

CORPORATE GOVERNANCE

Basic Stance on Corporate Governance

Based on the fundamental corporate philosophies, the Company is working to improve its corporate governance as one of the most important management issues with the aim of ensuring that Honda will be a company, our shareholders, customers and society want to exist.

Honda's organization reflects its fundamental corporate philosophies. Each regional operation carries out its businesses so as to quickly and efficiently respond to customer needs around the world, while each business operation makes arrangements for each product, establishing a system of high effectiveness and efficiency.

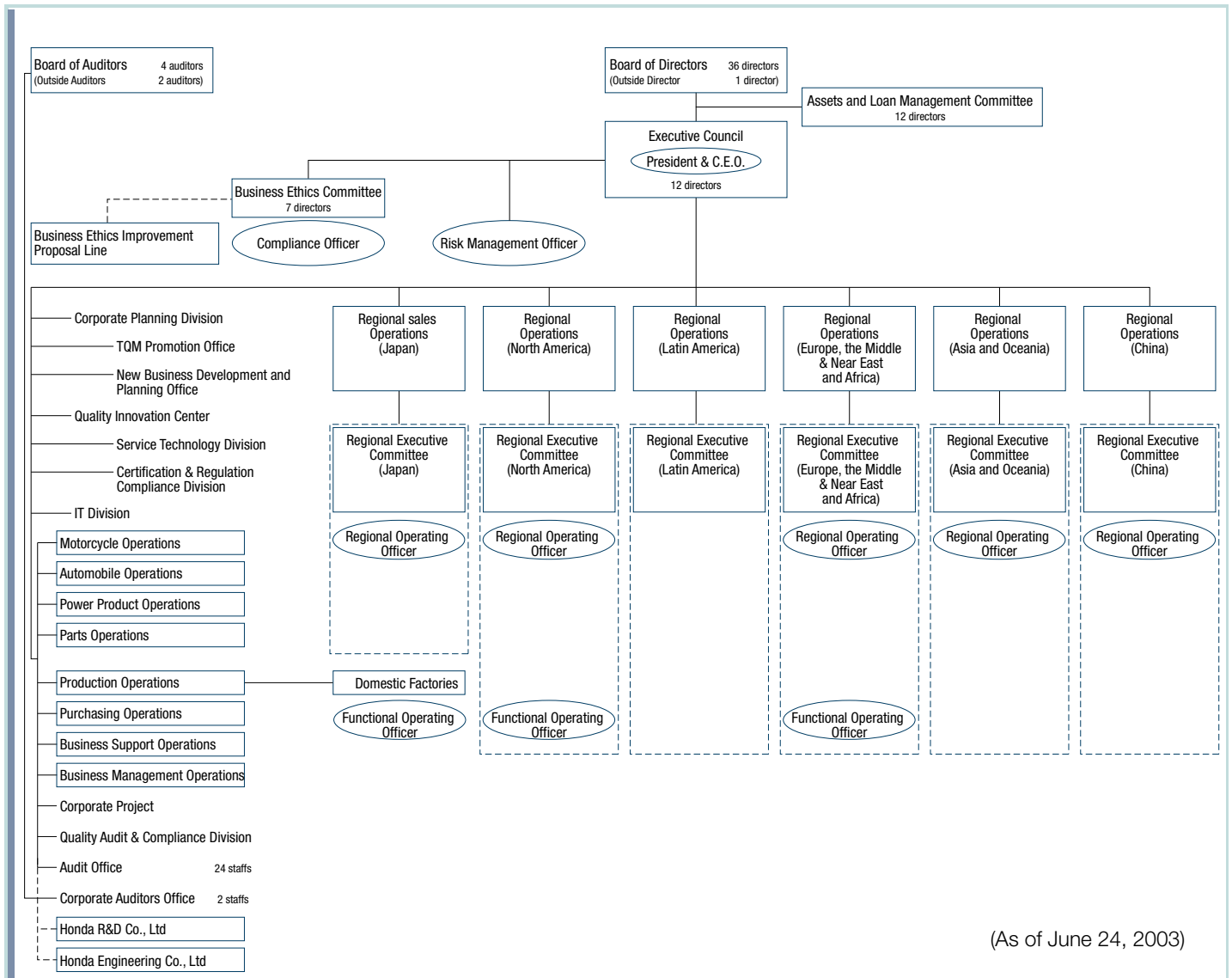
In addition, the Audit Office intends to carry out more effective audits of the performance of each division's business, and each division aims to establish a systematic framework for enhancing compliance and risk management, while advancing the self-reliance of each organization.

