



## To Our Shareholders

### THE YEAR IN REVIEW

Honda continued to operate in a difficult economic environment in fiscal 2002, ended March 31, 2002. Although the slowdown in the U.S. economy came to a halt in the second half of the period, major European countries remained on a downtrend. China's economy remained strong, but the pace of recovery in other parts of Asia began to slacken. Sluggishness persisted in Japan, owing to weak consumer spending and continued declines in private-sector capital investment and exports.

Despite the challenges it faced, Honda recorded stable sales gains in each of its main business segments. As a result, consolidated net sales and other operating revenue rose 13.9% from fiscal 2001, to a record-breaking ¥7,362.4 billion (\$55,253 million).

Operating income rose 57.1%, to ¥639.2 billion (\$4,798 million), an all-time high. This gain was attributable to higher

automobile unit sales in Japan and North America, which boosted income, along with effective measures to curb costs and the positive effects of currency translation, which countered increases in selling, general and administrative (SG&A) and research and development (R&D) expenses.

Income before income taxes advanced 43.2%, to ¥551.3 billion (\$4,138 million), while net income increased 56.2%, to ¥362.7 billion (\$2,722 million), both record highs. Net income per common share was ¥372.23 (\$2.79).

Reviewing results by business category, in the motorcycle business, unit sales of motorcycles increased 19.1% from the previous fiscal year, to 6,095,000, mainly owing to soaring demand overseas, particularly in Asia and Latin America.

In the automobile business, firm gains in Japan and North America pushed unit sales of automobiles up 3.3%, to 2,666,000. Reflecting brisk sales of the Fit, a new

subcompact car launched in June 2001, and the Step Wagon and Stream minivans, domestic unit sales in the segment rose 13.1%, to 878,000, marking the third consecutive year of gains. As testimony to its extraordinary popularity, the Fit topped domestic automobile sales charts for three consecutive months, from November 2001 to January 2002. In North America, automobile sales increased 1.6%, to 1,368,000 units, an all-time high. Sales were led by the Accord, which gained the distinction of being the best-selling

passenger car in the United States in 2001, marking Honda's first appearance in the number one spot in a decade. Unit sales of the locally manufactured Odyssey minivan and Acura MDX sport utility vehicle (SUV) were also positive.

In the power products business, despite solid sales of general-purpose engines and lawnmowers in North America, lower sales in Europe held unit sales of power products to 3,926,000, up 1.1%.

### **A NEW VISION**

Despite a number of mergers and acquisitions in the global automotive industry in recent years, Honda has achieved continuing success without compromising its autonomy. Today, we are reaching for new heights. With the goal of generating new value for customers and society and ensuring Honda remains a company that customers and society will want to exist, we have formulated a new vision for Honda in 2010. This vision outlines three directions: value creation, localized global operations—or as we term it, “glocalization,”—and Honda's commitment to the future.



*Acura MDX: A revolutionary SUV produced in Ontario, Canada with continuing solid sales in North America.*



*Fit: A new subcompact car built on Honda's Global Small Platform that enjoys outstanding sales in the Japanese market.*



*Pilot: All-new SUV launched in North America in June 2002.*



*Element: New concept vehicle targeting the younger generation.*

## Value Creation

With the aim of creating value for our customers and society, we strive constantly to offer high-value innovative products, establish advanced customer relations activities focusing on the customer and build a foundation for new business projects. ASIMO, our humanoid robot, and the Intelligent Community Vehicle System (ICVS) concept, a new shared vehicle transportation system, are excellent examples of such business projects to date.

In the motorcycle business, we launched environment-friendly scooters equipped with 4-stroke engines in numerous markets, including Europe, Japan and other parts of Asia. In the automobile business, we introduced the Fit and Mobilio in Japan, both spacious subcompact cars offering lower fuel consumption with new engines, and the redesigned CR-V in Japan and overseas. Furthermore, in June 2002 in North America we launched the Pilot SUV. In the power products business, we launched new 4-stroke outboard engines, as well as the inclinable 4-stroke ultra-light general-purpose engine and a lawnmower equipped with this engine.

