

To Our Shareholders



Takeo Fukui
President and Chief Executive Officer

We would like to express our gratitude to you, our shareholders, for your ongoing understanding and support. We would also like to thank the many people who have supported Honda's long-term growth, including our customers, business partners, and the societies around the world where we do business.

The business environment in fiscal 2008, ended March 31, 2008, was marked by severe circumstances such as the increase in crude oil and raw material costs around the world. The U.S. economy showed increasing signs of a slowdown triggered by the subprime mortgage crisis. In Europe, consumer spending was relatively weak, and the pace of economic growth moderated. In Japan, signs of an economic slowdown emerged, as capital spending and consumer spending remained flat compared with the previous year. On the other hand, the economies of Asia, particularly China and India, continued to experience generally high economic growth.

Under such business conditions, Honda posted record-high net sales and other operating revenue, mainly as a result of higher unit sales in the Automobile Business and other factors. Profit indicators—including operating income; income before income taxes, minority interest and equity in income of affiliates; and net income—also set record-high results. Factors driving the achievement of new records in profitability included higher revenues and the positive impact of cost reductions, both of which more than offset the increase in raw material costs. We believe that these results were based on the success of the three-year mid-term business plan that we began in spring 2005.

Motorcycle Business

Total unit sales of motorcycles declined, despite increases in Brazil and other markets, due to decreased sales in North America. (This decline in total unit sales was due to the exclusion of sales of Honda-brand motorcycles manufactured by affiliates accounted for under the equity method that do not include any parts supplied by Honda and its consolidated subsidiaries, as required under U.S. GAAP. Including these units, sales of Honda-brand motorcycles continued to increase during fiscal 2008.)

Reviewing by region, we reported major increases in sales of 125cc-class models in Other Regions, including South America, as a result of the expansion of sales in Brazil. In Asia, sales of scooters and other motorcycles in India increased, and sales in Vietnam were favorable, especially of automatic transmission models, supported by the fast-growing economy.

In North America, however, as a result of the deceleration of the U.S. economy, unit sales of medium- to large-sized motorcycle models, sporty all-terrain vehicles (ATVs), and other products declined compared to the previous year. In Japan, we took the initiative to enhance the appeal of Honda products and stimulate market demand by installing fuel-injection systems on scooters and other models and making full model changes for large scooters, as well as adopting other measures. However, unit sales fell compared to the previous year because of a decline in sales of 50cc-class models, including scooters, and 126cc-250cc-class models.



Supra X 125



Shine



Today

Automobile Business

During fiscal 2008, as a result of strong unit sales of Honda's global models—the *Civic*, *Accord*, *CR-V*, and *Fit*—unit sales increased in all overseas regions, and total unit sales set a record for the ninth consecutive year.

In North America, in the United States, despite the fact that the economy began to show signs of deceleration, Honda reported a steady increase in unit sales for the all-new *Accord*, the *CR-V*, and other models. In Europe, sales of diesel-engine models expanded, while Honda posted rapid sales growth in Russia, supported by strong economic conditions, and in Eastern Europe, where markets are continuing to expand. Meanwhile, within Asia, in China, sales of the *Civic*, *CR-V*, and other models were favorable. In Japan, although sales of the all-new *Fit* were strong, industry demand was weak and Honda's unit sales decreased.

Power Product and Other Businesses

Total unit sales of power products declined as a result of weaker demand in North America, despite increases in other markets outside the United States.

Reviewing by region, in North America, overall unit sales of power products decreased as the housing market weakened. On the other hand, unit sales increased in Europe, mainly of general-purpose engines for OEM use, along with expansion in the Russian and Eastern European markets. Also, in Western Europe, sales of lawn mowers and other products were favorable. In Asia, sales of general-purpose engines and pumps were favorable.



Results of the 9th Mid-term Business Plan

Fiscal 2008 was the concluding year of Honda's 9th mid-term business plan, which was launched in fiscal 2005. During the three years covered by the plan, Honda focused on establishing a foothold for the future, concentrating on:

- Strengthening the core characteristics that make Honda unique,
- Strengthening the foundation for global growth, and
- Strengthening Honda's efforts to reduce its environmental footprint.

Over the three years of the business plan, Honda gained a strong foothold for its future growth and development.

During the period, Honda achieved tremendous expansion of its business as the economies in North America experienced a generally favorable performance and the economies in Asia and South America continued to grow, while increasing its combined sales of motorcycles, automobiles, and power products 38.8% more than the concluding fiscal year of the previous mid-term business plan (ended March 31, 2005).



Civic



Accord



Fit

Strengthening Our Fundamentals in Japan

We believe that it is important to strengthen the fundamentals of our product creation capabilities in Japan, both for the home market and as a means to transfer Honda technologies and know-how consistently to our operations in regions outside of Japan. During the 9th mid-term business plan, Honda advanced a flexible manufacturing system that standardized manufacturing processes and improved production efficiencies, and transferred this system to our worldwide manufacturing facilities. Through this effort, Honda increased production flexibility and worked to bolster its product development and production systems in order to more easily respond to customer demands and offer high-quality products.

