



To Our Shareholders

Review of Previous Mid-Term Business Plan

Fiscal 2005, ended March 31, 2005, was the final year of Honda's mid-term business plan. During the year, in our bid to "make 20 million customers happy"—one of the stated goals of the plan—we embraced various challenges in our respective markets. As a result, we reported significant growth in all business segments, achieving virtually all of our targets.

Environment

Business conditions during the three-year period covered by the plan were very challenging. In the motorcycle segment, competition intensified in each region amid ongoing market expansion, especially in Asia. In the automobile segment, industrywide consolidation, which has occurred frequently since the late 1990s, tapered off. Nevertheless, competition grew fiercer as automakers staked their survival on bold new initiatives. In the United States, overall demand remained high, at over 16 million units, and the market saw a shift in demand from passenger cars to light trucks. In China and elsewhere in Asia, the passenger car market grew sharply. In the power products segment, customer needs continued to diversify due to increasing environmental awareness as well as other factors.

Key Honda Initiatives

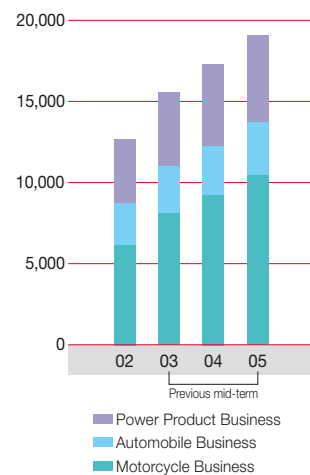
In the motorcycle segment, demand continued to expand in Asia, where motorcycles are a popular mode of transportation. By offering attractive products at competitive prices, Honda significantly increased unit sales, greatly boosting its motorcycle business, which is Honda's origin. We also introduced new sports bikes—incorporating advanced technologies developed through racing activities—to the European, North American and Japanese markets. In these ways, we strove to deliver products that meet the needs of customers around the world.

During the year, we continued working actively in the interests of safety and the environment. For example, we completed the transformation of all motorcycles into four-stroke models¹. We also equipped small-displacement models with programmed fuel injection (PGM-FI)², thus making emissions even cleaner. In addition, we equipped more models with our original Hydraulic Combined Braking System with ABS³.

Unit Sales

Years ended March 31

(Thousands)



Unit sales is the total of sales of completed products of Honda and its consolidated subsidiaries, and sales of parts for affiliates accounted for under the equity method. Unit sales of Honda-brand motorcycle products 100% locally procured, manufactured and sold by overseas equity-method affiliates are not included in unit sales.

*1: This does not include CR series racing bikes or special-purpose bikes (Gyro series).
 *2: Programmed fuel injection (PGM-FI)
 This original Honda system is designed to enhance fuel efficiency and lower emissions. It employs various sensors to monitor engine operating status and a computer to calculate the optimal amounts of fuel required. The system then delivers those amounts to the engine cylinders. Honda adapted its PGM-FI system, originally developed for automobiles, to motorcycles by reducing the number of parts to make it more compact and less expensive.
 *3: Hydraulic Combined Braking System with ABS
 This original Honda development integrates a hydraulic combined braking system, which links both front and rear wheels when the left brake lever is engaged, with an anti-lock braking system (ABS), which prevents the front and rear wheels from locking when the brake is engaged too forcefully.
 Note: Although this system is designed to support the braking action, both the front- and rear-wheel brakes should still be applied simultaneously.
 *4: "Safety for Everyone"
 Honda is committed to providing comprehensive safety solutions with its "Safety for Everyone" initiative. By the end of 2006, all Honda and Acura models sold in the United States and Canada will feature front-side airbags, side curtain airbags, anti-lock brakes and pedestrian safety technologies in all but a few niche models; with Vehicle Stability Assist (VSA) and side curtain airbags with rollover sensors as standard features in all light trucks. Finally, Honda's Advanced Compatibility Engineering (ACE) body structure is being introduced to all vehicles as new platforms are introduced during full model changeovers.
 *5: Compact, home-use cogeneration unit
 Honda has combined its original electromagnetic inverter technologies with the world's smallest⁽ⁱ⁾ natural gas engine (GE160V) in an efficient layout to create a small, lightweight generation unit. Due to its compactness, the unit can be installed in the home and boasts an overall energy efficiency of 85%. It also emits approximately 30% less carbon dioxide than conventional natural gas-powered generators or hot-water heating units using natural gas.⁽ⁱⁱ⁾
 i: A Honda development, the reciprocal gas engine
 ii: Data from Honda test results. Data compares electric power from natural gas-powered generation with hot-water heating units that use natural gas (as of October 2004).

