

## Basic Stance

Based on its fundamental corporate philosophy, the Company is working to improve corporate governance as one of its most important management issues. Our aim is to ensure that Honda is a company whose existence is appreciated by shareholders, customers and society.

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, and each business operation is responsible for its own specific products. The result is a system that functions very effectively and efficiently.

The task of the Audit Office is to carry out more effective audits of the performance of each division's business. Each division aims to enhance compliance and risk management,

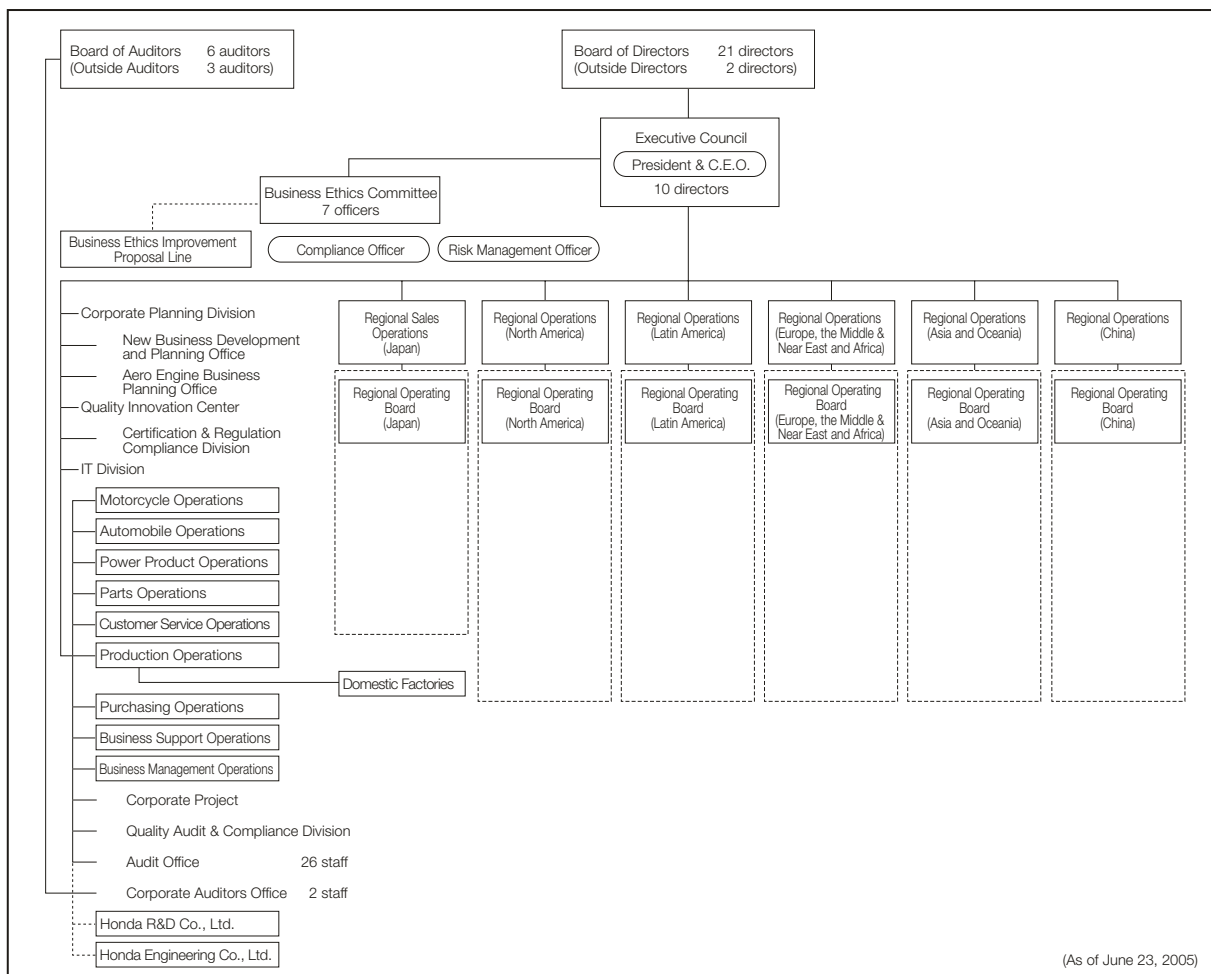
while advancing its own self-reliance.

To ensure objective control of the Company's management, outside directors and corporate auditors are appointed to the Board of Directors and the Board of Corporate Auditors, which are responsible for the supervision and auditing of the Company. The term of office of each director 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. Our goal is to maximize flexibility in response to changes in the operating environment.

