

## CORPORATE GOVERNANCE

Based on its 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 that 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 enhance compliance and risk management, while advancing the self-reliance of

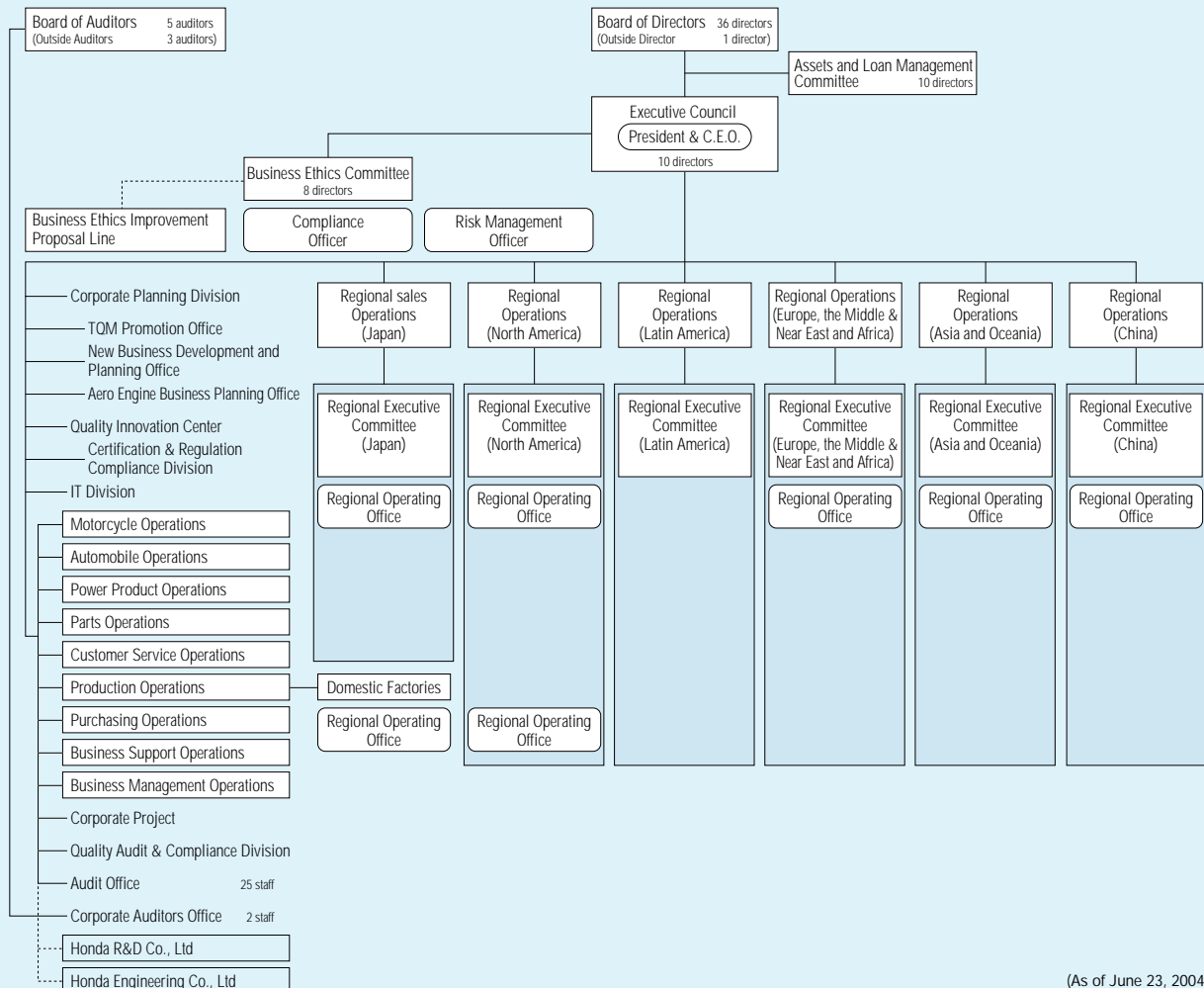
each organization.

To ensure objective control of the Company's management, outside directors and corporate auditors are appointed as members of the Board of Directors and the Board of Corporate Auditors, which are responsible for the 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, Honda'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. Honda 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 statutory matters including the execution of important businesses. The Board of Directors also supervises the execution of the Company's businesses. In order to ensure proactive decision-making, the Board of Directors set up an Assets and Loan Management Committee, which is responsible for making decisions related to the disposal of the Company's important assets.