In the automobile segment, we increased sales in the U.S. market by introducing new models in the light truck segment. In China and elsewhere in Asia, the automobile market continued to expand, and we achieved remarkable growth thanks to the high profile of the Honda brand. In Europe, where demand for diesel-powered vehicles is increasing, we unveiled models equipped with Honda's original diesel engines. In Japan, meanwhile, overall demand remained low. We responded by strengthening the appeal of our products, strengthening our sales system to ensure customer satisfaction and raising our profitability. Through these initiatives in various regions, we steadily solidified our automobile business.

We worked hard to enhance the environmental and safety aspects of our automobiles. In addition to further improving fuel economy in all vehicles, we endeavored to make the emissions of our vehicles even cleaner. We also expanded our lineup of hybrid models, and in Japan and the United States we began leasing the FCX, a fuel cell vehicle incorporating our original next-generation fuel cell stack, which we developed in-house. In the United States and Canada, we promoted our "Safety for Everyone"^{*4} campaign.

In the power products segment, we supplied a variety of items that benefit customers around the world. These included general-purpose engines, generators, pumps, brush cutters, outboard engines and lawnmowers—all designed from the perspectives of safety and the environment. At the same time, we sought to expand our business through a variety of activities. We also developed and promoted a compact, home-use cogeneration unit^{*5} incorporating a natural gas-powered engine.

By embracing challenges in these ways across our various regions, we achieved solid growth in all of our businesses. In fiscal 2005, the final year of our mid-term business plan, we sold 10.48 million motorcycles, up 4.39 million units (72.0%), compared with fiscal 2002. We also sold 3.24 million automobiles, up 576,000 units (21.6%), and 5.3 million power product units, up 1.37 million units (35.0%).

Net sales in fiscal 2005 reached ¥8,650.1 billion, up 17.5% from the previous year. Net income jumped 34.0%, to ¥486.1 billion, due partly to a significant increase in income from earnings of affiliates accounted for under the equity method. In short, Honda's financial results have improved dramatically over the past three years.

Future Initiatives

New Mid-Term Business Plan

In 1998, we formulated our "Vision 2010"^{*6} initiative, designed to transform Honda into a "company that society wants to exist." In other words, we want people around the world to be glad that Honda exists. To realize this vision, we identified three themes—"Value Creation" (creating new value for our customers), "Glocalization" (expanding local operations) and "Commitment for the Future" (developing safety and environmental solutions)—and stepped up our business development accordingly.

We now have a new business plan, covering the three-year period through March 2008. Under the plan, we will further strengthen those core characteristics that make Honda unique by renewing our focus on "creating new value." We are strongly determined in this regard, because we recognize that it is impossible to expand local operations and continue to develop advanced safety and environmental solutions without first creating new value for our customers. In addition to developing technologies and products that exceed people's expectations, we will strive to further strengthen Honda's unique innovative spirit and creativity across all activities, including production, sales and services. Such actions will be key to Honda achieving a significant leap in the future. Toward this end, we will place even greater emphasis on Honda people who are "at the spot" in order to address every issue at its source of origin—which is the foundation of our value as a manufacturer—and then make decisions based on the reality of what is happening "at the spot."

Now, I will describe the primary initiatives for fiscal 2006, the first year of our new mid-term business plan.

*6: Vision 2010



Fiscal 2006: Key Initiatives by Business Segment

Looking at the operating environment, we believe that the world economy will continue growing, especially in the United States and Asia, but there are concerns that the rate of growth will slow. Uncertainties will remain in such areas as the global geopolitical situation, oil and raw materials prices and foreign exchange movements. Even in Japan, where economic recovery is steady and personal consumption is expected to grow significantly, we believe that sales competition will further intensify.

For fiscal 2006, we are targeting sales of 10.30 million motorcycles, 3.42 million automobiles and 5.79 million power products.

Motorcycle Business

In the continually expanding motorcycle market in Asia, we will renew our focus on cost reduction in areas marked by intense competition. Our goal is to deliver price-competitive products and thus further increase sales. In response to growing sales in the region, last year we increased our production capacity in India, and we plan to also boost capacity at our affiliates accounted for under the equity method in Indonesia and China, as well as our plant in the Philippines. In addition, we will strengthen the capabilities of our R&D operations in Thailand to ensure swifter responses to customers' diversifying needs and to strengthen our ability to supply attractive products.

