

Supply Chain

28

Units index of packaging materials used in the assembly of vehicles and equipment at our plants around the world (compared with year 2000)

Basic Approach

Strengthening Supply Chain Sustainability

In order to provide customers with a timely, stable supply of better products and services, it is necessary to put significant effort into developing and optimizing supply chains with suppliers around the world while also taking into account environmental and human rights issues.

Companies within the automobile industry, which is a broad-based industry supported by many suppliers, must pursue the reduction of not only their own environmental impacts but also those of suppliers throughout their entire supply chain.

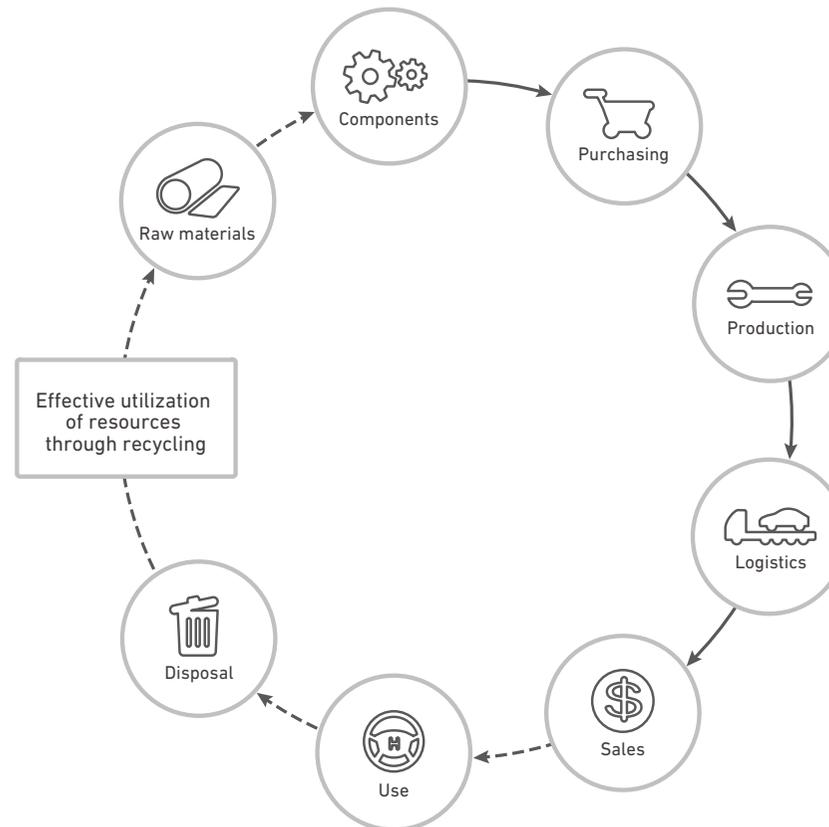
In addition, as awareness of compliance and human rights issues grows worldwide, companies are being asked to verify working conditions and legal compliance not only for themselves but also for their suppliers, as well as to make efforts to take corrective action if required.

From FY2018, Honda will take part in CDP's supply chain program (an international initiative by institutional investors requesting companies for disclosure of information on climate change policies) and request disclosure of risks and opportunities related to GHG emissions and the environment from suppliers in addition to information on matters relating to Honda's operational domains.

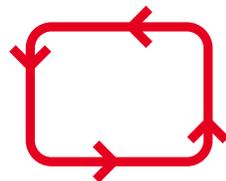
In this way, through the Company's efforts to actively promote sustainable initiatives at its development and manufacturing facilities in cooperation with all its suppliers around the world, Honda is seeking to be a company that society wants to exist, that is liked by and has strong roots in local communities, and to realize a supply chain where Honda can co-exist with and provide mutual benefit for the Company and local communities.

Honda is striving to strengthen supply chain sustainability in the areas of purchasing and logistics.