Strengthening Our Foundation for Growth in International Operations

In operations in regions outside of Japan, Honda has worked to establish a flexible production system and expand the ability of these operations to quickly respond to changes in demand. Honda has expanded its production capacity for automobiles in response to strong demand in India, China, Brazil and elsewhere, thus making it possible to supply a total of 3,955,000 automobiles worldwide during fiscal 2008. This result represents a 20.8% increase from production in the concluding year of the previous mid-term business plan. Moreover, Honda has expanded its production capacity for motorcycles in Vietnam, Brazil, and other countries, thereby making it possible to supply a total of 14,068,000 units during fiscal 2008. This figure represented a 25.1% increase over the concluding year of the previous mid-term business plan.

Strengthening the Effort to Reduce the Environmental Impact of Our Corporate Activities

With the long-range goal of "Commitment for the Future," Honda has established voluntary targets for making its products and production activities more environmentally responsible and is stepping up its initiatives to reach these targets by an earlier date.

Sales are expanding in Europe of Honda automobiles with Honda's original diesel engines, which offer higher efficiency and better fuel economy, and provide the same driving performance as gasoline-engine cars. Furthermore, Honda expanded its Variable Cylinder Management (VCM) system, which offers improvement in fuel efficiency in conventional gasoline engines, for the all-new *Accord* V6 models in North America that were launched in September 2007. Regarding hybrid cars, Honda's cumulative sales of hybrid models through the end of fiscal 2008 exceeded 250,000 units. Sales continue to be strong, as worldwide demand for better fuel efficiency is increasing. Also, Honda's all-new fuel cell vehicle, the *FCX Clarity*, was unveiled in November 2007. In the motorcycle business, Honda has completed the installation of programmed fuel-injection systems with higher fuel efficiency on almost all of its business-bike and scooter models sold in Japan. With regard to solar cells, Honda began the marketing of thin-film solar cells through its consolidated subsidiary Honda Soltec Co., Ltd.



Ground breaking ceremony for new plant in Indiana



Honda's automobile plant in Vietnam



Civic Hybrid (North American model)

The 10th Mid-term Business Plan

In April 2008, we began our 10th three-year mid-term business plan, with environmental issues continuing to rise in importance and economic uncertainty reflecting a lack of transparency related to future trends in the global economy, including the rapid fluctuation of foreign currency exchange rates. Amid such circumstances, under our 10th mid-term plan, we plan to establish and strengthen the corporate structure that will enable us to grow globally in the medium- to long-term future, with Japan taking the lead to extend these initiatives worldwide.

We have set two concrete directions: “To create and launch innovative Honda products with world-leading environmental technologies and offer them to a wider range of customers” and “To develop advanced manufacturing systems for the future that will enable Honda to produce such advanced products.”

In order to progress in these directions, we must develop and mature leading-edge environmental technologies and innovative products in Japan, and together with our advanced manufacturing systems, introduce them worldwide. For the new mid-term business plan, many strategic initiatives are planned, but here we will comment on three of these: strengthening the motorcycle business, innovation in automobile manufacturing in Japan, and a strategy to achieve full-scale market penetration for hybrid vehicles.

Strengthening the Motorcycle Business

The Motorcycle Business is one of Honda’s strengths. Motorcycles are a basic means of transportation in many parts of the world, and demand for these vehicles is expected to grow in Asia and South America. Among Honda’s motorcycle products, the *Super Cub* series will mark its 50th anniversary this year, and it is a symbolic model for Honda. The Japanese-born *Super Cub* has maintained its original creative concept and basic style but has continuously advanced as a model to accommodate the needs and preferences of customers as its use has spread throughout the world. Looking to the future, Honda will continue to create such products as the *Super Cub* that offer new value and exceed customer expectations.

To do this, Honda will make further advances in R&D, expand the application of fuel-efficient programmed fuel-injection technology and proactively apply safety technologies, including a motorcycle airbag system and antilock braking systems. In addition to introducing environmental and safety technologies, Honda will work to improve fuel efficiency through the installation of a VCM system that substantially increases fuel economy and an advanced electronically controlled combined antilock braking system (C-ABS) that further improves stability when braking, while also working to enhance the attractiveness of medium- to large-sized models and give Honda owners greater joy in riding motorcycles.

The new motorcycle plant at Honda’s Kumamoto Factory, which began operations in April 2008, will play a key role in strengthening motorcycle production. Honda created highly efficient production lines at this new plant to provide the capability to efficiently produce



CBR1000RR



Super Cub 50

approximately 60 models, from compact commuters to large motorcycles, and accommodate the characteristics unique to each model. The initiatives we have taken at this new motorcycle plant will be applied in our plants in regions outside of Japan, where motorcycle markets are continuing to expand, and we expect that the Kumamoto Factory will be a driving force for producing new products.