We have followed a proactive local procurement policy for our overseas production operations. In this way, we work to grow our business in close association with the regions where we operate. Recent years have seen a sharp increase in the number of Honda-brand motorcycles made 100% from locally procured parts by our affiliates accounted for under the equity method in India and China. We expect to sell approximately 3.4 million of these vehicles in fiscal 2006, based on local estimates. (These are not included in consolidated unit sales figures^{*7}.) In the process, we will build a dominant presence in the continually expanding Asian motorcycle market.

In Europe, we will work to increase sales of sports bikes, which are popular there. In other regions, we will seek to boost sales, especially in Brazil, where growth continues unabated. In the all-terrain vehicle (ATV) category, we are targeting higher sales of core models, focusing on North America.

Meanwhile, we will further enhance our technological skills to roll out new models effectively and actively nurture the skills of our engineers, who hold the key to our future. We will also strengthen our advanced production technologies in Japan, which play a key role in the development of overseas motorcycle markets, so that we can respond appropriately to the ongoing globalization of the business.

Through these and other initiatives in various regions, we will target further progress in our motorcycle business.

Automobile Business

In the automobile segment, we will seek to increase sales by providing attractive products that meet the needs of customers in our respective markets. A key initiative for fiscal 2006 will be a full model change of the *Civic*, which is sold in approximately 160 nations and regions worldwide. To prepare for sales growth, we will also expand our production capacity, centering on Asia. By maximizing customer satisfaction on a worldwide basis, we will work to boost sales of automobiles in all regions.

North America

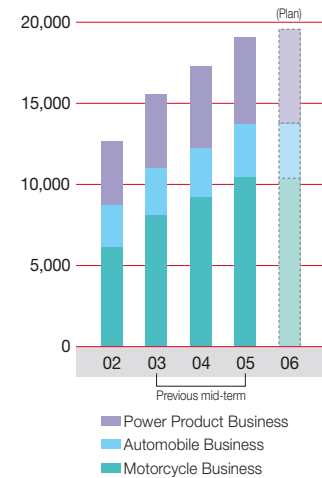
In March 2003, Honda launched its next-generation light truck, the *Ridgeline*, developed in the United States. With superlative packaging and excellent driving performance, the new vehicle has generated solid initial sales, indicating that it not only satisfies the changing needs of existing Honda users, but also has won strong support from a wide range of new customers in this segment.

In the fall, the *Civic* will undergo its first full model change in five years. Since 1995, the *Civic* has received widespread grass-roots support, with U.S. sales consistently reaching approximately 300,000 units per year. The model change is based on the concepts of

Unit Sales

Years ended March 31

(Thousands)



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“emotional styling” and “exhilarating driving experience,” and backed by a new high-performance engine. In the beginning of 2006, we will launch an entry-level model targeting young people in the hopes of capturing a new base of customers who will become loyal Honda customers in the future.

Back in 1999, we unveiled the *Insight*, the first hybrid vehicle to be sold in North America. We have since released hybrid versions of the *Civic* (2002) and the *Accord* (2004). Going forward, we will increase efforts to meet demand for hybrid vehicles.

In the area of manufacturing, in 2005 the second line of our Alabama Plant will reach full capacity at 150,000 units per year, to help meet growing demand for light truck models. From 2006, we will also add more light truck models to the production line of our Ohio plants. In these ways, we will position our North American production network to respond flexibly to changing customer needs.

Our plan is to maintain a consistent level of sales in the passenger car market, which is declining, while targeting increased sales in the growing light truck market.

For fiscal 2006, Honda forecasts sales of 1,675,000 vehicles in North America, up 6.3%.

Asia

While China has seen spectacular growth in demand for passenger vehicles, the pace of expansion has moderated since the central government tightened monetary policy and adopted other measures last April. Nevertheless, Honda believes that demand will continue growing, and that China has great potential to become the world's largest automobile market after the United States. A number of existing models are selling well in this important market, including the *Accord* and *Fit* series. In 2006, we will seek to further increase sales by adding the new *Civic* to our lineup.