Product launches planned for fiscal 2003 include a fully redesigned Accord, to be introduced worldwide, and the all-new Element, a new concept vehicle for the younger generation. We will also strengthen our small car lineup and pursue other efforts aimed at cultivating new markets.

## “Glocalization”

Reinforcing our roots in the communities where we do business and ensuring greater customer satisfaction worldwide remain ongoing objectives. These efforts reflect our fundamental belief in the importance of establishing a firm foothold in each region in which we operate, enabling us to grasp the needs of local customers and respond with the most appropriate products.

In accordance with this concept, in fiscal 2002 we opened several new manufacturing facilities: a motorcycle plant in India that will position us to better capitalize on the huge Indian market; our second automobile plant in the United Kingdom, which expands our production capacity; and a new plant in Alabama in the United States that will enable us to respond to soaring demand for light trucks in North America. We also established a joint venture

in China—the world's largest market for these vehicles—to manufacture and market motorcycles.

During fiscal 2003, our new plant in Alabama will raise its production level to its full production capacity of 150,000 units. We also plan to begin manufacturing automobiles in Malaysia and Indonesia through newly established joint ventures and to increase the production capacity of our automobile plant in China.

To date, we have taken significant steps to innovate our manufacturing system on a global basis with the aim of shortening lead times, enabling flexible production of several models on each line and reducing the investment required for new models. To accommodate the launch of the all-new Accord in fall 2002, we are revamping the production line at our automobile plant in Marysville, Ohio. This will mark the completion of innovations to our major manufacturing facilities in Japan, North America and Europe. These efforts also reflect our determination to create a Global Supply Network that maximizes the efficiency of global resources and guarantees the same superior quality for all Honda products, no matter where they are manufactured, a concept captured in the expression "Made by Global Honda."

Following the export of Civic 3-doors to Japan and North America, our newly expanded facility in the United Kingdom exported its first shipment of CR-Vs to North America. On the heels of the introduction of the new Jazz, known as the Fit in Japan, and Civic diesel in Europe, we plan to launch a completely redesigned Accord. Other future

plans include expanding our global presence by building a supply network for parts and finished products, centered on Asia and, in fiscal 2003, beginning exports to Japan of an affordably priced scooter from our plant in China and an automobile from our plant in Thailand.



*Civic Hybrid: Honda's second hybrid model, the world's most fuel-efficient 5-passenger sedan.*

### **Honda's Commitment to the Future**

We are committed to improving the safety of drivers, passengers and pedestrians, and to minimizing the impact of our activities on resources and the environment. Accordingly, we are actively involved in a wide range of efforts aimed at promoting advances in safety technology, developing environment-related technologies and corporate activities aimed at zero environmental impact and developing alternative energy sources.



*Launch of the Wave  $\alpha$  in Vietnam.*



*Opening of the Alabama plant, United States.*

These efforts culminated in the release in Japan and North America of the Civic Hybrid, a 5-passenger hybrid car that ranks as the world's most fuel-efficient gasoline-powered car. We also continued to conduct research on a new fuel cell-powered vehicle, now undergoing road tests in Japan and the United States, with a view to bringing it to market in calendar 2003.

Further development in the area of automobiles includes continuing to expand the use of next-generation engines that enable both the improvement of fuel efficiency and the cleanliness of exhaust gases. Efforts in the motorcycle and power products areas will focus on achieving our own stringent targets for emission levels in order to promote environmental preservation. We are also stepping up implementation of our Green Factory concept in the production area and promoting recycling activities.

## LOOKING AHEAD

By continuing to focus on the three directions outlined in our vision for Honda in 2010, we will continue to enhance corporate value. I extend my heartfelt thanks to shareholders for your interest to date and look forward to your support of these and all our efforts in the years ahead.

June 25, 2002



Hiroyuki Yoshino

President and Chief Executive Officer