Overview of supply chain



supply chain

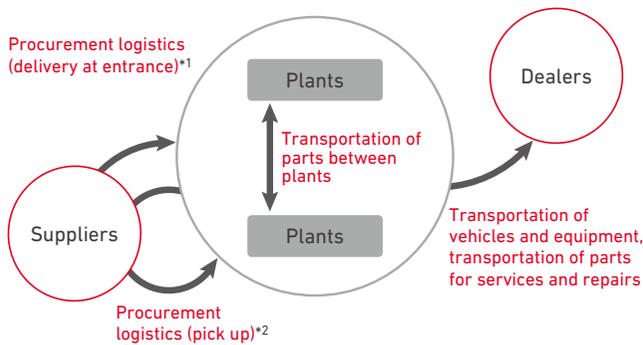


Basic Approach to Logistics

ESG Management from a Functional Perspective in Logistics

At Honda, many parts that are used in its products are sourced from suppliers and transported to its plants. Then, they are incorporated into the Company's products, and the completed models are sent directly from the plants to dealers. In addition to this, parts are also transported between plants, and parts for services and repairs are sent to dealers. As such, due to the extremely large volume of transportation that takes place throughout the manufacturing process at Honda, increasing efficiency, reducing environmental burden, compliance and risk management in logistics are becoming critical issues. Honda transcends conventional divisional and regional boundaries to ensure the integrated control of logistics and is conducting management from an environmental, social and governance (ESG) perspective.

Overview of Honda logistics



*1 A transportation operator retained by the supplier delivers sourced parts to the entrance of Honda's plants.
 *2 A transportation operator retained by Honda makes the rounds of parts suppliers and picks up the sourced parts.

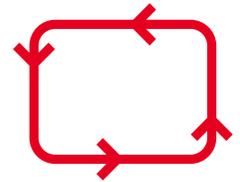
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Global Management of Logistics

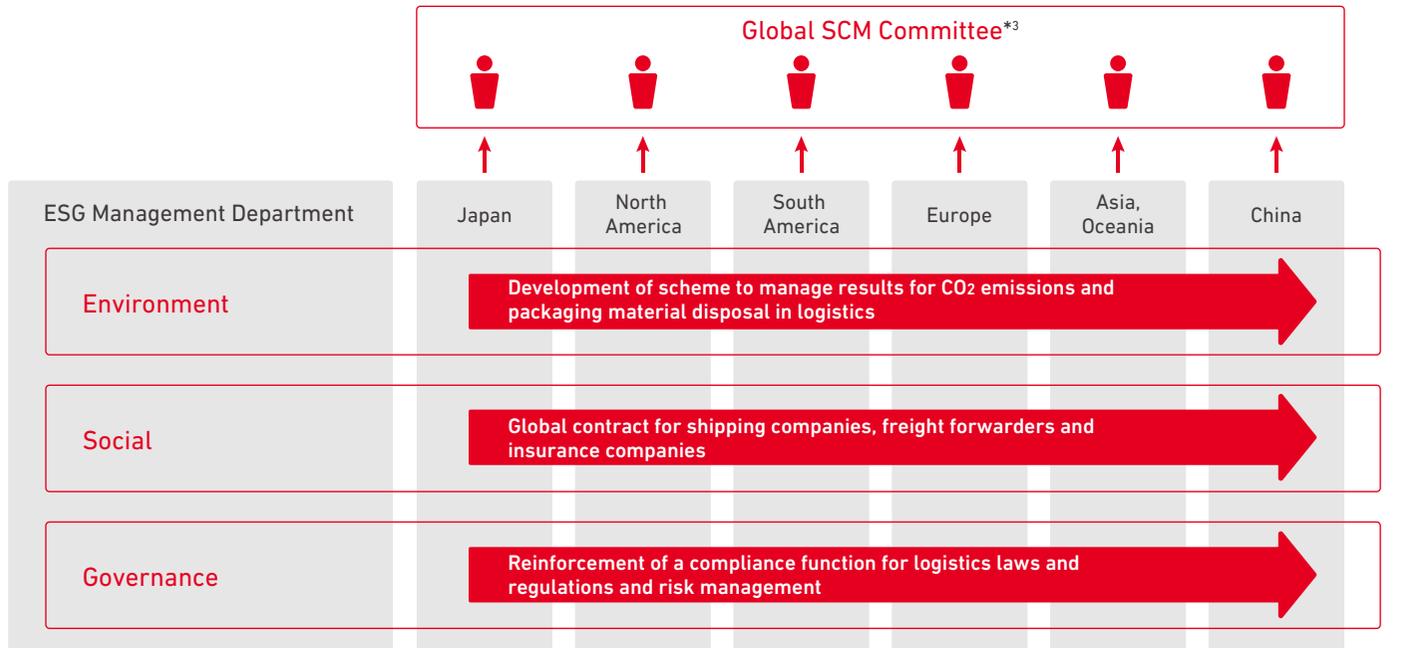
Integrated Management Framework Transcending Divisions and Regions

