

Global Business Development



Stream: The new Stream 7-passenger minivan is developed based on the same "Global Compact Platform" used in Civic models. It is powered by the new 2.0-liter DOHC i-VTEC engine or the 1.7-liter SOHC VTEC engine.



Step WGN: With a full-model change in April 2001 in Japan, the 8-seater Step WGN minivan features a powerful but economical new-generation i-series 2.0-liter DOHC i-VTEC engine.

Japan

In reviewing the Company's automobile production for fiscal 2001, which was supported by strong sales of the all-new Civic and the Stream and Odyssey minivans—despite a drop in exports to Europe—Honda manufactured a total of 1,234,000 units in Japan, including complete knockdown (CKD) sets for export, an increase of 1.6% compared with the previous fiscal year. In fiscal 2002, Honda predicts domestic automobile production will increase 4.3%, to 1,287,000 units.

In September 2000, Honda introduced its New Manufacturing System, which improves product quality, reduces tooling costs, increases global production flexibility and increases the speed of new model launches.

The Company has been steadily advancing the new system and began operations on the first revamped line at the Suzuka Factory in May 2000, to coincide with the introduction of the new Civic. In adopting the New Manufacturing System, improvements were made to many aspects of the production process from the perspectives of quality, cost, production flexibility

and environmental compliance. In Japan, the principal achievements of these improvements included:

- A 50% reduction in specific investment associated with the introduction of new models
- A 50% reduction in the initial investment required for building a new production line
- A 30% reduction in production time from the initial process to final vehicle inspection
- An increase in the number of models that can be manufactured on a single line from five to eight

Similarly, in its motorcycle operations, Honda will streamline the current three production lines of its two primary factories—the Hamamatsu and Kumamoto factories—into two key production lines with enhanced production efficiency to meet the increasingly diversified demands of today's market. With this, Honda's motorcycle production capacity in Japan will become 500,000 units.

Regarding the production of power products in Japan, Honda will continue to shift production overseas to mitigate currency risks, with plans to reduce annual production output from the current approximate 2.6 million units to 2.0 million units by fiscal 2004.

These moves will include the transfer of general-purpose engine production from six lines at the Hamamatsu Factory to two new flexible lines at the Kumamoto Factory.

The Americas

During fiscal 2001, using domestic and globally sourced parts, automobile production output in the United States and Canada increased 3.8% compared with the previous fiscal year, to 1,022,000 million units. Key factors in this result included continued growth in sales of the Accord, Civic and Acura models as well as increased production capacity at Honda of Canada Mfg., Inc. (HCM). Honda also reached a milestone in the region on April 1, 2001, with its 10 millionth North American-assembled vehicle since local production began in 1982.

Further, with production of the Odyssey minivan and V-6 engines scheduled to begin at Honda Manufacturing of Alabama, LLC (HMA), in late 2001, Honda's annual North American vehicle production capacity will be increased to 1,180,000 units by fiscal 2003.



Acura RSX: The 2002 Acura RSX sports coupe, the all-new replacement for the legendary Acura Integra, is equipped with a 16-valve, 2.0-liter DOHC i-VTEC engine producing 160 horsepower and 141 lb/ft of torque while enhancing fuel efficiency and emissions control.



Model X: The Model X concept vehicle is developed and designed by Honda R&D Americas operation. It was unveiled at the North American International Auto Show in Detroit in January 2001. The Model X is powered by Honda's new i-VTEC, 4-cylinder engine.

Currently, the annual automobile production capacity of the two plants of Honda of America Mfg., Inc. (HAM), stands at 670,000 units. With the expansion of production capacity at the East Liberty plant, Honda's annual auto production capacity will be increased to 680,000 units by the end of calendar 2001.

Together, these investments in U.S. automobile manufacturing will increase Honda's accumulated investment in the United States to more than \$5.2 billion and increase employment in the United States to more than 20,000 associates.

In fall 2000, production of the Acura MDX SUV was added to the number two line of HCM in Canada. In April 2001, to meet growing consumer demand, HCM's number two line also increased its production capacity from 700 to 750 units per day, which raised annual production capacity to 180,000 units. With the inclusion of the 170,000-unit number one line, Honda's annual production capacity in Canada is now 350,000 units.

In Mexico, Honda de Mexico, S.A. de C.V. (HDM) produces the Accord for both the Mexican and U.S. markets, supporting strong demand for the Accord. HDM's current annual production

capacity stands at 20,000 units, but is scheduled to be expanded to 30,000 units by calendar 2002.