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

## The Company's Corporate Governance Activities

### (1) Management Organization of the Company's Corporate Governance for Decision-Making, Execution, Supervision and Others



### 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 21 directors, including two outside directors, and makes decisions on statutory matters, including the execution of important business. The Board of Directors also supervises the execution of the Company's businesses. From June 2005, the Company introduced an operating officer system aiming at strengthening its business execution and improving flexibility in decision-making at the Board of Directors. The Company also increased the number of outside directors to strengthen the supervisory functions of the Board of Directors.

The Board of Corporate Auditors consists of six corporate auditors, including three outside corporate auditors. In accordance with the Company's auditing policies and the apportionment of responsibilities as determined by the Board of Corporate Auditors, each corporate auditor audits the directors' execution of duties. Corporate auditors accomplish these audits through various means, including attending meetings of the Board of Directors and inspecting the state of the Company's assets and liabilities. In addition, a Corporate Auditors' Office was established to provide direct support to the Board of Corporate Auditors.

At its meeting on June 23, 2005, the Board of Corporate Auditors certified Shinichi Sakamoto, a corporate auditor of the Company, as an "audit committee financial expert," as set out in the rules of the Securities and Exchange Commission pursuant to Section 407 of the U.S. Sarbanes-Oxley Act of 2002. Mr. Sakamoto was elected as a corporate auditor on the same day at the general meeting of shareholders, held prior to the meeting of the Board of Corporate Auditors.

The total amount of remuneration and bonuses of directors and corporate auditors is determined according to a standard that reflects their contributions to the Company.

The total remuneration paid to directors and corporate auditors during fiscal 2005 was ¥1,373 million: ¥1,288 million to the 40 directors (including four directors who retired during the year) and ¥85 million to the six corporate auditors (including one corporate auditor who retired during the year). The remuneration paid to directors includes employee wages paid to directors who also held employee status and remuneration paid by subsidiaries of the Company to directors who had business execution

responsibilities for said subsidiaries. The remuneration paid to corporate auditors includes amounts paid by subsidiaries of the Company to corporate auditors who also served as corporate auditors for those subsidiaries.

Total executive bonuses paid during fiscal 2005 was ¥650 million: ¥606 million to the 36 directors who were directors at the end of fiscal 2004 and ¥44 million to the four corporate auditors who were corporate auditors as at the end of fiscal 2004.

Total retirement allowances paid to the four retired directors was ¥923 million, while ¥216 million was paid to a retired corporate auditor. Both payments were in accordance with a resolution of the Ordinary General Meeting of Shareholders, held in June 2004.

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

For fiscal 2005, the Company elected Ernst & Young ShinNihon as its independent auditor under the Commercial Code's Audit Special Exceptions Law and the Securities and Exchange Law, and elected AZSA & Co. as its independent auditor under the U.S. Securities Exchange Act.

A total of 37 people from Ernst & Young ShinNihon provided auditing services for Honda: five Japanese certified public accountants (Yoshinobu Shimizu, Masahiko Sano, Norihiko Inui, Toshihiro Yasada and Masami Koike) and 32 assistants (15 Japanese certified public accountants, 10 assistant accountants, two U.S. certified public accountants and five others). Among the Japanese certified public accountants who provided auditing services for the Company, Shigenobu Shimizu and Masahiko Sano have provided auditing services for the Company for consecutive periods of 11 years and 14 years, respectively. These terms include the period prior to April 1, 2004, when restrictions on the number of consecutive years of auditing (seven years) came into effect in accordance with the Enforcement Ordinance of the Certified Public Accountants Law.

A total of 26 people from AZSA & Co. provided services for Honda: 10 Japanese certified public accountants, 13 assistant accountants and three U.S. certified public accountants.

### Fees and Services of Independent Auditor

The fees paid to AZSA & Co. and its affiliate for services under the U.S. Securities Exchange Act are described below.

Yen (millions)	2004	2005
Audit fees	581	688
Fees for audit-related businesses	221	113
Fees for tax audits	484	390
Other fees	2	0
Total	1,288	1,191

“Audit fees” are fees for professional services related to the independent auditor’s 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 services” are fees for the independent auditor’s provision of assurance reasonably related to the implementation of audits and reviews of financial statements and fees for other services related thereto. These cover, for example, audits of the employee wage system, accounting consultancy, reviews of internal controls, provision of assurances 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 for all other services provided by the independent auditor, other than auditing services, audit-related services and tax services. These include education and other various support services.