Honda established the ESG Management Department in April 2016 to advance ESG management in logistics on a global scale. This body has teamed up with logistics-related divisions and the six regional headquarters worldwide to formulate policies and develop strategies for combating the various logistics-related

challenges and pending problems so they can be managed in an integrated fashion, including environmental response for CO2 reduction, management of transportation companies, response to laws and regulations, insurance policy and risk management.



Logistics global management framework



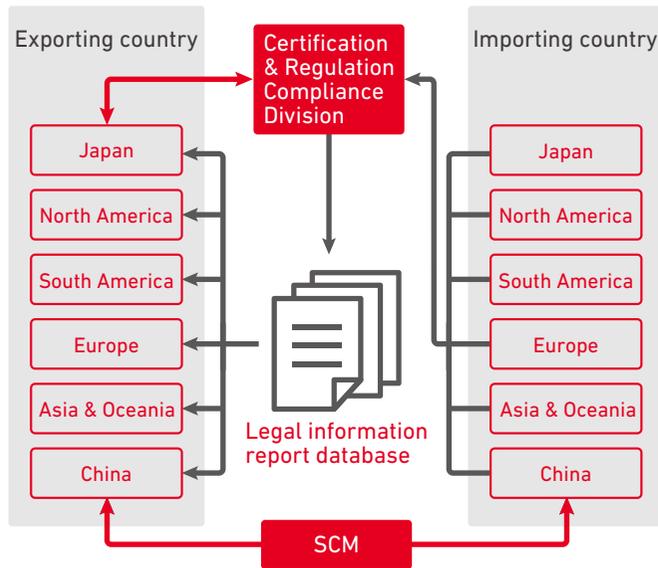
*3 A committee to debate Supply Chain Management (SCM) issues at the global headquarters and in respective regions in order to achieve medium-term goals

Logistics Initiatives

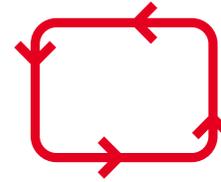
Integrated Management of Legal Information Concerning Logistics

In order to supply products and parts across countries and regions, it is necessary to identify and analyze a variety of factors that include differing transport infrastructure, laws and risk of natural disasters. Laws and regulations, in particular, have the potential to significantly impact safety and speed in transportation. Honda has created a function for the integrated management of international treaties and legal information concerning logistics operations in order to consistently secure precise information and enable efficient, accurate and early global response, thus ensuring swift compliance with laws and regulations.

Integrated management framework for legal information



supply chain



Reducing CO2 Emissions

Identifying Global CO2 Emissions

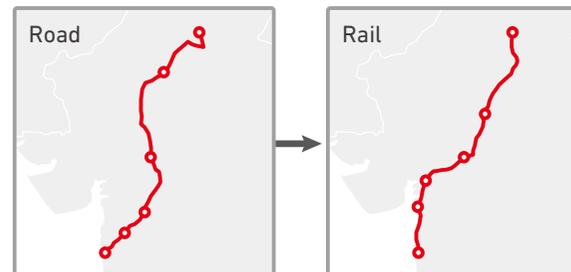
Honda is working to improve transportation efficiency in the shipping of vehicles and equipment, parts shipped between plants, parts for services and repairs, and parts collected from suppliers. In addition to this, in FY2017 the Company commenced management of CO2 emissions in the transportation of automobile production parts, which make up the majority of international marine transport. In FY2018, Honda will expand the scope to other product domains in order to grasp CO2 emissions for all products around the world.

