Supply Chain

Honda works in partnership with suppliers worldwide to promote sustainable initiatives at development and manufacturing sites. We aim to realize a supply chain which coexist with local communities as a company that society accepts, loves and wants to exist. We strive to strengthen the supply chain in the areas of purchasing and transportation.
Our fundamental approach

**Purchasing Belief and Three Purchasing Principles**

To solidify relationships of trust with our suppliers

Honda’s goal is to achieve a sustainable society across the supply chain. We implement initiatives with consideration for the environment, safety, human rights, compliance, social responsibility, etc. in partnership with our suppliers worldwide. As the foundation for this, we established our Purchasing Belief and Three Purchasing Principles, and we engage in businesses that are equal, fair, and highly transparent while constantly strengthening relationships of trust with our suppliers.

**Purchasing Belief**

We sustain the procurement of good products at reasonable prices and in a timely manner

**Three Purchasing Principles**

1. Fair and open trade
2. Equal partnership
3. Respect for suppliers

1. Fair and open trade
   
   We do business with suppliers who can satisfy the requirements of quality, quantity, price and timing and who can share the concept of sustainability with us, based on open competition

2. Equal partnership
   
   We conduct business on an equal footing regardless of the business size of the supplier or their nationality and other factors

3. Respect for suppliers
   
   We respect suppliers’ management and dignity

**Promoting sustainability**

We published our Supplier CSR Guideline to share our approach to sustainability with suppliers worldwide and to promote our initiatives.

We published the guidelines in Japan in 2010, in North America in 2014, and in South America, Europe, Asia and Oceania, and China in 2015.

In addition, we are working across the entire supply chain, preparing check sheets for our suppliers to help assessing their own initiatives and promoting sustainability initiatives at sub-tier suppliers.

In the environment area, which we have always prioritized, in 2011 we revised the Honda Green Purchasing Guideline originally issued in 2001, and provided worldwide. In the revised guidelines we extended the scope for reducing environmental impact from during production to the entire life cycle of products.

When selecting suppliers for components and raw materials based on these sustainability policies, we look into their initiatives on QCDD*, human rights, labor, the environment, safety, compliance, risk, protection of information, etc., to determine the best supplier.

* QCDD: An acronym for Quality, Cost, Delivery, Development

**Changes in purchasing practices**

<table>
<thead>
<tr>
<th>1960s</th>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening QCDD</td>
<td>Expanded and strengthened global QCDD</td>
<td>Launched full-scale environmental initiatives</td>
<td>Strengthened overall sustainability</td>
</tr>
</tbody>
</table>

- Established Purchasing Belief and the three purchasing principles
- Issued Honda Green Purchasing Guideline (2001)
- Issued Supplier CSR Guideline (2010)
- Revised Honda Green Purchasing Guideline (2011) (Explicitly stated environmental initiatives as a category for evaluation of suppliers)
- Revised Supplier CSR Guideline (Japan, 2013) (Added content on handling of conflict minerals)
- Issued Automotive Industry Guideline to Enhance Sustainability Performance in the Supply Chain (North America, 2014)
- Issued CSR Guideline in other regions (2015)
Global purchasing management

System for promoting purchasing activities

Strengthening the global management structure through coordination between Regional and Purchasing Operations

We manage our global business through an organization divided into six regions and established purchasing functions in each. Purchasing Operations, which supervises the global function overall, is located in Japan, providing cross-regional and cross-business coordination and plan sustainability policy and goals.

In addition, Meetings of the International Purchasing Conference, the Global Correlation Meeting, the Six Regional Environmental Purchasing Meeting, and other bodies are held regularly, and we implement the PDCA cycle on a global level by promoting collaboration between Purchasing Operations, and each regional and business operations.

International Purchasing Conference

The International Purchasing Conference (IPC) is held in each region attended by the Chief Operating Officers of Regional and Purchasing Operations in order to strengthen the links between regional business direction and purchasing direction. In FY2015, the IPC was held in the U.S., Brazil, the U.K., Thailand, and China.

Global Correlation Meeting

The Global Correlation Meeting is held once a year with management-level associates from Purchasing and each Regional Operations with the objectives of confirming, discussing, and examining Honda’s medium- and long-term direction with regard to purchasing activities on a global level and the initiatives in each region. In FY2015, the Global Correlation Meeting was held in Tokyo to coordinate reinforcement of cost and quality competitiveness and the direction of sustainability initiatives.

Six Regional Environmental Purchasing Meeting

The Six Regional Environmental Purchasing Meeting has been held since 2011 in order to strengthen initiatives aimed at a low carbon society across the global supply chain.

