



Honda's U.S.
AUTOMOBILE OPERATIONS





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Headquarters of American Honda Motor soon after its establishment



Poster for the "You meet the nicest people on a Honda" advertising campaign, which was highly successful



N600, released in 1969



Civic, fitted with CVCC engine, unveiled in 1973



Accord, launched in 1976

ENTERING THE MARKET

As Honda first looked to expand its motorcycle business overseas, our thinking was "Unless a product can become a 'hit' in the United States, the center of the world's economy, it cannot be a hit anywhere in the world." Honda first came to America in 1959 with the establishment of a wholly owned subsidiary, American Honda Motor Co., Inc., which created its own dealer network and began selling motorcycles.

The U.S. motorcycle market at that time was limited in scope. However, with the release of the *Super Cub* and our "You meet the nicest people on a Honda" advertising campaign, we offered a refreshing new image of motorcycles and created a new market.

Having established a solid brand presence for motorcycles, in 1969 American Honda introduced the first Honda automobile, the N600 in Hawaii. We subsequently built a local foundation for our automobile business with the launch of the *Civic* in 1973 and the *Accord* in 1976.

The first oil crisis in 1973 had a major impact on the U.S. automotive industry. It prompted many people to shift their attention from large, luxury vehicles to cars that offered greater fuel efficiency.

In 1974, Honda led the industry in its response to the enactment of the U.S. Clean Air Act, which placed strict regulations on tailpipe emissions, by introducing a *Civic* equipped with Honda's original CVCC engine – becoming the first car to meet the new law. The *Civic* also placed first in fuel efficiency tests conducted by the U.S. Environmental Protection Agency in 1974. Combining high performance with unparalleled efficiency in terms of lower emissions and fuel costs, the new *Civic* was an overwhelming success. Almost 39,000 units were sold in its first fiscal year, with annual sales exceeding



Honda dealership



Acura dealership

100,000 units three years after its release.

Thanks to the warm acceptance of the *Civic*, Honda secured its position as an automaker in the United States.

Honda went on to launch the *Accord* in 1976, establishing a new standard for family vehicles. For three consecutive years, from 1989 to 1991, the *Accord* was the top-selling vehicle in the U.S. passenger car market, and has continued as one of the contenders for the top position to the present day.

Since 1997, the *Civic* and *Accord* have been Honda's "bread and butter" models in the United States, with annual sales of approximately 300,000 and 400,000 units, respectively.

STRONGER SALES SYSTEM AND CUSTOMER SERVICE FOCUS

We began developing the U.S. automobile market by using the motorcycle sales network established by American Honda. Due to the advanced nature of the U.S. automobile market, however, consumers generally purchased cars from auto dealers. For this reason, we needed to develop our own automobile sales network.

We started with a team of a dozen or so salespeople, who visited other companies' dealers around the nation, one by one, persuading them to add the *Civic* to their advertised line-ups. By developing a sales network in this way, we built a foundation for our U.S. automobile business just as the *Civic* rose to national recognition.

Seeking to create a network regarded as No. 1 in terms of customer satisfaction, we engaged the market research services of J.D. Power and Associates. Based on the results of that research, from 1976, we refined our sales activities to

better reflect the opinions and demands of customers and adopted a more customer-oriented approach to our services. These improvements were applied consistently throughout our dealer network.

We also established and expanded our network of exclusive Honda dealers, to ensure a more accurate and widespread understanding of our marketing initiatives and product lineup enhancements.

By 1986, approximately 70% of the outlets selling our automobiles in the United States were exclusive Honda dealers—the highest ratio in the industry. With more than 900 dealers nationwide, we had established a strong sales network that customers could trust.

Seeking to further broaden its customer base, American Honda decided to set up a second dealership network devoted to luxury performance models. This resulted in the establishment in 1986 of the Acura network, which began with sales of the *Legend* and *Integra* models.

Today, there are 1,270 Honda dealers throughout the United States, including 262 Acura stores.

In 1980, American Honda entered the vehicle financing business with the formation of American Honda Finance Corp. (AHFC), its wholly owned subsidiary. The new company initially provided dealer financing for motorcycle buyers, then launched retail financing services for automobile customers in 1985. With the synergistic benefits of American Honda's expanding operations and the unparalleled services of AHFC, our financial services business in the United States has grown steadily. Today, over half of the customers purchasing Honda and Acura automobiles use the services of AHFC, which has served a total of more than 2.5 million customers.



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U.S.-made *Accora* leaves the production line



Accord Coupe models, exported by Honda of America Mfg., Inc., arrive in Japan

FIRST JAPANESE AUTOMAKER TO EXPORT FROM UNITED STATES

With its growing local production capabilities, in 1987 Honda became the first Japanese automaker to export vehicles from the United States. In 1988, we began exporting *Accord Coupe* models to Japan, and today we export U.S.-made cars to more than 50 nations. With growing product development capabilities in America, export models have included the *Accord Wagon*, *Civic Coupe*, *Element* and Acura MDX, with cumulative exports surpassing 700,000 units.

