

TO OUR SHAREHOLDERS



Takeo Fukui, President and Chief Executive Officer

The Year in Review

Looking at the economic environment surrounding Honda during fiscal 2003, ended March 31, 2003, the U.S. economy showed some signs of recovery, but then slowed again. At the same time, the economies in the major European countries were sluggish, while Asian countries displayed strong overall growth. In Japan, the economic situation remained unfavorable, with consumer spending in a slump.

Within this environment, Honda's vision for the year 2010 remains focused on being a company that our customers and society want to exist. We have developed various strategies for creating new value, cultivated businesses that are firmly rooted in local communities, and contributed to the improvement of safety and the environment, based on our three directions: "Value Creation", "Glocalization" and "Commitment to the Future". By following these directions, Honda improved its efficiency and speed in the areas of development, production and sales, and strengthened its foundation for dealing flexibly with global trends.

During fiscal 2003, Honda sold 8,080,000 motorcycles, 2,888,000 automobiles, and 4,584,000 power products, representing records in each category. Most importantly, this enabled us to expand our relationships with new customers.

Net sales and other operating revenue, operating income, income before income taxes and equity in income of affiliates, and net income all reached record highs. Thanks to an increase in sales volume overseas, net sales grew by 8.3% over the previous year to ¥7,971.4 billion.

Operating income increased by 7.8% to ¥689.4 billion, due mainly to increased revenue in Europe and Asia together with ongoing cost cutting efforts, which more than offset increased selling, general and administrative expenses as well as research and development costs.

Income before income taxes and equity in income of affiliates increased by 10.6% to ¥609.7 billion and net income improved 17.6% to ¥426.6 billion including the contributions of higher equity in income of affiliates, mainly in the Asian region. In addition, basic net income per common share reached ¥439.43.

Looking at Honda's efforts during the fiscal year by business category, in our motorcycle business we introduced new products with new value that meet our customers' varied needs. We also actively switched to environment-friendly four-stroke engines.

In the Asian region, where the market is expanding along with an economic recovery, motorcycles are positioned as a highly convenient mode of transportation, and Honda boosted its sales significantly by offering products that meet customer needs at affordable prices. Moreover, in Latin America, where the economic environment is unfavorable, we managed to expand our sales by offering attractive, new products. As a result of these efforts, the overall unit sales volume of motorcycles grew by 32.6% to 8,080,000 units.

In our automobile business, we have been working to improve environmental performance and safety, while strengthening our product lineup by introducing attractive new products that offer new value to meet the needs of our customers. Automobile unit sales rose by 8.3% to 2,888,000

units, mainly because of favorable sales in North America.

Honda strengthened its position in the passenger car segment in the North American market by carrying out a full model change of the Accord, our mainstay model, with favorable sales. We moved to expand our product lineup in order to meet a wider range of customers by launching the Element, designed to appeal to younger generations, and the Pilot sport utility vehicle (SUV) – both in the light truck segment, where the market has continued to grow. As a result of these efforts, our sales in North America in fiscal 2003 rose by 11.3% to a record 1,522,000 units, even as overall demand in the U.S. in calendar 2002 dropped from the previous year to 16.84 million units.

In Japan, the overall market for automobiles during fiscal 2003 was flat at 5.86 million units, while Honda's sales in the subcompact car segment were favorable, with the Fit achieving the best-selling car title in calendar 2002. However, Honda's unit sales dropped by 3.3% to 849,000 units, due to intensified competition in the minivan segment with overall demand shifting to the subcompact car segment.

In Europe, we have launched products that better meet the market's needs, reorganized our sales network, improved the capacity utilization rate at our automobile plant in the United Kingdom by manufacturing the CR-V for the North American market, and worked to reduce costs. As a result, while the economies of the major European countries were sluggish, our automobile unit sales in Europe during fiscal 2003 rose by 17.6% to 207,000 units. This was due primarily to strong sales of the Jazz in the growing subcompact car segment and the successful full model change of the CR-V in the SUV segment. In addition, production at the U.K. auto plant grew by 42.7% to 186,000 units. Consequently, profitability also improved.

The total sales volume registered in Asia, Oceania, South America, the Middle East and Africa grew 27% to 310,000 units. In the Asian region, where the market has experienced remarkable expansion, we conducted aggressive sales activities making good use of our motorcycle business experience and our strong brand image. Thanks to these sales activities, coupled with a full model change of both the CR-V and City in the ASEAN region, and the successful launch of the Odyssey minivan in China, we achieved a significant sales increase in Asia. In response to this increasing sales demand, we began producing automobiles at new factories in Malaysia, Indonesia and Taiwan. And, in China, we increased our annual production capacity from 50,000 units to 120,000 units.