This meeting is composed of working level staff from six regions. It discusses and coordinates policies and methods of reducing CO₂ together with suppliers in each region worldwide.

The meeting also shares outstanding actions from each region in efforts to upgrade the level of low carbon activities together with the suppliers.

Regional distribution of purchasing volume

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>19%</td>
</tr>
<tr>
<td>Japan</td>
<td>18%</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>23%</td>
</tr>
<tr>
<td>North America</td>
<td>36%</td>
</tr>
<tr>
<td>South America</td>
<td>2%</td>
</tr>
<tr>
<td>Europe</td>
<td>2%</td>
</tr>
</tbody>
</table>

Honda’s global purchasing network

Global meeting structure

International Purchasing Conference (Coordination of regional business and purchasing strategy)

Global Correlation Meeting (Purchasing policy and initiatives discussion)

Six Regional Environmental Purchasing Meeting (Coordination of measures)

Chief Operating Officers of Regional and Purchasing Operations

Management-level purchasing associates

Working-level staff

Working level: D : Development  E : Engineering  B : Buying
Instruction and training for associates

To ensure that every associate involved in Honda’s purchasing operations displays their capabilities in promoting honest and fair initiatives, Honda has prepared manuals and personnel development programs in each region.

For example, in North America, we take up various topics through seminars, e-learning, and on-the-job training. In our Basic Training Course, we share our approach in such areas as the selection of suppliers and initiatives to strengthen QCDD. Instruction is also provided in Integrity Workshops on the important matters in building positive, long-term relationships with suppliers, including codes of conduct, legal compliance, and maintenance of confidentiality.

In this way, we have developed programs worldwide that incorporate the cultural and social background of each region in addition to basic knowledge about purchasing operations to provide instruction for associates.

### Implementation of instruction for associates in each region

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of participants</th>
<th>participation rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Approx. 900</td>
<td>100%</td>
</tr>
<tr>
<td>North America</td>
<td>Approx. 380</td>
<td>100%</td>
</tr>
<tr>
<td>South America</td>
<td>Approx. 260</td>
<td>100%</td>
</tr>
<tr>
<td>Europe</td>
<td>Approx. 130</td>
<td>100%</td>
</tr>
<tr>
<td>Asia/Oceania</td>
<td>Approx. 1,500</td>
<td>100%</td>
</tr>
<tr>
<td>China</td>
<td>Approx. 660</td>
<td>100%</td>
</tr>
</tbody>
</table>

In order to reduce CO2 across the global supply chain, it is essential to share our approach with every single one of the suppliers worldwide that support our production activities and to act together with the same methods and the same judgement criteria.

At the three previous Six Regional Environmental Purchasing Meetings, we unified our activities relating to suppliers worldwide, including the dissemination of Honda’s environment policy and methods of promotion, on a global level.

At the 4th Six Regional Environmental Purchasing Meeting held in Ohio, U.S. in February 2015, we coordinated the setting of numerical targets based on the visualization of CO2 emissions at each supplier through a global data management system and the means to achieve those targets.

Information was also shared on topics such as global trends on efficient use of water resources and reducing waste. Through activities like this, we are definitely promoting reductions in environmental impact together with suppliers.

### TOPICS

**Holding the 4th Six Regional Environmental Purchasing Meeting in Ohio, U.S. to unify initiatives relating to suppliers worldwide**

In order to reduce CO2 across the global supply chain, it is essential to share our approach with every single one of the suppliers worldwide that support our production activities and to act together with the same methods and the same judgement criteria.

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Global purchasing management

Dialogue with suppliers

Honda regularly holds conferences around the world to share our business directions and content with suppliers. In FY2015, we held conferences in 28 locations around the world, holding dialogues with senior management from more than 4,000 suppliers.

In Japan, we have held a Suppliers Conference once a year since 1974. Senior management from 308 suppliers attended the conference in January 2015. At the conference, the then President Takanobu Ito explained Honda’s companywide policies and initiatives in motorcycle, automobile, and power products operations, and based on this, Naoto Matsui, Chief Operating Officer of Purchasing Operations, explained the purchasing direction.

In addition, Honda presents letters of appreciation as supplier awards at the conferences in each region to suppliers who have produced particularly outstanding results in the areas of cost, quality, development, delivery, etc.

We presented environmental awards in Japan to suppliers with outstanding initiatives in lowering greenhouse gas emissions and other environmental areas.

We presented Corporate Citizenship Awards in North America to suppliers with the most outstanding contributions to compliance, safety and health, community activities, the environment, diversity, human rights, and other social areas.
Strengthening initiatives with suppliers

Reducing environmental impact

Aiming to realize low carbon global supply chain
In the Honda Global Environmental Purchasing Vision, we have adopted the concept of coexisting in shared prosperity with local communities, reducing environmental impact together with our suppliers worldwide in our component procurement operations. Based on this vision, we formulated the Honda Green Purchasing Guideline, which forms our policy, and the Environmental Purchasing Grand Design, which shows the steps toward a low carbon society, which is our priority.

