

# 5 Strategy



# strategy

## Material Issues

- Advancing powertrain electrification
- Eliminating the mobility divide
- Improving the quality of the mobility experience
- Applying automation and information technologies to everyday life

- Strengthening brand management
- Utilizing management resources efficiently
- Contributing to the economic development of developing countries

**5 Strategy**

**Honda's Sustainability**

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Roadmap for Sustainable Growth ..... 14

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Research and Development ... 20

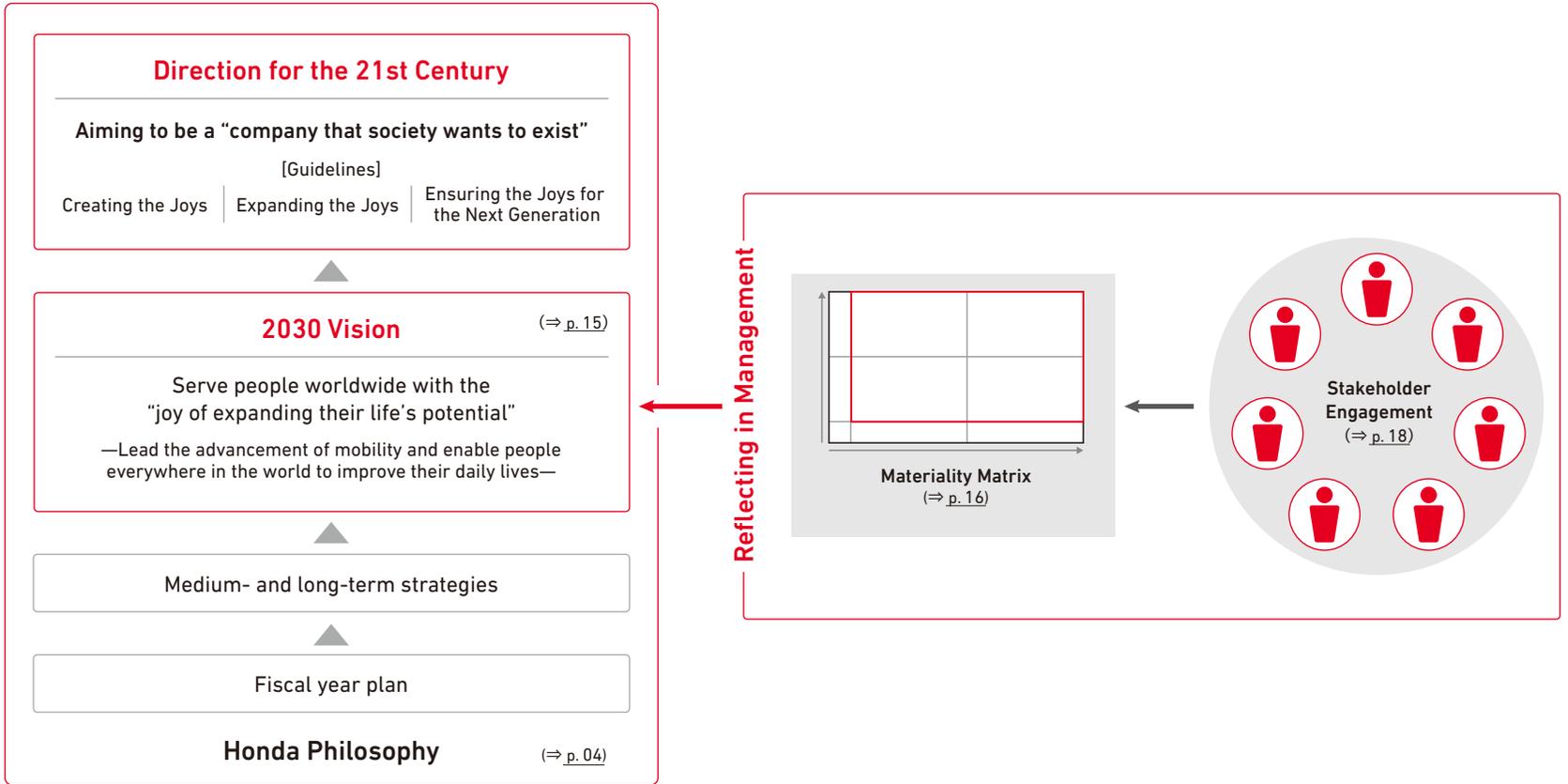
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The Honda Philosophy forms the values shared by all Honda Group companies and all of their associates and is the basis for Honda's corporate activities and the associates' behavior and decision-making.