Looking at our power products business, Honda has applied its environmentally-friendly engine technology to a variety of commonly used products, including general-purpose engines, electric generators, outboard engines, water pumps, and lawnmowers. As a result, we have been able to meet a wide variety of customer needs, ranging from commercial to home-use equipment. In fiscal 2003, we equipped an outboard engine with our newly developed four-stroke engine, which offers superior environmental performance, and marketed it worldwide. We introduced, first in Japan, a lighter weight version of our four-stroke general-purpose engine, which can be operated in any position. Unit sales of power products increased by 16.8% to 4,584,000 units, boosted by our efforts to have original equipment manufacturers in Europe and North America equip their products with Honda engines.

Toward our commitment to the environmental challenge, one of the most important issues we face today, Honda expanded

its lineup of automobiles equipped with our "i" series engines, which offer lower exhaust emissions and higher fuel economy. At the same time, we have also begun limited lease-sales of the FCX fuel cell vehicle in Japan and the U.S. – the first step toward the realization of a zero emissions vehicle to protect the interests of the next generation.

Further, in our motorcycle business, in addition to switching to a four-stroke engine, in January 2003 we launched scooter models in Europe equipped with an electronically controlled fuel injection system (PGM-FI), which simultaneously reduces fuel consumption and cuts exhaust emissions.

Our View of the Future

Fears of a progressing slowdown in the U.S. economies, and its impact on the global business environment are anticipated to increase, and competition in the Japanese market is expected to intensify amid continuing weak consumer spending. Other global concerns, including the situation in Iraq, are also expected to affect the overall global economies. In these circumstances, Honda expects competition in each of its markets to remain challenging.

Competition among companies is likely to grow more intense amid global corporate mergers and acquisitions. Faced with these challenges, Honda intends to work actively to improve the safety and environmental functionality of our products, while continuing to rapidly develop products that create new value for our customers around the world.

Our Efforts in Each Business

In fiscal 2004, we expect to boost our unit sales in each product segment, with motorcycle sales reaching 9,480,000 units, automobile sales reaching 3,110,000 units, and power product sales reaching 5,180,000 units.

In our motorcycle business, we will expand operations mainly in Asia. In markets such as India, China and Indonesia where a small percentage of the population own a motorcycle, we intend to cultivate latent demand by introducing products that are reasonably priced and offer high added value. In addition, we are continuing to expand our local production capacity in order to meet the growing demand in these markets. In China, we began motorcycle-related research and development in Shanghai in April with the goal of creating a product strategy that can rapidly reflect the needs of our local customers.

In our automobile business, in the North American light truck segment, the Pilot and the Element, which were launched in 2002, will make a contribution for a full year, even as sales of the Odyssey and Acura MDX will remain stable. In order to meet the robust demand from our customers for these North American-made light truck models, we completed the expansion of the second production line at our Canadian plant in January 2003 and began building a second production line at our Alabama plant, which is on target for completion in the spring 2004. When this line is finished, our annual production capacity in North America will reach 1.4 million vehicles, including a light truck production capacity of 495,000 vehicles. Thus, we are work-

ing to strengthen our business on the production side in the light truck segment, which has grown to account for more than 50% of the U.S. automobile market.

To beef up our product lineup in the passenger car segment, we are planning a complete makeover of our Acura TL luxury performance sedan this fall, following the successful launch in April of our new Acura TSX sports sedan.

In Japan, where the market environment is likely to remain unfavorable, we launched the Canadian-made SUV MDX in fiscal 2003 and the U.S.-made light truck Element in April 2003 and the luxury sedan Inspire in June 2003. In the minivan segment, where the ownership volume is increasing, we are planning to make some full and minor model changes in order to improve the attractiveness of our product lineup.

In Europe, we introduced the all-new Accord in January 2003 and have plans to add Honda's independently developed diesel engine version during this fiscal year. This move should improve the attractiveness of our products in Europe, as demand for diesel-powered models in this class are expected to continue expanding. On the production side, we will continue efforts to improve the cost competitiveness at our U.K. auto plant by increasing the parts procurement from our facilities in Asia and working to further reduce costs.