Expanding Modal Shifts

Honda is working to expand its implementation of modal shifts replacing trucks with ship and/or rail transport, particularly for long-distance shipments.

In India, to transport Honda automobiles, which show significant sales growth in recent years, and to avoid issues arising from harsh road conditions, Honda is moving forward with a modal shift from trucks to rail. The initiative is being pushed forward as a joint public/private project together with Japan's Ministry of Land, Infrastructure, Transport and Tourism.* In 2016, Honda

Transportation between Delhi and Mumbai, India
 Reduction from 1,476 km by road to 1,300 km by rail



began trials for the transport of automobiles using domestic vessels. The Company plans to push full steam ahead with this initiative by utilizing the return trip of other automobile companies for marine transport from the south to the north. This is expected to reduce CO2 emissions by 56% compared with conventional methods.

*Press release by the Ministry of Land, Infrastructure, Transport and Tourism: Trials Promoting the Use of Freight Rail in India (Japanese only) http://www.mlit.go.jp/report/press/tokatsu01_hh_000294.html

Transportation Using Natural Gas Trucks

At American Honda Motor Co., Inc., a gradual shift is being made to natural gas trucks for transport. A total of 19 such trucks were introduced in FY2017 to transport parts for services and repairs in the United States. This resulted in a reduction of 100 tons in CO2 emissions for the year.

Honda also started to use natural gas trucks to transport automobiles produced at a plant in Lincoln, Alabama, to a nearby freight train station. This is expected to lead to a further reduction in CO2 emissions.