The Board of Corporate Auditors is composed of five corporate auditors, including three 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 directors' execution of duties. This is accomplished through various means, including attendance at meetings of the Board of Directors and inspections regarding the status of Company assets and liabilities. To further strengthen the auditing structure, one outside corporate auditor was elected at the Company's Ordinary General Meeting of Shareholders held on June 23, 2004. The Company has five auditors in total. In addition to this, to provide direct support to the Board of Corporate Auditors, a Corporate Auditors' Office was established.

## 2. Fees for and Services Provided by the Independent Auditor

The table below sets out the fees for the independent auditor and its affiliate, both of who verify Honda's audits under the Securities Exchange Act of the U.S.A.:

Millions of yen	2004	2003
Audit fees	581	570
Fees for audit-related businesses	221	78
Fees for tax audits	484	391
Other fees	2	131
Total	1,288	1,170

"Audit fees" are fees for professional services of the independent auditors' audit of the Company's financial statements, and for general services provided by the

independent auditors in relation to documents to be submitted by law or regulation.

"Fees for audit-related businesses" are fees for the independent auditors' providing of assurance reasonably related to the implementation of audits and reviews of financial statements and fees for other services related thereto. This covers, for example, audits of the employee wage system, accounting consultancy, reviews of internal controls, providing of assurance that are not required by law, regulations, or the like, and consultations related to financial accounting reports.

"Fees for tax audits" are fees for services provided to ensure compliance with tax legislation and regulations, tax advice, and tax planning.

"Other fees" are fees of all other services provided by the independent auditors other than auditing services, auditing-related services and tax services. This includes education and other various support services.

### Policy on and Procedures for Obtaining Board of Corporate Auditors' Prior Consent

To ensure that the independent auditor and its affiliate under the Securities Exchange Act of the U.S.A. act in accordance with all applicable laws and regulations and maintain complete independence from the Company, it is required to obtain the prior consent of the Company's Board of Corporate Auditors before they carry out the auditing services, auditing-related services, tax services and other services for Honda.

The Company's initial policy required that each contractual agreement must have a separate prior consent from the Board of Corporate Auditors, but in order to make the decision-making process more efficient we are working toward streamlining procedures by establishing categories of matters requiring comprehensive prior consent. These categories of matters requiring comprehensive prior consent are reviewed regularly by the Board of Corporate Auditors. Any matter that does not fall under one of these categories still requires separate consent of the Board of Corporate Auditors.

The Company's departments and subsidiaries that receive the auditing services, auditing-related services, tax services and other services, all report to the Board of Corporate

Auditors on the details of services received, and fees paid for those services, during the relevant business year.

The Board of Corporate Auditors takes these reports into consideration when it reviews the categories of matters requiring comprehensive prior consent.

### 3. Business Execution System

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

As for execution of business, the Company has six Regional Operations in the world to promote its business based on its fundamental corporate philosophies with long-term vision and rooted in the local society. Regional executive officers are assigned to be in charge of the Business Operations in each region, with the aim of enhancing localized business development and ensuring speedy decision-making. Each regional executive council located at each Regional Operations discusses important management issues in the region within the scope 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 and Purchasing operations support production-related departments so that they can implement the most efficient allocation of production and procurement in the world. These efforts are aimed at increasing company-wide efficiencies.

In April 2004, the Company established a Customer Service Operations aiming at obtaining satisfaction of higher level of our global customers.

At the Company's major production facilities in Japan and overseas, operational executive officers are assigned and are responsible for rapid decision-making. In addition, the Business Management 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 activities are conducted principally at the independent subsidiaries of the Company.

Honda R&D Co., Ltd. is responsible for research and development on products, while Honda Engineering Co., Ltd. is responsible for research and development in the area of production technology. The Company actively carries out research and development with advanced technologies with the aim of creating products that are distinct and internationally competitive.

### 4. Internal Control

The Audit Office is an independent supervisory department under the direct control of the president. This office audits the performance of each department.

In addition to the "Honda Conduct Guideline" to be shared within the entire Honda Group, the Company has also set up a systematic framework for compliance and risk management in which each division of the 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 appointment of a director in charge of compliance and risk management, the Company has also established organizations such as a "Business Ethics Committee" to deliberate matters related to corporate ethics and compliance and a "Business Ethics Improvement Proposal Line" to receive suggestions related to corporate ethics issues.