We share this guideline and the grand design with suppliers in each region and work to realize a low carbon supply chain.

Establishing a management system for CO₂ data
In order to increase the effectiveness of reductions in environmental impacts in the supply chain, Honda has been pursuing the establishment of a system for the integrated management of data on reductions in CO₂ emissions at suppliers since FY2012, which commenced full-scale operation in FY2015.

We are using this system to share reduction targets and achievement status and to implement the PDCA cycle with suppliers worldwide.

At present, approximately 1,600 companies equating to more than 80% of purchasing value on the global level are using the system.

Going forward, we will comprehensively analyze data to assist in activities to reduce CO₂ at suppliers.

Supporting reductions in CO₂ at suppliers
Honda promotes activities in each region to get suppliers to visualize energy consumption and reduce CO₂ emissions. For example, we established a system in Japan in FY2010 under which we visit the production sites of our suppliers and propose energy conservation measures using Honda’s expertise.

In the Asia and Oceania region, which is leading our initiatives in regions outside of Japan, approximately 270 companies have introduced energy visualization to date through our briefing sessions and production site visits for suppliers. We began establishing support structures for our suppliers in FY2014 in other regions, and we are gradually commencing support through collaboration with third party organizations such as academic bodies and other methods.

Support for suppliers through site visits (Asia and Oceania region)

Measures to counter procurement risk

Focusing on reducing risks that impact on production and minimizing their impact
Honda views all phenomena that can impact production, such as natural disasters, fires, financial issues and labor problems at suppliers, as risks for the procurement of components and materials, and works to reduce them and to prevent the spread of any impact when they materialize. For example, we define all components and raw materials that are overly dependent on production at one facility as Mission-Critical Parts, and we implement inspections and countermeasures continually around the world.

We began operating a procurement risk management system with suppliers in Japan in December 2014. Through the operation of this system, we established structures to allow damage and the impact on production at suppliers to be identified within a few hours of the occurrence of a major disaster.

We also perform once-yearly evaluations based on supplier surveys in order to minimize financial risk. In addition, we check risk every month by referring to information from third-party organizations.

Index of CO₂ emissions per unit of production

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of CO₂ emissions per unit of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>100</td>
</tr>
<tr>
<td>2011</td>
<td>83</td>
</tr>
<tr>
<td>2012</td>
<td>84</td>
</tr>
<tr>
<td>2013</td>
<td>80</td>
</tr>
<tr>
<td>2014</td>
<td>76</td>
</tr>
<tr>
<td>2015</td>
<td>71</td>
</tr>
</tbody>
</table>

* Scope of data: all consolidated tier 1 suppliers in Japan
Strengthening initiatives with suppliers

**Requiring legal compliance from suppliers**

Honda seeks to strengthen sustainability, including compliance, throughout the supply chain. We conclude basic agreements on component procurement that specify safety, disaster prevention, environmental preservation, and protection of resources in addition to compliance with each country’s laws and regulations in conducting business.

**Chemical substance management**

We issued the Honda Chemical Substance Management Standard, which aims to ensure that all the components that make up our products comply with laws and regulations and to reduce their impact on the global environment and ecosystem. We request suppliers around the world to establish a structure for managing chemical substances that meets the standard and to submit a conformity declaration to assure supply of components that meet the standard. We also use an industry standard management system for data on specific chemicals contained in components, which we evaluate prior to commencing mass production.

**Response to conflict minerals**

**Surveying the use of conflict minerals at suppliers for all operations worldwide**

The final rule for disclosure on conflict minerals adopted by the U.S. Securities and Exchange Commission (SEC) mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act requires corporations to confirm that the purchase and use of conflict minerals from the Democratic Republic of the Congo and adjoining countries are contributing neither to the funding of armed groups nor to the abuse of human rights in that region. Corporations are required to submit reports to the SEC disclosing information on the use of conflict minerals.

Honda has been pursuing initiatives on conflict minerals at the global level to take responsible action against human rights problems.

Since 2013, we have surveyed the use of conflict minerals at our suppliers worldwide and have received responses from more than 6,000 suppliers. In addition to reporting survey results to the SEC, we have published them on our website. In the event that we determine from the survey that there are any minerals of concern, we take appropriate measures in partnership with our suppliers. In addition, Honda asks its suppliers to cooperate in making the same level of effort regarding the issue of conflict minerals in procurement.