Natural gas trucks used for transportation of vehicles

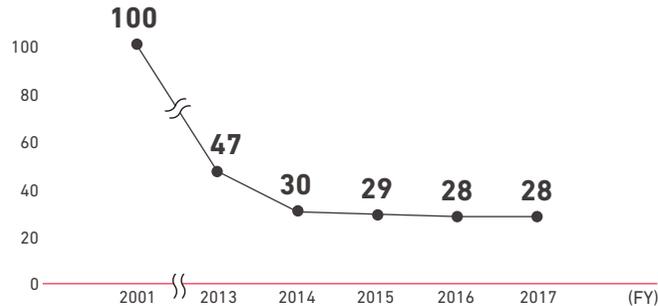
Logistics Initiatives

Reducing Waste from Packaging Materials

Updating of Packaging Specifications

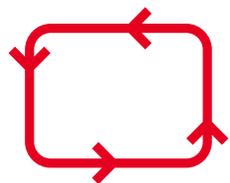
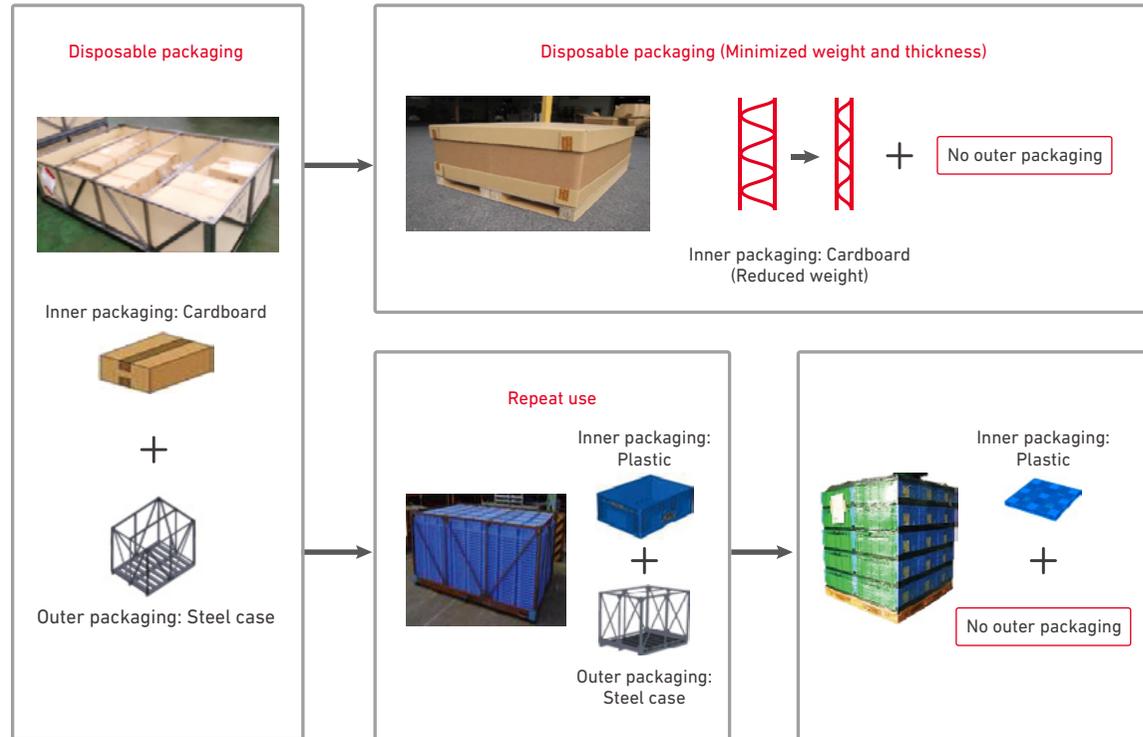
Like CO₂ emissions reduction, reducing waste from packaging materials is another environmental challenge in the logistics area. Honda is working to reduce waste from packaging materials by simplifying packaging, rethinking the materials used and changing specifications. For example, disposable transport packaging that uses cardboard boxes and steel cases is being switched over to reusable plastic containers to eliminate the use of steel cases. These initiatives began with products bound for Europe and are expanding to those bound for North America.

Index of packaging materials for knock-down parts*



*Parts to be used in the assembly of completed vehicles or equipment at our plants around the world

Image of updating of packaging specifications

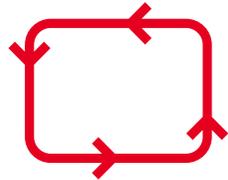


Basic Approach to Purchasing

Purchasing Belief, Three Purchasing Principles and Purchasing Code of Conduct

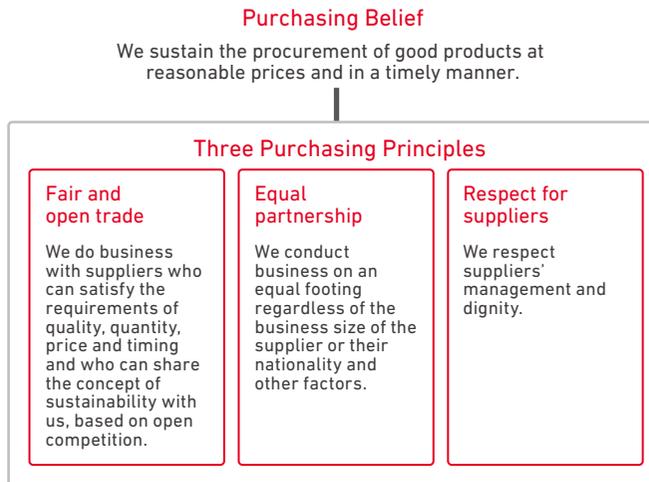
Honda's goal is to achieve a sustainable society across the supply chain. The Company implements initiatives with consideration for the environment, safety, human rights, compliance and social responsibility, among others, in partnership with its suppliers worldwide. Based on the Honda Philosophy, the Company established the Purchasing Belief and Three Purchasing Principles and engages in business that is fair and equitable with transparency.

Honda defined points of concern that it should follow, in particular, as the Purchasing Code of Conduct, and by following this Code, the Company enhances trust with related divisions and business partners as well as builds sound relationships with suppliers.