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

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

The Company’s initial policy required that each contractual agreement have a separate prior consent from the Board of Corporate Auditors. In order to make the decision-making process more efficient, however, we are enhanc-

ing procedural efficiency by establishing categories of matters requiring comprehensive prior consent. These categories 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.

Divisions and subsidiaries of Honda that receive auditing services, audit-related services, tax services and other services must all report to the Board of Corporate Auditors on the details of services received, as well as 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.

### *Business Execution System*

The Company has established a Management Council, which consists of 10 representative 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 around the world to develop business based on its fundamental corporate philosophy. These operations adopt long-term perspectives and maintain close ties with local communities. To enhance the independence of each regional operation and ensure swift decision-making, each regional operating council discusses important management issues in the region within the scope of authority conferred upon it 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. Each functional operation—such as Customer Service Operations, Production Operations, Purchasing Operations, Business Management Operations and Business Support Operations—supports the other functional operations, with the aim of increasing Honda’s efficiencies.

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., handles research and development in the area of

production technology. The Company actively carries out research and development in advanced technologies with the aim of creating products that are distinctive and internationally competitive.

In June 2005, the Company introduced an operating officer system, whereby execution of business is handled primarily by executive directors who are the heads of regional operations and business operations, as well as by operating officers. Together with regional operating officers, whose system was integrated with that for functional operating officers in April 2005, the Company aims to reinforce its business execution system in each region and operation.

### **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 and works to improve the internal auditing of subsidiaries and affiliates in each region.

In addition to establishing the "Honda Conduct Guidelines," which will be shared throughout the entire 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 with laws and ordinances and prevent management risks, and to verify status of same on a regular basis under the supervision of the director in charge.

Honda has appointed a director in charge of compliance and risk management. The Company has also established entities, such as the "Business Ethics Committee," to deliberate matters related to corporate ethics and compliance, and the "Business Ethics Improvement Proposal Line," to receive suggestions related to corporate ethics issues.

The Company has also established a "Code of Ethics" as set forth in the rules of the U.S. Securities and Exchange Commission regulations pursuant to Section 406 of the Sarbanes-Oxley Act of 2002.

### **(2) Vested Interests**

There are no personal, capital or transactional relationships between the Company and its outside directors or its outside corporate auditors.

There is no particular relationship between the Company and its outside director, Satoru Kishi.

There is no particular relationship between the Company and its outside director, Kensaku Hogen.

There is no particular relationship between the Company and its outside corporate auditor, Koukei Higuchi.

There is no particular relationship between the Company and its outside corporate auditor, Kuniyasu Yamada. Mr. Yamada serves as President and Director of MTB Apple Planning, Co., Ltd. There is no particular relationship between MTB Apple Planning, Co., Ltd. and the Company.

There is no particular relationship between the Company and its outside corporate auditor, Fumihiko Saito. Mr. Saito serves as partner of Haarmann Hemmelrath Saito Law Office. There is no particular relationship between Haarmann Hemmelrath Saito Law Office and the Company.

### **(3) Enhancing Corporate Governance**

During fiscal 2005, eight meetings of the Board of Directors, one meeting of the Assets and Loan Management Committee and 31 meetings of the Management Council were held. Matters concerning the execution of important businesses were thereby determined, and important matters of management were deliberated.

During the same period, the Board of Corporate Auditors held 14 meetings and determined auditing policy, the apportionment of responsibilities and other matters. The Board of Corporate Auditors and the Audit Office provided, jointly or individually, business audits for the Company and a total of 117 subsidiaries and affiliates of the Company in Japan and overseas.

The Business Ethics Committee held two meetings and deliberated matters related to corporate ethics and compliance.

The Company pushed ahead with systematic improvements in the areas of compliance and risk management for each department, subsidiary and affiliate.

For the purpose of enhancing corporate disclosure, the Company held meetings to outline results in each quarter, focusing on consolidated financial results prepared in accordance with accounting principles generally accepted in the United States of America. The Company has also been proactive in such activities as holding meetings explaining corporate performance for investors, publishing various kinds of corporate information on the Company's website and pursuing swift and accurate disclosure of information on management policies through the mass media and other channels.

## 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 provisions 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
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>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 these new requirements.</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>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> <p>Large Japanese companies, including Honda, are required to have at least three corporate auditors. Currently, Honda has six 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>
A NYSE-listed U.S. company must have a nominating/corporate governance committee composed entirely of independent directors.	<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>
A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors.	<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>
A NYSE-listed U.S. company must generally obtain shareholder approval with respect to any equity compensation plan.	<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>