Approximately 75% of the Honda and Acura models sold in the United States during fiscal 2001 were produced in North America, demonstrating the increasingly important role that Honda's North American production operations play in the Company's worldwide business strategy.

The Company has exported more than 600,000 North American-built automobiles to more than 90 countries. In this way, Honda's North American plants serve not only as a regional supply base but also as part of a global network.

Europe

Honda's European automobile production declined 27.6%, totaling 76,000 units. This decline reflects slow sales in the U.K. market and a drop in sales volume in Germany. Consequently, the Company reduced production output from Honda of the U.K. Manufacturing Limited (HUM) to balance its stock of automobiles with the sales situation.

For fiscal 2002, HUM's output is forecast to almost double, to 149,000 units. The Company expects the remodeled and U.K.-built Civic five-door, together with a new three-door version slated for introduction in autumn 2001, to account for the majority of the increase. Furthermore, the all-new CR-V, to be marketed in Europe in the beginning of calendar 2002, should also contribute to increased production at HUM.

Moreover, in May 2001, the Company announced its decision to focus HUM production on models based on Honda's new Global Compact Platform. This means HUM will concentrate on producing the Civic series and the upcoming CR-V.

To counter the weak euro and strengthen the Company's U.K. manufacturing operations against currency exchange rate volatility, with the production of the new Civic, Honda has been increasing purchases of parts and components from suppliers on the European continent.

In summer 2001, HUM's second plant will commence production. Expected to reach its full rate of production in 2002, the second plant will boost annual capacity at HUM to 250,000 units. To optimize the use



Civic 3-door: Introduced at the Geneva Motor Show, the Civic 3-door is to be built exclusively at Honda's Swindon, U.K., plant. Sporty, compact, generous interior space and a fine ride and handling balance appeal to a wider range of customers.

Accord (China): The new Accord 3-liter V-6 model was introduced in April 2001, in China, creating a lineup of 3 Accords produced and sold locally, the 2-liter, 2.3 liter and 3-liter.

of this capacity and improve the profitability of Honda's European automobile business, HUM will become a vital, new member to the Honda Global Product Supply Network.

Asia and Other Regions

Motorcycle and automobile markets continue to expand in Asia and Other regions (all regions except Japan, North America and Europe). These regions have continued to represent more than 75% of the Company's total worldwide motorcycle unit sales and production. During fiscal 2001, Honda's motorcycle sales in Asia and other regions totaled 3,851,000 units.

The motorcycle industry in Southeast Asia has been plagued by counterfeit models entering the market since the latter half of calendar 1999. These models, which copy Honda's styling, trademarks and technologies, represent an infringement of Honda's brand and intellectual property rights. Significantly, Honda has taken legal measures to protect its legitimate rights.

In Thailand, Honda's sales increased substantially during fiscal 2001, as a result of the Company's introduction of new four-stroke models and such new products as the Sonic.

Despite concerns over the depreciation of the local currency in Indonesia, general market recovery as well as decreased interest rates contributed to strong sales for the year. Also, in August 2000 Honda established a joint venture, PT Astra Honda Motor (capitalized at 185 billion rupiah). With this new company, Honda will enhance its competitive strength, encompassing strategic alliances within the Southeast Asia region.

In India, the Company plans to increase its production and sales to 1,750,000 units with Hero Honda Motors Ltd., an existing joint venture company, and Honda Motorcycle and Scooter India (Private) Limited in fiscal 2004.

In order to respond to such high demand, Hero Honda Motors Ltd., will expand its production capacity to 1,500,000 units.

In automobiles, Honda commenced local production of the CR-V in Malaysia and Indonesia in May and September 2000, respectively, bringing the number of models Honda produces and markets in the four

principal automobile markets in ASEAN countries to four (City, Civic, Accord and CR-V). Honda is working to increase the compatibility of production components among Southeast Asian markets by unifying production and sales operations that had hitherto been conducted by separate companies.

In Malaysia, Honda signed a memorandum for the establishment of DRB-Orienta-Hicom Sdn Bhd, a new production and sales joint venture, and in Thailand, Honda consolidated Honda Cars Manufacturing (Thailand) Co., Ltd. and Honda Cars Thailand Co., Ltd. into a newly established company, Honda Automobile (Thailand) Co., Ltd.