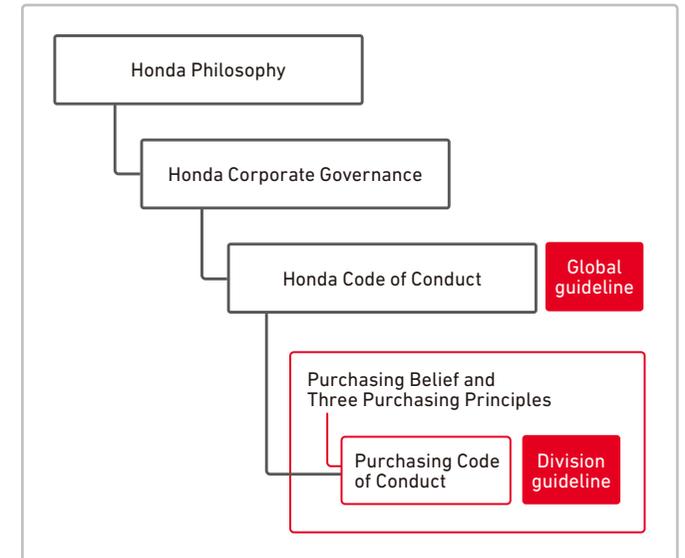


Purchasing Belief and Three Purchasing Principles

We do fair and equitable business with transparency based on the "Purchasing Belief" and the "Three Purchasing Principles."



Positioning of Purchasing Code of Conduct



Global Management

Establishment of Guidelines

The Company published the Honda Supplier CSR Guidelines*1 to share its approach to sustainability with suppliers worldwide and to promote Honda initiatives.

Through the Guidelines, Honda seeks to prevent compliance violations and other issues in advance.

If a supplier fails to follow the Guidelines, Honda immediately receives a report from the supplier and works to prevent a recurrence by requesting them to analyze the cause and draw up the corrective action plan.

If the corrective action plan received from the supplier is determined to be inappropriate, Honda considers its future business relations with them, taking into account the social impact of the problem.

In addition, the Company is working across the entire supply chain, preparing check sheets for its suppliers to help assess their own initiatives and promote sustainability initiatives at sub-tier suppliers.

When selecting suppliers for components and raw materials based on these sustainability policies, Honda confirms their initiatives on QCDD*2, human rights, labor, environment, safety, compliance, risk, protection of information and other aspects to determine the best and most sustainable supplier.

In FY2017, we introduced a third-party audit in Japan.

*1 <http://world.honda.com/sustainability/supply-chain/pdf/csr-guideline.pdf>
 *2 QCDD: An acronym for Quality, Cost, Delivery, Development

Changes in purchasing practices



Global Management of Purchasing

Purchasing System

Honda conducts business in six regions worldwide and has respectively established purchasing functions. In line with Honda's corporate philosophy of "building products close to the customer," each region is encouraged to source locally. The rate of local procurement in the United States, Honda's largest production base, reaches 80% for major global models.

Purchasing Operations, which supervise the global function overall, are located in Japan, providing cross-regional and cross-business coordination and planning sustainability policies and goals. In FY2017, the Company established the Sustainability Management Department, Purchasing Planning Division, as a department dedicated to reinforcing and accelerating sustainability initiatives.

In addition, Meetings of the International Purchasing Conference, the Global Correlation Meeting, the Six Region Sustainability Purchasing Meeting and other gatherings are held regularly, and the PDCA cycle is implemented on a global scale by promoting collaboration between Purchasing Operations and each of the regional and business operations.

Honda's global purchasing network



International Purchasing Conference

The International Purchasing Conference, attended by the Chief Officers of Regional Operations and Purchasing Operations, is held in six regions worldwide in order to strengthen the links between regional business direction and purchasing direction.

Global Correlation Meeting

The Global Correlation Meeting is held once a year with management-level associates from purchasing and each Regional Operation 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 FY2017, the Global Correlation Meeting was held in Japan to coordinate the direction of sustainability initiatives.

