

Corporate Governance

Basic Stance

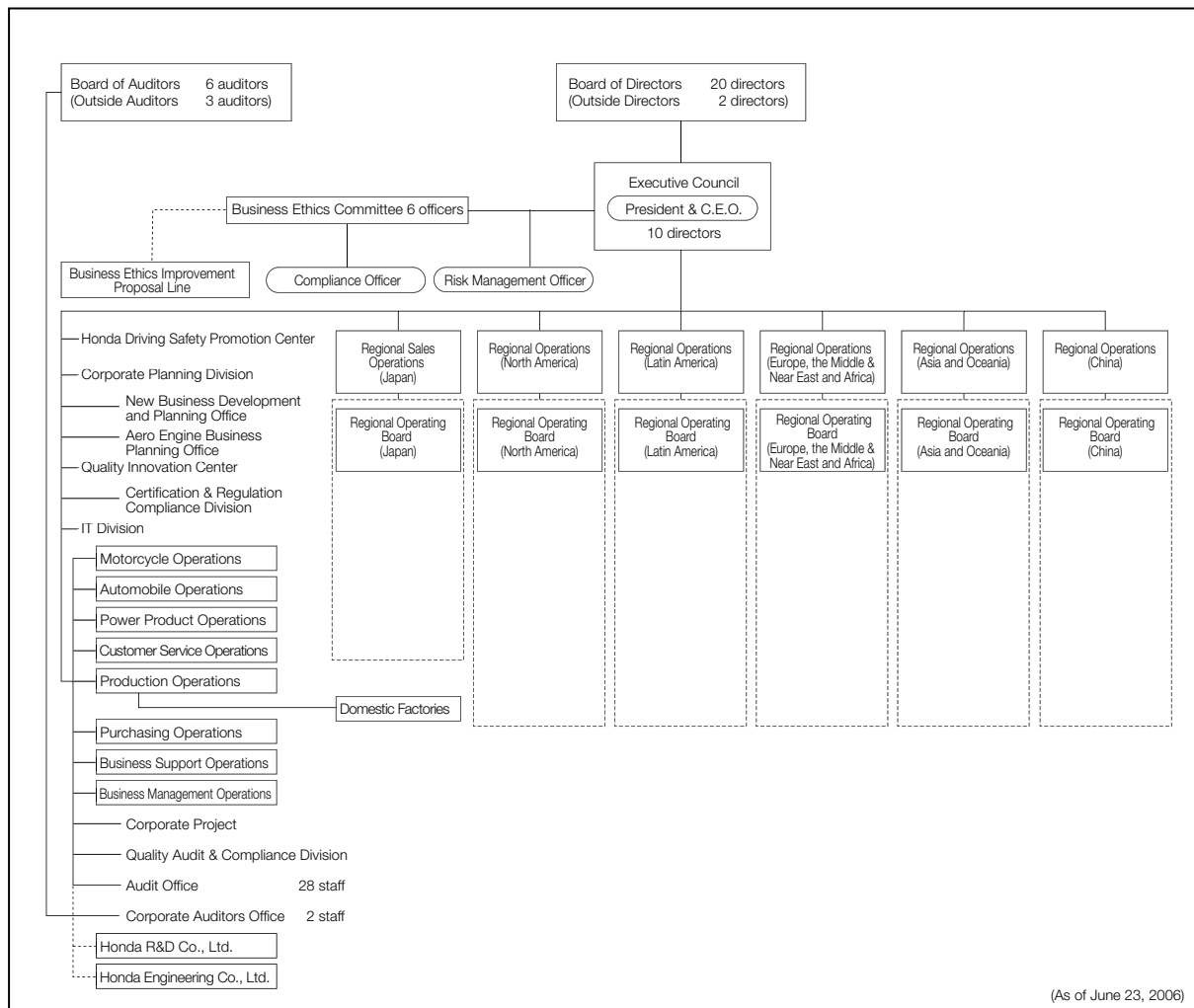
Based on its fundamental corporate philosophy, the Company is working to enhance corporate governance as one of its most important management issues. Our aim is to have our customers and society, as well as our shareholders and investors, place even greater trust in us and to ensure that Honda is “a company that society wants to exist.”