To ensure an objective control on the Company's management, outside directors and corporate auditors are appointed to be members of the Board of Directors and the Board of Corporate Auditors, which are responsible for supervision and auditing of the Company. With regard to the directors, the term of their office is limited to one year and the amount of remuneration payable to them is determined according to a standard that reflects their contributions to the Company. The goal is to heighten maneuverability so as to cope with any changes in the management environment.

For shareholders and investors, the Company's basic policy emphasizes the disclosure of financial results on a quarterly basis, as well as the timely and accurate disclosure of its management strategies. The Company will remain committed to such disclosures in the future.

The Company's Activities on Corporate Governance

Management organization of the Company's corporate governance for decision making, execution, supervision and others



1. Management Organization

The Company supervises and audits its business activities through its Board of Directors and Board of Corporate Auditors.

The Board of Directors consists of 36 directors, including one outside director, and makes decisions on important business activities and other legal matters. The Board of Directors also supervises the execution of the Company's businesses. In April 2003, in order to ensure proactive decision-making, the Board of Directors set up an Assets and Loan Management

Committee, which is responsible for deciding upon the disposal of the Company's important assets and related matters.

The Board of Corporate Auditors is composed of four corporate auditors, including two outside corporate auditors. In accordance with the rules of auditing policy and the apportionment of responsibilities as determined by the Board of Corporate Auditors, each corporate auditor audits the execution by directors of their duties through various means, including attendance at meetings of the Board of Directors and inspec-

tions regarding the status of Company assets and liabilities. Two outside corporate auditors were elected at the Company's Ordinary General Meeting of Shareholders held on June 24, 2003 and they comprise half the number of corporate auditors so as to strengthen their independence. In connection with this, Corporate Auditors' Office was newly established in April 2003 to provide direct support to the Board of Corporate Auditors.

In order to ensure a 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, the Securities and Exchange Law, and the Securities Exchange Acts of the U.S.A. In addition, they supervise the election of independent auditors, their remuneration and non-audit services.

2. Execution of Management

The Company has established the Management Council being composed of eight representative directors and four managing directors. Along with discussing in advance items to be resolved at meetings of the Board of Directors, this Management Council discusses important management issues as directed by the Board of Directors.

Based on the fundamental corporate philosophies, Honda will promote the Company's long-term businesses in each region to ensure that Honda will be a company that our customers and society want to exist. The Company's management organization contains six regional operations, including a newly established operation in China in April 2003. Regional executive officers are assigned to be in charge of the business operations in each region, with the aim of heightening the autonomy of the region and ensuring speedy decision-making. In addition, regional executive councils located at each regional operation discuss important management issues in the region within the bounds of the authority conferred upon them by the Management Council.

The Company's four business operations – motorcycles, automobiles, power products, and spare parts – formulate the medium and long-term plans for their business development, and each operation aims to maximize its business performance on a global basis. The Company's production operations and pur-

chasing operations support production related departments so that they can implement the most efficient allocation of production and procurement on a global scale. These efforts are aimed at increasing company-wide efficiencies.

At the Company's major production facilities in Japan and overseas, operational executive officers are responsible for rapid decision-making. In addition, the Business Management Operations and the Business Support Operations make adjustments on a company-wide basis with the aim of ensuring the optimal allocation of resources.

Research and development are conducted principally at the independent subsidiaries of the Company. Honda R&D Co., Ltd. is responsible for product research, while Honda Engineering Co., Ltd. is responsible for research in the area of production technology. The Company carries out unrestricted and generous research and development with the aim of creating, through application of the latest technologies, products that are both distinctive and internationally competitive.

3. Internal Control

The Audit Office (its Japanese name was changed from "*Kansashitsu*" to "*Gyoumu – Kansashitsu*" in April 2003) is an independent supervisory department under the direct control of the president. This office audits the performance of each department.

In addition to the newly established "Honda Conduct Guideline" to be shared within the entire Honda group, the Company also intends to set up a systematic framework for compliance and risk management in which each division of Honda group works to ensure compliance and prevent management risks, and to verify the status on a regular basis under the supervision by the director in charge. In addition to the new appointment of a director in charge of compliance and risk management, the Company intends to improve its organization by setting up a "Business Ethics Committee" to deliberate matters related to corporate ethics and compliance, as well as "Business Ethics Improvement Proposal Line", which will receive suggestions related to corporate ethics issues.