Global meeting structure



Six Region Sustainability Purchasing Meeting

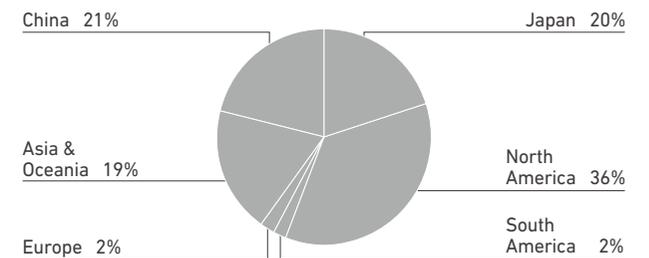
The Six Region Environmental Purchasing Meeting had been held since 2011 in order to strengthen initiatives aimed at a low-carbon society across the global supply chain. This meeting was composed of working level staff from six regions. It discussed and coordinated policies and methods of reducing CO2 together with suppliers in each region worldwide.

In FY2017, Honda added human rights and compliance initiatives and transformed the meeting into the Six Region Sustainability Purchasing Meeting.



Six Region Sustainability Purchasing Meeting

Regional distribution of purchasing volume



Purchasing Initiatives

Reducing Environmental Impact

In the Honda Global Environmental Purchasing Vision, the Company has adopted the concept of coexisting in shared prosperity with local communities by reducing environmental impact together with Honda's suppliers worldwide in its component procurement operations.

Based on this vision, the Company formulated the Honda Green Purchasing Guidelines, which forms the policy, and the Environmental Purchasing Grand Design, which shows the steps toward the Company's priority of attaining a low-carbon society.

Honda shares the guidelines and the grand design with suppliers in each region and works to realize a low-carbon supply chain.

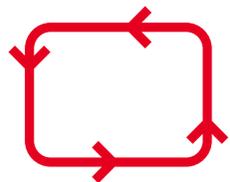
Operating a Management System for CO₂ Data

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.

Honda is using this system to share reduction targets (reduce CO₂ emissions intensity by 1% per year) and progress status and to implement the PDCA cycle with suppliers worldwide.

As of 2016, approximately 1,700 companies, equating to more than 80% of purchasing value on a global level, are using the system.

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



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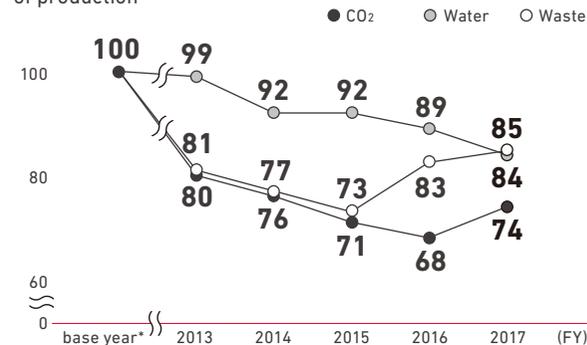
Supporting Reductions in CO₂ at Suppliers

Honda promotes the Energy Conservation Caravan activity together with its suppliers in an effort to reduce CO₂ emissions in each region.

In 2009 Honda launched the Energy Conservation Caravan in Japan, which proposes energy conservation measures and supports establishment of a structure for these initiatives by visiting supplier production sites. The Company is currently expanding this program to other regions.

Honda also began efforts in Japan to analyze CO₂ data from suppliers and provide each with individualized feedback, noting areas of weakness and progress in achieving reductions. This program will be expanded to other regions.

Performance of reducing environmental impact
 Index of CO₂ emission/water use/waste generation per unit of production



*CO₂: FY2012
 Water/Waste: FY2009

Scope of data: all consolidated tier 1 suppliers in Japan

Chemical Substance Management

The Company issued the Honda Chemical Substance Management Standard, which aims to ensure that all the components that make up Honda products comply with laws and regulations and to reduce their impact on the global environment and ecosystem. Honda requests 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. The Company also uses an industry standard management system for data on specific chemicals contained in components, which are evaluated prior to commencing mass production.

Measures to Counter Procurement Risk

Honda views all phenomena that can impact production, such as natural disasters, fires, financial issues and labor issues within the supply chain, 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, Honda defines all components and raw materials that are dependent on production at one facility as Mission-Critical Parts, and inspections and countermeasures are continually implemented around the world.

Honda began operating a procurement risk management system with suppliers in Japan in December 2014. Through the operation of this system, the Company established structures to assess damage and identify the impact on production at suppliers in a short time after the occurrence of a major disaster.