MAJOR EXPANSION OF NORTH AMERICA PRODUCTION CAPACITY

Based on a policy of "building products close to the customer," Honda started producing motorcycles in the United States in 1979. Then, in November 1982, Honda of America Mfg., Inc., became the first Japanese company to

manufacture automobiles in the United States, when it began making *Accord* models at its Marysville Auto Plant in Ohio.

In April 1986, we completed a second production line at the Marysville Auto Plant to keep pace with growing sales, bringing that facility's annual capacity to 300,000 units. Currently, the capacity is 440,000 units.

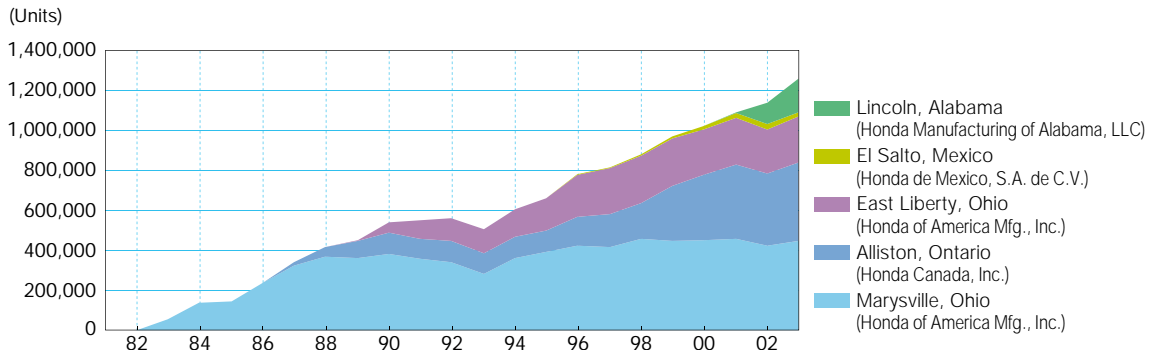
In December 1989, we opened a new plant in East Liberty, Ohio, which now has an annual capacity of 240,000 vehicles.

These three production lines together give Honda of America Mfg. an annual capacity of 680,000 units. In April 2004, the 10 millionth vehicle rolled off of Honda of America's production lines.

In Canada, we began making automobiles at our plant in Alliston, Ontario, in November 1986. A second line was added in 1998, with total annual capacity of the plant now reaching 390,000 units. The number one line builds passenger cars, with the number two line producing light truck models.

To meet growing demand for light trucks, Honda constructed a new plant in Lincoln, Alabama, in 2001 and added

Honda Automobile Production in North America (by Manufacturing Facility)





Los Angeles Center of HRA



Ohio Center of HRA

a second line in April 2004. Today, the Lincoln Plant has an annual capacity of 300,000 vehicles. Combined with the second line of the Alliston Plant, light truck production capacity is approximately 500,000 units.

Including its facilities in Mexico, Honda has an annual North American automobile production capacity of 1.4 million units. Moreover, approximately 80% of all Honda vehicles sold in United States are made locally.

In addition to finished vehicles, we are also expanding the local manufacturing of engines and transmissions.

The Anna Engine Plant in Ohio started making motorcycle engines in July 1985 and automobile engines in September 1986. Today, all of Honda's locally-produced vehicles are equipped with locally-produced engines. In July 1996, we began making transmissions in a separate plant in North America, and its production reached 1,015,000 units in the fiscal year ended March 2004.

While expanding the scope of its local production operations, Honda is also promoting more extensive local procurement of parts and components. Today, we purchase approximately US\$8.1 billion of motorcycle and automobile parts annually for our production operations in North America from 440 local manufacturers. In 1985, 57% of parts were procured locally; that figure has grown to more than 95% today for all vehicles, and as high as 98% for the *Accord*.

RESEARCH & DEVELOPMENT IN NORTH AMERICA

Honda has also localized its R&D activities in North Americas focusing on developing products that best meet the needs of the local market, providing support for local production of these products and working with local parts makers to

increase the ratio of local procurement.

In 1975, we established the California office of Japan-based Honda R&D Co., Ltd., for the purpose of undertaking market research in North America. In 1984, we upgraded that operation into a subsidiary, Honda R&D Americas, Inc. (HRA), to support development and design of products destined for sale in North America, as well as to assist in development of locally procured parts.

HRA opened its Los Angeles Center in 1975, primarily to support vehicle planning and design. It played a role in the design of such products as the *CR-X* and *Civic Hatchback* (1984 models); *Accord Hatchback* and *Integra* (1986 models); *Accord Coupe*, *Civic* and *Prelude* (1988 models).

In 1985, HRA increased its R&D staff with the establishment of its Ohio Center. Located near Honda's automobile plants in Marysville and East Liberty, the Ohio Center develops products for the local market while working closely with local suppliers to jointly develop components for new vehicles and providing extensive technical support for Honda's various manufacturing facilities across North America. HRA also operates full-scale automobile test tracks in Ohio and California.