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. Honda has also introduced an operating officer system, aimed at strengthening both the execution of business operations at the

regional and local levels and the supervision by the Board of Directors. 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 performance in the Company. Our goal in doing this is to maximize the flexibility with which our directors respond to changes in the operating environment.

With respect to business execution, Honda has established a system for operating its organizational units that reflects its fundamental corporate philosophy. For example, separate headquarters have been set up for each region, business and function, and a general manager from the Board of Directors or an operating officer has been assigned to each headquarters and main division. In addition, the Management Council deliberates important matters concerning management, and regional

Management Organization of the Company’s Corporate Governance for Decision-Making, Execution, Supervision and Others



operating councils deliberate important matters concerning management of their respective regions. The result is a system that functions effectively and efficiently, and addresses the needs of customers and societies around the world in a swift and appropriate manner.

With respect to internal control, each division within the Company is working autonomously to reinforce legal and ethical compliance and risk management. The task of the Audit Office is to carry out effective audits of the performance of each division's business.

To enhance even further the trust and understanding shareholders and investors have in it, Honda's basic policy emphasizes the appropriate disclosure of company information, such as by disclosing financial results on a quarterly basis and timely and accurately giving public notice of and disclosing its management strategies. Honda will continue raising its level of transparency in the future.

Current State of the Company's Management Structure

(1) Management Organization

Board of Directors

The Board of Directors consists of 20 directors, including two outside directors, and determines important items that are related to business execution or that are designated by law and supervises business execution. In 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 plans to increase the number of outside directors to strengthen the supervisory functions of the Board of Directors.

In the year under review, the Board of Directors met nine times.

Outside Directors

The Company has appointed outside directors to receive advice on its corporate activities from an objective, broad-ranging, and advanced viewpoint based on extensive experience and a high level of insight in corporate management and diplomacy.

Outside directors attend meetings of the Board of Directors, asking questions and offering opinions as necessary. The Board of Directors also provides information on items of business and topics as necessary to outside directors.

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.

Board of Corporate Auditors

The Board of Corporate Auditors consists of six corporate auditors, including three outside corporate auditors. In accordance with the Company's auditing standards, auditing policies, apportionment of responsibilities and other such matters 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.

In the year under review, the Board of Corporate Auditors met 14 times.

The Board of Corporate Auditors has 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.

In the year under review, meetings between the Company's corporate auditors and its independent auditor were held on five occasions. At those meetings, the independent auditor provided the corporate auditors with explanations and reports on accounting audit plans and results, and opinions were exchanged.

The corporate auditors coordinate closely with the Audit Office, which is responsible for internal audits, with respect to audit policies and schedules. In the year under review, corporate auditors and the Audit Office, either independently or in collaboration, conducted business audits of a total of 128 companies among Honda's domestic and overseas subsidiaries and affiliates.

Outside Corporate Auditors

The Company has appointed outside corporate auditors to receive audits of its corporate activities from a broad-ranging and advanced viewpoint based on extensive experience and a high level of insight in corporate management and as a legal specialist.

The outside corporate auditors attend meetings of the Board of Directors, asking questions and offering opinions as necessary. The Board of Directors also provides items of business and other information as necessary to the outside corporate auditors.

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 a partner of Saito Law Office. There is no particular relationship between Saito Law Office and the Company.

Directors' Remuneration

The total amount of remuneration and bonuses of directors and corporate auditors is determined according to criteria that reflect their performance in the Company.

Remuneration for directors and corporate auditors is paid based on criteria approved by the Board of Directors, and it is paid within the extent of the maximum amount resolved by the Ordinary General Meeting of Shareholders.

Bonuses for directors and corporate auditors are paid based on a decision of the Ordinary General Meeting of Shareholders, taking into consideration the Company's profits during the fiscal year, past bonuses paid and various other factors.

The total remuneration paid to directors and corporate auditors during fiscal 2006 was ¥997 million: ¥897 million to the 37 directors (including 16 directors who retired during the year) and ¥100 million to the six corporate auditors. 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 the 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.

Executive bonuses paid during fiscal 2006 totaled ¥720 million: ¥668 million to the 36 directors who were directors at the end of fiscal 2005 and ¥52 million to the five corporate auditors who were corporate auditors as at the end of fiscal 2005.