In other regions, we plan to expand our business in the subcompact car category, which represents the major part of the automobile market. For this purpose we have introduced the Fit in Brazil in April 2003, to be followed by the Fit Saloon in China. We are also boosting the production capacity at our automobile plant in Guangzhou City, China to 240,000 units p.a. by the spring of 2004. This year in

the ASEAN region, we also began selling the City and the Accord, both of which were launched in Thailand in 2002.

In our power products business, we expanded the production capacity of general-purpose engines at our factory in Thailand last year. This year, we plan to export these engines to Europe and North America.

In Japan, we are expanding our products designed for home use, including a series of compact push-type lawnmowers and a series of hybrid snow blowers.

Expansion of Global Networking

Honda has long been committed to manufacturing products close to the customer as a means to develop highly effective and efficient operations and quickly meet our customers' needs. But we are also expanding our product lineup and improving our production efficiency and cost competitiveness by making greater use of Honda's resources on a global basis. We continue to advance this "Made by Global Honda" approach by incorporating the energy and power of our Asian operations into our global networking.

In our motorcycle business, along with expanding our complementary supply network centered in China and Thailand, we are planning to develop products made in India and Brazil for global distribution and greatly increase models supplied from various regions in the world. As a first move, in April, we began exporting to Europe a 100cc

Indian made scooter that carries the price equivalent to a 50cc scooter.

In our automobile business, in the ASEAN region where major tariff reductions continue, we are incorporating new factories into our network, while eliminating redundant production of models in multiple plants. Thus, we aim to build a highly efficient complementary supply system between each market. Accompanying the launch of the City sedan, which underwent a full model change in the ASEAN region and the Gulf states of the Middle East, we increased the annual production capacity at our Thai factory—where the City is assembled—from 100,000 units to 120,000 units in May 2003.

In addition to finished cars, in the area of powertrains, we will start exporting transmissions manufactured in Indonesia and the Philippines to our U.K. auto plant this fall. We are also establishing a new auto plant in China. This will mark the first time a foreign automaker has set up a joint-venture plant in China to produce passenger cars exclusively for export. In 2004, we plan to start production at this plant and export to Europe and other parts of Asia.

The Environment and Safety

Our efforts to make lower emission vehicles and reduce CO₂ emissions are not limited to fuel cell cars and hybrid cars. We are also working harder than ever to make our conventional gasoline-powered engines more environmentally friendly.

In our motorcycle business, this year we plan to launch on the Asian market a low-emission model equipped with our electronically controlled fuel injection system (PGM-FI), which we are already selling in Europe. At the same time, we are working actively to reduce the burden placed on the environment by promoting the Green Factory concept in various areas of production and conducting environmental load calculation analysis in areas such as distribution and sales. Through all of these means, we will continue to strive to minimize the impact from our entire operations on the global environment.

Redistribution of Profits to Our Shareholders

Honda considers redistribution of profits to shareholders as one of the most important management issues. Accordingly, we attempt to increase our corporate value through research and development, which is indispensable for future growth, and through capital expenditures to expand our operations.

We will increase our annual dividend per common share by ¥4 to ¥32 for fiscal 2003 and plan to increase it by another ¥6 to ¥38 per common share in fiscal 2004.

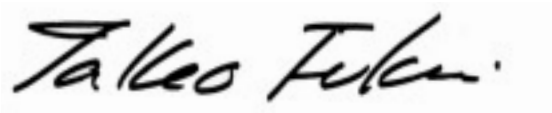
In addition, with the goal of activating capital strategies, we acquired a total of 14.38 million shares of common stock of Honda Motor Co., Ltd. amounting to ¥63 billion during the period from June 25, 2002 to April 15, 2003. Moreover, based on a resolution at the 79th ordinary general meeting of shareholders on June 24, 2003, we intend to purchase common stock through the market, with an upper limit of 25 million

shares or the amount of ¥100 billion during the period leading up to the next ordinary general meeting of shareholders.

Finally, I would like to say that I will take on weighty responsibilities as Honda's new president during the year, as we make further efforts to promote the "Made by Global Honda" concept, based on the foundation laid by Honda's former President Hiroyuki Yoshino. I intend to strengthen the company's efforts in the three directions of "Value Creation", "Glocalization", and "Commitment to the Future", with the aim of ensuring that Honda is a company that our customers and society want to exist.

We hope that we will be able to count on the continued support of all of our shareholders.

June 24, 2003



Takeo Fukui
President and Chief Executive Officer