Using these various resources, HRA has participated in the design and development of derivative models such as the *Accord Wagon* (1990 and 1994 models) and *Civic Coupe* (1993), and in 1996 developed the Acura *CL*, a dedicated U.S. model. Since then, it has participated in the design and development of various vehicles for the local market, including the *Civic Coupe* (2001 model), Acura *TL* (1999 and 2004 models), Acura *MDX* (2001 model), *Pilot* (2003 model) and *Element* (2003 model). Of the 18 Honda and Acura vehicles currently sold in United States, HRA was responsible for the development of five.



Honda's U.S. AUTOMOBILE OPERATIONS



Odyssey



Pilot



Acura TL



Acura MDX



Element

Five models developed by HRA

In 2003, HRA built a crash safety testing facility at its Ohio Center, complete with a high-resolution crash-barrier block, the world's first pitching crash test simulator and other safety labs, expanding its local R&D capabilities. HRA currently has approximately 1,300 associates—almost four times the 1990 number—and has the capability to work on three models simultaneously.

FUTURE INITIATIVES

At present, approximately 11 million Honda and Acura vehicles are on the road in the United States. Going forward, we will strive even harder to meet the diversified needs of customers.

Since 2000, the U.S. market has remained strong, with annual demand at approximately 17 million vehicles. Within that total, however, the passenger car and light truck markets have fluctuated, with the latter growing and accounting for 54% of overall demand in 2003.

Honda entered the expanding light truck segment in 1993

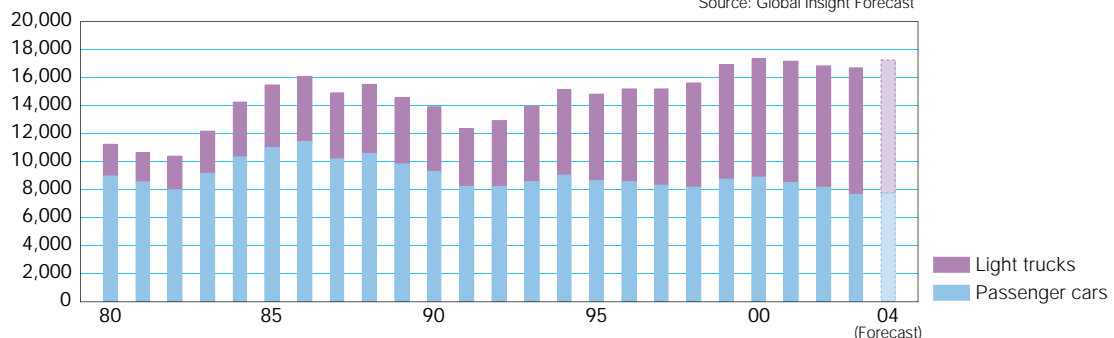
with the launch of the *Passport*, made by Isuzu Motors. In the following year, we released the *Odyssey*. Since then, we have steadily expanded our presence with the introduction of original Honda products, including the *CR-V*, *Acura MDX*, *Pilot* and *Element*. However, light trucks account for only 39% of Honda's unit sales in the United States. For this reason, we will continue to expand our lineup to achieve further increases in light truck sales.

In fall 2004, we will introduce a full model change of the *Odyssey*. Further, at the 2004 North American International Auto Show in Detroit, we unveiled the brand-new *Honda SUT Concept*, which will form the basis of a new light truck model to be released in 2005. Under this concept, we have brought together the packaging efficiency and ride comfort of an SUV with the cargo and utility capabilities of a light truck, to create a new type of vehicle with highly attractive styling and excellent driving performance. In the first half of 2006, we also plan to launch a new SUV through our Acura network.

Overall U.S. Automobile Market

(Thousands of units)

Source: Global Insight Forecast





Prototype of Acura *RL*, to be released in fall of 2004



Honda SUT Concept vehicle, scheduled for launch in 2005

For the passenger car segment, a traditional Honda stronghold, in the latter half of 2004 we plan to launch a hybrid version of the *Accord* that delivers impressive power with fuel efficiency similar to that of a *Civic*. This is achieved by combining a V6 engine with Honda's original IMA and VCM technology. The six-cylinder *Accord Hybrid* will augment our existing line of hybrid vehicles—the three-cylinder *Insight* and the four-cylinder *Civic Hybrid*—giving customers an even greater choice of fuel-efficient vehicles.

In fall 2004, we will unveil a new version of the Acura *RL*, fitted with a 3.5-liter V6 VTEC engine and featuring Honda's original SH-AWD, resulting in a vehicle that delivers both high performance and excellent safety. It will also have Acura *Link*, which incorporates the industry's first satellite communication system, as well as real-time traffic and maintenance information—all of which can be controlled through use of the monitor of the vehicle's navigation system.

Committed to meeting the future needs of customers, Honda will continue introducing innovative, attractive products

that offer higher levels of value while providing sales and services that keep customers satisfied. In these ways, we will strive to further expand our business in the United States.

U.S. Sales of Honda Automobiles (by Model)