Innovation in Automobile Manufacturing in Japan

Next-generation manufacturing plants for the production of automobiles will begin operation in Japan over the next three years. They will include a new engine plant in Ogawa and a new automobile plant in Yorii. In addition, a new mini-vehicle production plant is to be built by Honda consolidated subsidiary Yachiyo Industry Co., Ltd. Also, Honda will strengthen automatic transmission production at the Hamamatsu Factory and bolster its role as Honda's global-leader factory in the area of automatic transmissions.

The new auto engine plant in Ogawa will be responsible for the production of next-generation environmentally responsible engines that require highly advanced manufacturing technologies. We plan to make the production line flexible to produce engines that require different production processes, including gasoline engines, diesel engines, in-line four-cylinder engines and V-type engines.

We are planning to make the Yorii plant a next-generation manufacturing facility that will create new value in many areas as it strives to be a leader in the area of environmental responsibility by introducing cutting-edge systems that minimize the amount of energy used during production and as it works to create more people-friendly assembly lines.

Also, in regions outside of Japan, in the latter half of fiscal 2008, we will begin production at a new automobile plant in Indiana, in the United States; a new automobile engine plant in Canada; and a second automobile plant in Thailand.

Hybrid Strategy to Achieve Full-scale Market Penetration

Honda believes that the most important environmental issue is the reduction of CO₂ emissions, which is key to protecting the natural environment on a global scale. Recognizing this, Honda has proactively announced voluntary global CO₂ reduction targets for 2010 for both its products and manufacturing activities.

In addition to the *Civic Hybrid*, which is currently on the market, Honda is planning to introduce a new, more affordable dedicated hybrid vehicle. This five-door, five-passenger sedan will incorporate a compact, lightweight and highly efficient Integrated Motor Assist (IMA) system. The new Honda hybrid will go on sale in Japan, North America and Europe in 2009. As a dedicated hybrid vehicle, in addition to offering superior environmental performance, this new hybrid will offer ease of handling and the joy of driving that Honda owners have come to expect. Looking ahead, we are scheduled to debut a new sporty hybrid based on the *CR-Z* concept model that we showed at the 40th Tokyo Motor Show. In addition, development work is under way on a hybrid version of the *Fit*.



Yorii plant (rendering)



Ogawa plant (rendering)



FCX Clarity

The *FCX Clarity* is a fuel cell vehicle that features zero CO₂ emissions. Lease sales of this epoch-making vehicle are scheduled to begin in the United States in July 2008 and in Japan in fall 2008.



Returning Profit to Shareholders

Honda strives to conduct its business from a global perspective and to increase its corporate value. We consider the distribution of profits to shareholders to be one of our most important management responsibilities. Our basic policy for dividends is to make distributions after taking into account our long-term consolidated earnings performance. Honda also acquires its own shares at the optimal timing, with the goal of improving the efficiency of Honda's capital structure.

Under Honda's Articles of Incorporation, the Board of Directors may pay dividends from retained earnings; however, the dividend for the end of the fiscal year is a matter for approval at the General Meeting of Shareholders.

The present goal is to maintain a shareholder return ratio (i.e., the total amount of the dividend payment and the repurchase of Honda's own shares to consolidated net income) of approximately 30%. Retained earnings will be allocated toward R&D activities that are essential for Honda's future growth and capital expenditures and investment programs that will expand its operations for the purposes of improving business results and strengthening its financial condition.

For fiscal 2008, Honda set a year-end cash dividend of ¥22 per share, bringing total cash dividends for the year to ¥86 per share, ¥19 per share higher than for the previous fiscal year. This dividend comprised ¥20 per share for the first quarter, ¥22 per share for the second quarter, ¥22 per share for the third quarter, and the previously mentioned year-end dividend of ¥22 per share.

For the fiscal year ending March 31, 2009, we plan to pay quarterly dividends of ¥22 per share, or ¥88 per share for the full year—¥2 per share higher than in fiscal 2008.

We will continue to do our utmost to meet the expectations of our shareholders.

Honda is a company where each and every member of management and the organization has challenging objectives, works to realize the dreams of providing joy to Honda customers as well as fulfilling his or her potential, and, while setting a course for a better tomorrow, wants to shape the future through innovation and growth.

Our overriding quest is to become a company that society wants to exist throughout the world. In the years to come, as in years past, we will continue to meet the challenges of innovation and creativity and, motivated by "The Power of Dreams," respond to the expectations of society, offering our customers enjoyment, inspiration, and satisfaction.

We look forward to the continued understanding and support of our shareholders and other investors as we embrace the challenges and the opportunities the future may bring.

A handwritten signature in black ink, appearing to read "T. Fukui". The signature is fluid and cursive, written on a light-colored background.

June 24, 2008

Takeo Fukui
President & Chief Executive Officer