In order to achieve both the creation of growth opportunities for the Company and a sustainable society, Honda has set striving to be "a company that society wants to exist" as its direction for the 21st century. It is also advancing initiatives known as "Creating the Joys," "Expanding the Joys" and "Ensuring the Joys for the Next Generation."

The "2030 Vision" is one milestone indicating in concrete terms the direction Honda ought to take toward realizing these objectives. For Honda's sustainability, it is important

to both meet stakeholders' expectations and needs by providing products and services of value, fulfill its corporate social responsibility such as by considering the impact on the environment and society, as well as to contribute to the resolution of social issues through its business activities. To this end, Honda is devising medium- and long-term strategies that consider the roles it should fulfill and contributions it should make. Further, these are matched to the characteristics of each region around the world, using the materiality matrix, which assesses issues based on both stakeholder and Honda's corporate perspectives, as its guide.



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**Roadmap for Sustainable Growth**

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Honda is facing numerous social issues that have been much discussed, including poverty and refugee problems, human rights issues, climate change, energy problems, improving occupational health and safety, and the aging of society. Within this context, for Honda, which undertakes a diverse range of businesses globally, understanding its opportunities and responsibilities in the value chain will also be essential for identifying priority issues in management. In addition, in order to swiftly respond to and overcome rapid changes in the business environment, it is necessary to set forth Honda's future direction in the form of a vision.

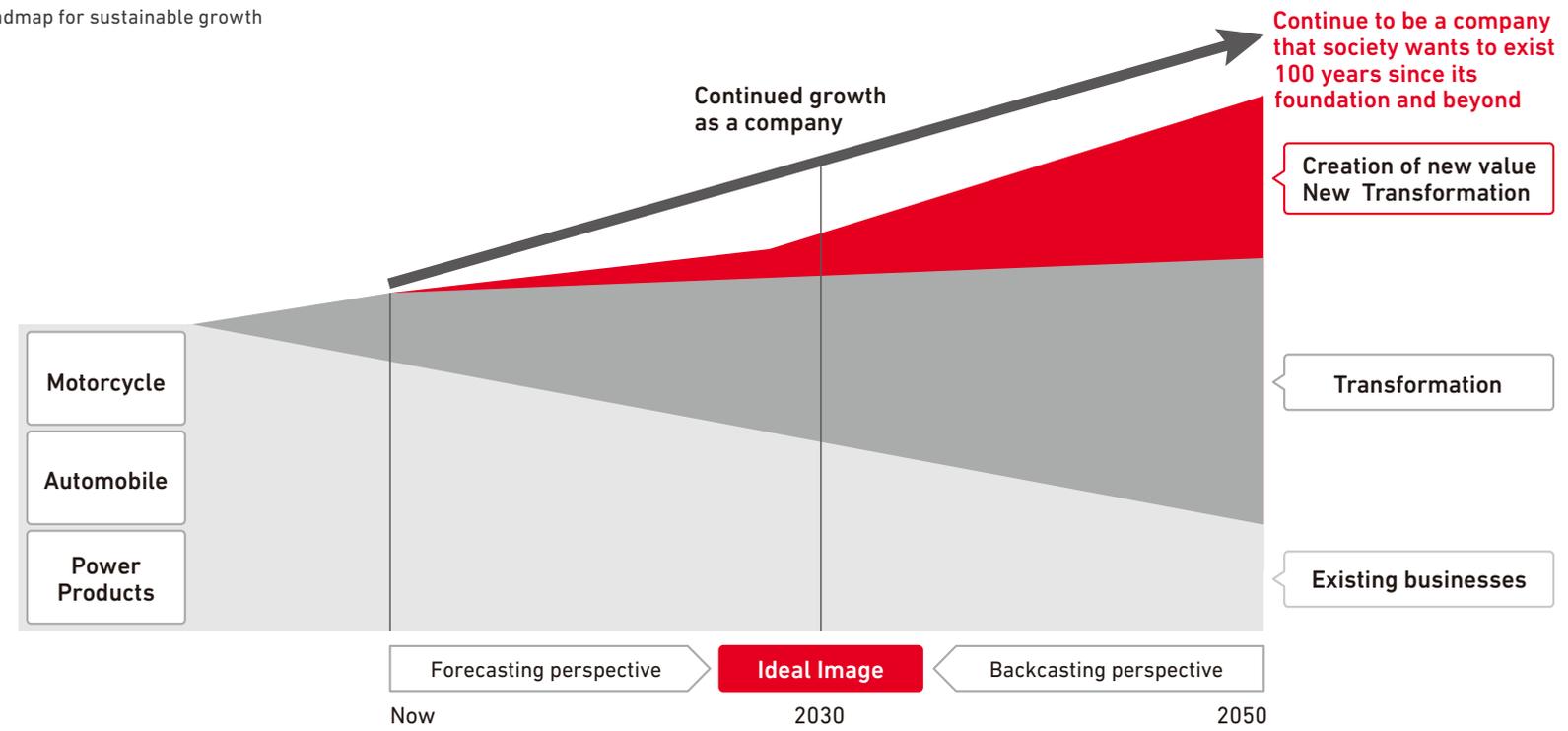
The "2030 Vision" embodies an ideal image of what Honda wants to be in the year 2030 in order to continue being "a company that society wants to exist" in 2050, when the Company will have marked more than 100 years since its founding.