Retirement allowances paid to the two retired directors totaled ¥464 million, in accordance with a resolution of the Ordinary General Meeting of Shareholders, held in June 2005.

Decisions Regarding Director Candidates

Candidates for directors are decided at meetings of the Board of Directors. Candidates for corporate auditors are decided by resolution of the Board of Directors, subject to agreement of the Board of Corporate Auditors.

Accounting Audits

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 (Company

Law from fiscal 2007), the Securities and Exchange Law and the U.S. Securities Exchange Act. In addition, they supervise the election of independent auditors, their remuneration and their non-audit services.

In the previous fiscal year, 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 Securities Exchange Act of the U.S.A.

In fiscal 2006, the Company elected AZSA & Co. as its independent auditor under Japanese laws, thus having the same independent auditor under both U.S. and Japanese laws, in order to ensure an efficient Group-wide auditing system.

A total of 47 people from AZSA & Co. provided auditing services for Honda: four Japanese certified public accountants (Masanori Sato, Shuji Ohtsu, Kensuke Sodegawa and Atsuji Maeno) and 43 assistants (13 certified public accountants, 14 assistant accountants, three U.S. certified public accountants and 13 others).

In fiscal 2006, the Company and its consolidated subsidiaries paid a total of ¥1,119 million in fees to AZSA & Co. and its affiliated accounting firm, KPMG, for audit certification services under the Commercial Code's Audit Special Exceptions Law, the Securities and Exchange Law and the U.S. Securities Exchange Act.

In fiscal 2006, the Company's overseas consolidated subsidiaries paid a total of ¥395 million in fees to AZSA & Co. and its affiliated accounting firm, KPMG, for non-auditing services.

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

To ensure that the independent auditor and its affiliate involved in audit certification services under the U.S. Securities Exchange Act behave 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 enhancing 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.

(2) Business Execution System

Organization

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.

The Company's four business operations—motor-cycles, 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 effectiveness and 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.

Business Execution Officer System

The Company has assigned a general manager from the Board of Directors or an operating officer to each regional, business and functional division, as well as to each research and development subsidiary. By ensuring swift, optimal decision-making in each region and workplace, the Company is building a highly effective and efficient business execution system.

Management Council

The Company has established the 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 within the scope of authority conferred upon it by the Board of Directors.

In the year under review, the Management Council met 22 times.

Regional Operating Councils

To enhance the independence of each regional operation and ensure swift decision-making, regional operating councils have been established at each regional operation to discuss important management issues in the region within the scope of authority conferred upon it by the Management Council.

Status of Measures Related to Shareholders and Others with Vested Interests

(1) Measures to Invigorate Ordinary General Meetings of Shareholders and Ensure Smooth Exercise of Voting Rights

To invigorate the annual Ordinary General Meeting of Shareholders, the Company holds the meeting as early as possible. The Company also presents easy-to-understand reports using video and slides, and displays its products at the conference room.

The Company sends convocation notices before the date required by law, and also allows shareholders to exercise their voting rights via the Internet, using personal computers or mobile phones. Convocation notices are sent in English to overseas investors. In these and other ways, the Company strives to make the exercise of rights as smooth as possible.

(2) IR Activities

For analysts and institutional investors, the Company holds meetings to present its results four times a year and meetings with the president twice a year. Company representatives visit and hold information meetings as needed for major Japanese and overseas institutional investors to explain the Honda Group's future business strategies. Representatives based in North America and Europe also hold information meetings for institutional investors as appropriate. In addition, the Company holds information meetings for investors at motor shows and other major events, where presentations on such topics as Honda Group strategies are made by the president or relevant director. Moreover, the Company conducts regular tours of facilities in Japan and overseas for shareholders and other investors.

The latest information for investors is available on the Company's website (<http://www.honda.co.jp/investors/> in Japanese; <http://world.honda.com/investors/> in English). All new information is uploaded to the site simultaneously in Japanese and English.

The Company issues a regular publication for shareholders, containing information about its businesses, products, financial status and other matters.

(3) Respecting the Perspective of Stakeholders

Seeking to earn the unwavering trust of customers and society, the Honda Group has formulated a set of behavioral guidelines, which is observed by all individual employees.

