The Business Ethics Committee met twice in FY2007.

• **Business Ethics Improvement Proposal Line**
Honda places high priority on open communications. It set up the Business Ethics Improvement Proposal Line to receive suggestions related to corporate ethics. By providing appropriate responses to suggestions, Honda is constantly working to enhance corporate ethics. The system is designed to ensure the protection of those providing information, allowing them to 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, Honda has Crisis Response Rules, which are designed to address company-wide crises such as 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.