



TO OUR SHAREHOLDERS

YEAR IN REVIEW

In fiscal 2004, ended March 31, 2004, the U.S. economy showed signs of recovery, while Asian economies continued posting solid growth, especially in the latter half of the year. However, the economies of major European nations remained generally weak. Meanwhile, the Japanese economy, despite sluggish personal spending, moved into a moderate recovery mode, boosted by increased exports, capital expenditures and other factors.

During the year under review, Honda sold more than 9.21 million motorcycles, 2.98 million automobiles and 5.04 million power products, representing new records in each category. Consolidated net sales also reached a record high thanks to revenue gains in all business segments. Although operating income declined, primarily because of the effects of a weakening U.S. dollar, income before income taxes and equity in income of affiliates, as well as net income, all increased to record highs.

Since my appointment as president in June 2003, one of our main focuses has been to reinforce those characteristics that are distinctive of Honda. In short, we are now

focused on “technology,” “quality” and “motivation.” “Technology” refers to the skills employed in each area of our operations, including R&D, manufacturing and sales. Our focus on “quality” includes not only products but also overall quality, including how individual jobs and operations are executed. “Motivation” means the pride and passion exhibited by all Honda associates. As a result of further honing our strengths in these areas, we successfully improved the effectiveness of our strategies for the year, resulting in improved financial performance in fiscal 2004.

Our basic philosophy is that by manufacturing products in areas close to the customer, we can address customer needs quicker and more flexibly and thus achieve operations of the highest efficiency and effectiveness. For instance, approximately 80% of all Honda automobiles sold in the United States are produced in North America. Meanwhile, Honda has operations in various regions of the world. By effectively utilizing our resources in those regions, we are promoting the “Made by Global Honda” strategy, which targets further increases in customer satisfaction by broadening our product lineup

while maximizing production efficiency and cost-competitiveness.

In the year under review, we expanded our global network in a number of ways. For example, we established a parts subsidiary in Asia, which has started exporting to other parts of Asia as well as Europe. We also increased exports of automobiles from Europe to North America.

REDISTRIBUTION OF PROFITS TO OUR SHAREHOLDERS

Honda attempts to increase its corporate value by investing in R&D, which is essential for future growth, as well as through capital investments for business expansion. At the same time, we consider redistribution of profits to shareholders as one of our most important management issues. We will increase our annual dividend per common share by ¥10 to ¥42 for fiscal 2004 and plan to increase it by another ¥4, to ¥46 in fiscal 2005.

Between June 24, 2003 and May 11, 2004, we acquired 21.5 million shares of treasury stock, amounting to approximately ¥100 billion. This brings the total number of treasury shares acquired between June 25, 2002 and May 11, 2004 to 35.9 million, for a total purchase value of approximately ¥163 billion.

The Ordinary General Meeting of Stockholders, held on June 23, 2004, approved the addition of a new article to the Articles of Incorporation that allows the Company to acquire treasury stock, subject to a resolution of the Board of Directors. This will allow us to pursue more flexible capital strategies.

LOOKING AHEAD

Although the U.S. economy is expected to remain in recovery mode, we are concerned about a potential slowdown in personal spending there in the second half of 2004. Meanwhile, we anticipate that economies in Asia

and elsewhere will show solid growth. Nevertheless, the business outlook remains difficult to predict, due to such uncertainties as the world political situation and currency exchange rates. In Japan, competition is expected to further intensify, due to languishing personal spending and other factors.

In response, Honda will further strengthen its commitment to technology, quality and motivation in an effort to bring joy to our customers and exceed their expectations. Also, while we make full use of the global network we have been establishing, we will further strengthen all areas of the company—R&D, product development, manufacturing, and sales & marketing—and we are applying a renewed focus on taking action “on the spot” and improving things at their very source.

Through these initiatives, we will reinforce our ability to swiftly and flexibly address changes in customer and societal needs and the business environment. Also, to improve the competitiveness of our products, we will strengthen our R&D and production capabilities and upgrade our sales capabilities. We will also further enhance product quality and target initiatives to improve safety and protect the environment.

Through these Company-wide activities, we will strive to materialize our Company’s visions of “value creation,” “glocalization,” and “commitment to the future” with the aim of sharing the joy with our customers world-wide, thus becoming a company that society wants to exist.

We look forward to the ongoing support of shareholders as we tackle the challenges of the future.

June 23, 2004



Takeo Fukui
President and Chief Executive Officer