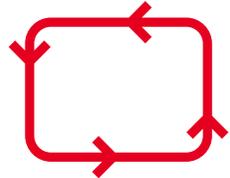
Honda also performs once-yearly evaluations based on supplier surveys in order to minimize financial risk. In addition, the Company checks risk every month by referring to information from third-party organizations.

Purchasing Initiatives

Requiring Legal Compliance from Suppliers

Honda seeks to strengthen sustainability, including compliance, throughout the supply chain. It concludes basic agreements on component procurement that specify areas of attention such as safety, disaster prevention, environmental preservation and protection of resources along with compliance with each country's laws and regulations in conducting business.

In 2015 Honda also added provisions concerning bribery prevention to basic agreements and is working to strengthen its worldwide efforts to prevent bribery.



Third-Party Audit for Suppliers

Honda distributed a checklist to suppliers requesting independent inspection in order to confirm the status of initiatives relative to guidelines.

Honda introduced a third-party audit in Japan in 2016 for suppliers with large business volume and in line with rising expectations worldwide to fulfill corporate social responsibility that also includes the supply chain.

The audit comprises two phases, a written investigation and an on-site investigation.

For the written investigation, Honda conducts the following three measures for targeted suppliers.

1. Distributes an audit check sheet based on international standards
2. Confirms the status of sustainability activities
3. Provides feedback on the results of analysis

Next, in the on-site investigation, persons in charge from Honda and an auditing company visit a supplier's office to conduct interviews and prepare reports in light of the findings of the written investigation. The status of sustainability initiatives is also examined together with the supplier after confirming actual production processes and related facilities.

For items requiring improvement, an improvement plan and a report on results are issued. A follow-up investigation is employed if needed to confirm that the PDCA cycle for the improvement plan is up and running and that it is linked to ongoing improvement activities.

Going forward, Honda will expand application of third-party audits in cooperation with overseas purchasing sites.

Flow diagram of third-party audit



Confirming the status of storage for dangerous articles at a supplier site

Purchasing Initiatives

Instruction and Training for Associates

To ensure that every associate involved in Honda's purchasing operations promotes honest and fair initiatives, Honda has prepared manuals and personnel development programs in each region.

For example, in North America Honda takes up various topics through seminars, e-learning and on-the-job training. In its Basic Training Course, the Company shares its approach in such areas as the selection of suppliers and initiatives to strengthen QCDD. Honda's Building Business Relations training emphasizes the importance of the Company's code of conduct, legal compliance and confidentiality in developing positive long-term relationships with suppliers.

In this way, Honda has 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 all purchasing associates.

Collaboration with Industry Groups and Suppliers

Honda is striving to strengthen sustainability across the entire supply chain through this kind of collaborative capacity building between the automobile industry and its suppliers.

Collaboration with Industry Groups

Honda North America Inc., Honda's U.S. subsidiary, participates in four of the work groups established by the Automotive Industry Action Group (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.

Dialogue with Suppliers

In March 2016, Honda convened a Sustainability Briefing Session, where it shared current social trends and provided feedback on the results of inspections at business partners in accordance with the Honda Supplier CSR Guidelines.

Honda also regularly holds conferences around the world to share with suppliers the direction of its business and the substance of its initiatives. In FY2017, meetings were held in 30 locations around the world.

In Japan, Honda has held annual Suppliers Conferences since 1974. Senior management from 331 suppliers attended the conference held in January 2017. At the conference, Honda explained both company-wide policies and purchasing policies for the motorcycle, automobile and power products businesses.

At regional conferences, Honda presented Supplier Awards to recognize those suppliers who have achieved outstanding results in each aspect of QCDD.

The Company also presented Environmental Awards to suppliers in each region who have made outstanding efforts in environmental areas such as reducing GHG emissions.

In the North American region, Honda presented the Corporate Citizenship Award to suppliers who made the greatest contributions in social areas such as compliance, safety and health, community activities, the environment, diversity and human rights.



Presentation of Environmental Award to F-TECH Inc. in Japan



Presentation of Corporate Citizenship Award to Cascade Engineering Inc. in North America