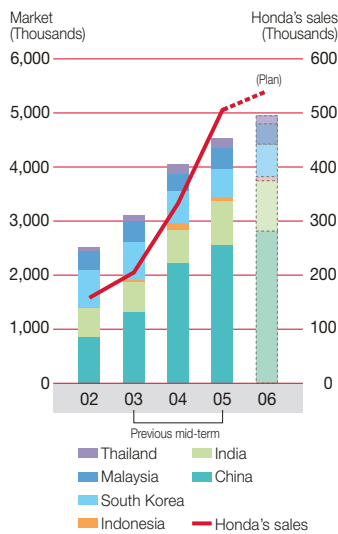
With respect to local production in China, by the end of 2006, we will raise our total capacity—the combined capacity of two local affiliates, Guangzhou Honda Automobile Co., Ltd., and Dongfeng Honda Automobile Co., Ltd.—from 270,000 to 480,000 units per year. In April 2005, Honda Automobile (China) Co., Ltd., a subsidiary devoted exclusively to making automobiles for export, started mass-producing the *Jazz* model for the European market, with exports beginning in June. These efforts reflect Honda's strategy of broadening its automobile business in China.

Meanwhile, India, Indonesia and other Asian markets continue to grow. Our plan is to increase sales in those areas, centering on such highly regarded models as the *Jazz* and *Fit*. We will also expand production capacity to meet rising demand.

In Asia, we are targeting unit sales in fiscal 2006 of 540,000 automobiles, up 5.5%. This figure represents the combination of finished cars sold by the Company and its subsidiaries, as well as component parts sets supplied to affiliates accounted for under the equity method.

Principal Asian Automobile Markets and Honda's Unit Sales in Asia

Years ended March 31



Market: Excluding commercial vehicles
(Source: Honda)

Power Product Business

Based on the approach of creating new value for the customer through useful tools, Honda delivers a variety of safe, environmentally friendly power products to customers worldwide.

In the upcoming fiscal year, we will unveil a next-generation, general-purpose engine incorporating electronic control technologies to improve user-friendliness, offer superb environmental performance and reduce noise. We will also increase the supply of cost-competitive products made in Asia to customers in various other regions. In addition, we will continue actively promoting our compact, home-use cogeneration unit, which greatly reduces environmental impact, to users in Japan and overseas.

Through these initiatives, we will seek to further develop our power products business.

Research And Development

To succeed amid fierce global competition, Honda will further strengthen its ability to create advanced technologies and products. Our goal is to deliver new levels of value and bring products to market quickly to meet customer needs in various regions worldwide.



At the same time, we recognize the importance of ongoing improvements in the safety and environmental performance of our products.

We will continue to actively allocate the Company's resources to developing attractive models in our automobile business, as well as to enhancing the appeal of our motorcycles and power products. We will strive to further improve the power, fuel efficiency and environmental performance of our gasoline and diesel engines, while conducting aggressive R&D on hybrid technologies, which will grow in importance, together with fuel cell and other technologies.

Going forward, we will advance research and development on next-generation technologies, including humanoid robotics and compact aircraft engines, as well as future-oriented basic technologies.

In Closing

Management System

As our business grows on a global scale, so does the importance of upgrading corporate governance and increasing the autonomy of our various regional headquarters and business operations. With this in mind, Honda has introduced a new corporate management system.

In the past, members of the Board of Directors were responsible for business execution in their role as directors. However, we have now separated that role into two: the "director" role (supervision and business execution within the Board of Directors) and the "operating officer" role (business execution at the regional level and at each local "spot"). The goal of this change is to enhance the flexibility of the Board of Directors, as well as to accelerate the transfer of authority to each region and each local spot as a means to increase the speed and flexibility of our regional operations.

With this new system in place, we will strive to strengthen both the supervisory and executive functions while targeting swifter, more flexible business operational management.

Returning Profits To Shareholders

Honda strives to carry out its operations from a global perspective and thus increase its corporate value.

The Company regards redistribution of profits to shareholders as one of its most important management issues. Our basic dividend policy is to make distributions after taking into account our long-term consolidated earnings performance. We will also buy back our own shares as appropriate, with the aim of improving the efficiency of our capital structure. At present, our goal is to achieve a shareholder return ratio (ratio of the sum of dividend payments and value of share buybacks to consolidated net income) of approximately 30%.

Based on these policies, Honda plans to declare a fiscal 2005 year-end cash dividend of ¥37 per share, bringing total annual dividends to ¥65.00 (after adding the ¥28 interim dividend). In fiscal 2006, we plan to raise the interim dividend ¥9.00, to ¥37.00 per share, and maintain the year-end dividend at ¥37.00, bringing annual dividends to ¥74.00 per share.

As we move confidently into the future, we look forward to the continued understanding and support of shareholders and other investors.

June 23, 2005

Takeo Fukui
President and Chief Executive Officer