## CORPORATE GOVERNANCE

Companies listed on the NYSE must comply with certain standards regarding corporate governance under Section 303A of the NYSE Listed Company Manual.

However, listed companies that are foreign private issuers, such as Honda, are permitted to follow home country practice in lieu of certain provision of Section 303A.

The following table shows the significant differences between the corporate governance practices followed by U.S. listed companies under Section 303A of the NYSE listed Company Manual and those followed by Honda.

Corporate Governance Practices Followed by NYSE-listed U.S. Companies	Corporate Governance Practices Followed by Honda
<p>A NYSE-listed U.S. company must have a majority of directors meeting the independence requirements under Section 303A of the NYSE Listed Company Manual.</p>	<p>For large Japanese companies, including Honda, which employ a corporate governance system based on a board of corporate auditors (the "corporate auditor system"), Japan's company law has no independence requirement with respect to directors. The task of overseeing management and, together with the accounting audit firm, accounting is assigned to the corporate auditors, who are separate from the company's management.</p> <p>Large Japanese companies, including Honda, are required to have at least one "outside" corporate auditor who must meet independence requirements under Japan's company law. An outside corporate auditor is defined as a corporate auditor who has not served as a director, executive officer, manager or any other employee of the company or any of its subsidiaries for the last five years prior to the appointment.</p> <p>Currently, Honda has three outside corporate auditors. Starting on the date of the ordinary meeting of shareholders of Honda relating to the fiscal year ending March 31, 2006, at least 50% of Honda's corporate auditors will be required to be outside corporate auditors.</p> <p>Also, starting on the same date, the independence requirements for outside corporate auditors will be strengthened by extending the five-year period referred to above to any time prior to the appointment.</p> <p>Honda's current corporate auditor system meets this new requirements.</p>
<p>A NYSE-listed U.S. company must have an audit committee composed entirely of independent directors, and the audit committee must have at least three members.</p>	<p>Like a majority of Japanese companies, Honda employs the corporate auditor system as described above. Under this system, the board of corporate auditors is a legally separate and independent body from the board of directors. The main function of the board of corporate auditors is similar to that of independent directors, including those who are members of the audit committee, of a U.S. company: to monitor the performance of the directors, and review and express opinion on the method of auditing by the company's accounting audit firm and on such accounting audit firm's audit reports, for the protection of the company's shareholders.</p>

CORPORATE GOVERNANCE

	<p>Large Japanese companies, including Honda, are required to have at least three corporate auditors. Currently, Honda has five corporate auditors. Each corporate auditor has a four-year term. In contrast, the term of each director of Honda is one year.</p> <p>Starting on July 31, 2005, when the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees become applicable to foreign private issuers, Honda expects to rely on an exemption under that rule which is available to foreign private issuers with boards of corporate auditors meeting certain criteria. Honda expects to make a disclosure regarding such reliance in its annual reports on Form 20-F for the fiscal year ending March 31, 2006 and thereafter.</p>
<p>A NYSE-listed U.S. company must have a nominating/ corporate governance committee entirely of independent directors.</p>	<p>Honda's directors are elected at a meeting of shareholders. Its Board of Directors does not have the power to fill vacancies thereon.</p> <p>Honda's corporate auditors are also elected at a meeting of shareholders. A proposal by Honda's Board of Directors to elect a corporate auditor must be approved by a resolution of its Board of Corporate Auditors. The Board of Corporate Auditors is empowered to adopt a resolution requesting that Honda's directors submit a proposal for election of a corporate auditor to a meeting of shareholders. The corporate auditors have the right to state their opinion concerning election of a corporate auditor at the meeting of shareholders.</p>
<p>A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors.</p>	<p>Maximum total amounts of compensation for Honda directors and corporate auditors are proposed to, and voted on, by a meeting of shareholders. Once the proposals for such maximum total amounts of compensation are approved at the meeting of shareholders, each of the Board of Directors and Board of Corporate Auditors determines the compensation amount for each member within the respective maximum total amounts.</p>
<p>A NYSE-listed U.S. company must generally obtain shareholder approval with respect to any equity compensation plan.</p>	<p>Currently, Honda does not adopt stock option compensation plans. When Honda adopts it, Honda must obtain shareholder approval for stock options only if the stock options are issued with specifically favorable conditions concerning the issuance and exercise of the stock options.</p>