Honda also actively engages in activities in cooperation with industry bodies. In North America, we participate in the Conflict-Free Sourcing Initiative (CFSI) as a member of the Automotive Industry Action Group (AIAG)* to support third-party audits of conflict minerals smelters.

We are responding to the problem of conflict minerals on a global level through these initiatives.

* Honda North America, Inc., a Honda subsidiary in the U.S., has joined the Automotive Industry Action Group (AIAG), and AIAG is a partner association of CFSI (an organization that supports conflict mineral supply chain surveys).

** Provision of training to suppliers in partnership with industry**

**Participating in four work groups of AIAG**

Honda North America Inc., Honda’s U.S. subsidiary, participates in four of the work groups established by AIAG to strengthen sustainability in the supply chain: the Conflict Minerals Work Group, the Working Conditions Work Group, the GHG Work Group, and the Chemical Management Work Group. The Working Conditions Work Group, which Honda co-chairs, promotes training for suppliers. Since 2012, following upon its initiative in North America, the Work Group has been offering training sessions on corporate ethics, environmental regulations, the working environment, human rights, and other topics for tier 1 and sub tier suppliers in China and Mexico. We are striving to strengthen sustainability across the entire supply chain through this kind of collaborative capacity building between the automobile industry and its suppliers.
Initiatives in transportation

**Increasing transportation efficiency**

*Reducing CO₂ emissions by increasing transportation efficiency*

To fulfill our responsibilities as a high-volume shipper under Japanese regulations, we are working to improve efficiency in the transportation of finished vehicles and equipment, service parts, and parts shipped between factories, and, as a part of this effort, to pick up parts from suppliers. As a result, in fiscal 2015 the transportation of automobiles, motorcycles, power products, and service parts generated 95,911 t-CO₂ emissions.

We achieved our target, a 1% reduction in per-unit CO₂ emissions from fiscal 2014 in the transportation of vehicles and component parts sets and the picking up of parts. CO₂ emissions from service parts transportation were reduced by 55% from fiscal 2001, exceeding our 52% reduction target. We also achieved a 2,480-t-CO₂ reduction at warehouses, a 51% reduction from fiscal 2001.

**Picking up parts from suppliers**

Many of the parts that make up Honda products are sourced from suppliers. The conventional method of gathering these parts has been to have each supplier ship its parts to Honda production facilities. In fiscal 2014 we started to travel to suppliers across Japan to pick up the parts as part of our efforts to reduce CO₂ emissions from our overall supply chain. We will continue to improve transportation efficiency by working closely with our suppliers.

**Initiatives for transport of finished automobiles**

As a result of implementing modal shifts*, fiscal 2015 saw a coastal shipping utilization rate of 68% for the transportation of finished automobiles. Switching from truck to rail transport for certain finished automobiles from the Suzuka Factory to Niigata region contributed to further reductions in CO₂ emissions. Focusing on long-distance destinations, we will work to expand these modal shifts through converting to ship and rail transportation.

* Modal shift refers to replacing transportation by automobile and aircraft with transportation by rail and shipping. Shipping services that enable the transportation of large volumes of freight at a time to reduce transportation costs, energy use, and CO₂ emissions per unit of product, so are arguably a method of transportation with low environmental impacts.

**Initiatives for transport of finished motorcycles**

In the transportation of finished motorcycles, we have been working with our logistics partners to reorganize shipping zones and change shipment frequency according to market conditions. The result has been a major improvement in the loading efficiency of each truck, as well as reductions in total distance traveled and CO₂ emissions.

In addition, we have expanded our shipping policy to new models, to land imported cars at Tokyo and Kobe ports which are closer to major markets in Kanto and Kansai regions, resulting in reducing CO₂ emissions from trucking.

In April 2014, we consolidated the storage capabilities in Kumamoto region into a few closely located warehouses. This cut down on truck transport distance between warehouses, resulting in a decrease in CO₂ emissions. We will continue to apply this strategy as we build warehouses in other regions in the future.

**Adopting coastal transportation as the optimum method in Brazil**

Every year Moto Honda da Amazonia Ltda. (HDA), a Honda motorcycle production and sales subsidiary in Brazil, procures 390,000 tons of components used at its plant in Manaus from suppliers. It also ships 1.1 million motorcycles produced at the plant nationwide.

HDA has endeavored to create environmental management in order to optimize logistics operations and reduce environmental impact. In 2012, it began using coastal transport for moving domestic freight taking advantage of Brazil’s geography, which is ideal for marine transport. As a result, HDA has reduced CO₂ emissions in the transportation of one motorcycle by an average of 12.5 kg and now transports 24% of all its motorcycles by coastal transport.

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