In addition to supplying products incorporating the most advanced safety and environmental technologies,

the Company pursues environmental protection activities, safe driving campaigns and social contribution activities covering all aspects of its operations, including production, logistics and sales. These initiatives reflect the Company's effort to earn the trust and understanding of society via its corporate activities.

The Company provides information about its corporate activities via financial reports and other disclosures according to law. We also publish yearly reports on environmental protection activities, safe driving campaigns and social contribution activities, which are posted on our website. In addition, we plan to produce a corporate social responsibility (CSR) report that comprehensively explains our activities related to the environment, safety and society.

Internal Control System: Fundamental Stance and Implementation Status

Basic Stance

To earn the trust of customers and society, the Company's divisions, under the guidance of their respective directors in charge, have frameworks in place to ensure a systematic approach to compliance and risk management. These include formulation of behavioral guidelines and procedures for self-assessment. The Company also has a system to support initiatives of each division. Moreover, effective audits are carried out to monitor the execution status of each division.

Group Governance System

Behavioral Guidelines

The "Honda Conduct Guideline," formulated to guide the behavior of all employees, is posted on the Company's website (<http://www.honda.co.jp/conductguideline/> in Japanese; <http://world.honda.com/conductguideline/> in English). In addition, each division produces more detailed behavioral guidelines according to its specific attributes.

Self-Assessment Checklist

Each division of the Company approaches compliance and risk management in a systematic way. For example, each division has a checklist that clarifies specific laws and risks to consider related to its particular business, and conducts regular self-assessments. The results of such assessments are reported to the director in charge of each division, and the overall status of compliance and risk management is evaluated regularly by the Management Council.

Compliance System

The Company has appointed a Compliance Officer, who is a director in charge of compliance-related initiatives. Other key elements of our compliance system include the

Business Ethics Committee and the Business Ethics Improvement Proposal Line.

Business Ethics Committee

Honda's Business Ethics Committee is chaired by the Compliance Officer and consists of directors and corporate officers. The Committee deliberates matters related to corporate ethics and compliance. It met four times in the year under review.

Business Ethics Improvement Proposal Line

Honda places high priority on open communications in its divisions. It has also set up the Business Ethics Improvement Proposal Line to receive suggestions related to corporate ethics issues. By devising appropriate responses to suggestions received, Honda is constantly working to enhance corporate ethics. The system is designed to ensure to protect informants, who can either use their real name or remain anonymous.

The Business Ethics Committee supervises the operation of the Business Ethics Improvement Proposal Line and submits status reports to the Board of Corporate Auditors.

Risk Management System

Each division works to prevent and address its particular set of risks. In addition, the Honda Crisis Response Rules are designed to address company-wide crises, such as major natural disasters.

The Company has appointed a Risk Management Officer, who is a director in charge of risk management-related initiatives. It also established the Company-Wide Response Headquarters to address crisis situations.

Storage and Management of Information on Execution of Business by Directors

Documents and other information related to the execution of business by directors are stored and managed appropriately, according to the document management policies of Honda and its major regional subsidiaries.

Business Audits

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.

Disclosure Committee

The Disclosure Committee, which consists of relevant directors, deliberates matters related to the accuracy and appropriateness of corporate information to be disclosed in business results announcements and financial reports.

Corporate Governance

Code of Ethics

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.

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 Japanese companies that employ a corporate governance system based on a board of corporate auditors (the “corporate auditor system”), including Honda, 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 and who satisfy the independency requirements under Japan’s Company Law.</p> <p>In the case of Japanese companies that employ the board of corporate auditors system, including Honda, at least half of the corporate auditors must be “outside” corporate auditors who must meet additional independence requirements under Japan’s company law. An outside corporate auditor is defined as a corporate auditor who has not served as a director, accounting counselor, executive officer, manager or any other employee of the company or any of its subsidiaries.</p> <p>Currently, Honda has three outside corporate auditors which constitute 50% of Honda’s corporate auditors.</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>Japanese companies that employ a corporate auditor system, 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>With respect to the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees, Honda relies on an exemption under that rule which is available to foreign private issuers with boards of corporate auditors meeting certain criteria.</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 request 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, such plans, Honda must obtain shareholder approval for stock options only if the stock options are issued with specifically favorable conditions or price concerning the issuance and exercise of the stock options.</p>