In formulating the Vision, Honda examined long-term environmental changes from two perspectives: forecasting, or looking ahead to the future from the present point in time, and backcasting, or looking back from 2050 to the present. As the Company continues operating existing businesses, how is it going to transform and evolve the value of existing businesses in accordance with the significantly changing expectations of society and the needs of Honda customers?

Moreover, how is Honda going to create unprecedented new value in motorcycle, automobile and power products businesses, as well as new areas beyond the framework of its existing businesses?

In order to formulate a vision that will enable the realization of sustainable growth over the long term, Honda has examined the direction of the transformation of its businesses toward 2030 from the three perspectives of "Current, Transformation and New."

Roadmap for sustainable growth



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**2030 Vision**

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The 2030 Vision formulated by Honda is expressed in the statement, "Serve people worldwide with the 'joy of expanding their life's potential'—Lead the advancement of mobility and enable people everywhere in the world to improve their daily lives—." To embody this Vision, the Company set the direction of its concrete initiatives as action guidelines for the 21st century from three perspectives: "Creating the Joys," "Expanding the Joys" and "Ensuring the Joys for the Next Generation."

From the first perspective of "Creating the Joys," Honda will work on "creating value for 'mobility' and 'daily lives.'" The Company will focus on three areas, namely mobility, robotics and energy, in order to provide people with the "joy and freedom of mobility" and "joy of making their lives better."

From the second perspective of "Expanding the Joys," Honda will undertake efforts to "accommodate the different characteristics of people and society." In this area, the Company will strive to further expand the joy of people by offering products and services that are optimized for all people reflecting different cultures and values and diverse

societies, irrespective of whether they are in developed or developing nations.

From the third perspective of "Ensuring the Joys for the Next Generation," the Company will make progress "toward a clean and safe/secure society." Striving to become No.1 in the areas of the environment and safety, Honda will invest more resources in these areas and will strive to become a company that leads efforts to realize a carbon-free and collision-free mobile society.

In this Vision, Honda has returned to its universal passion and made a major shift in its direction from quantity to quality. To this end, the Company has set its corporate attitude to realize "growth through the pursuit of quality." The Company will aim to expand the circle of joy and let the Honda brand shine even brighter through the steadfast pursuit of the "quality of value Honda provides" and "quality of its initiatives."

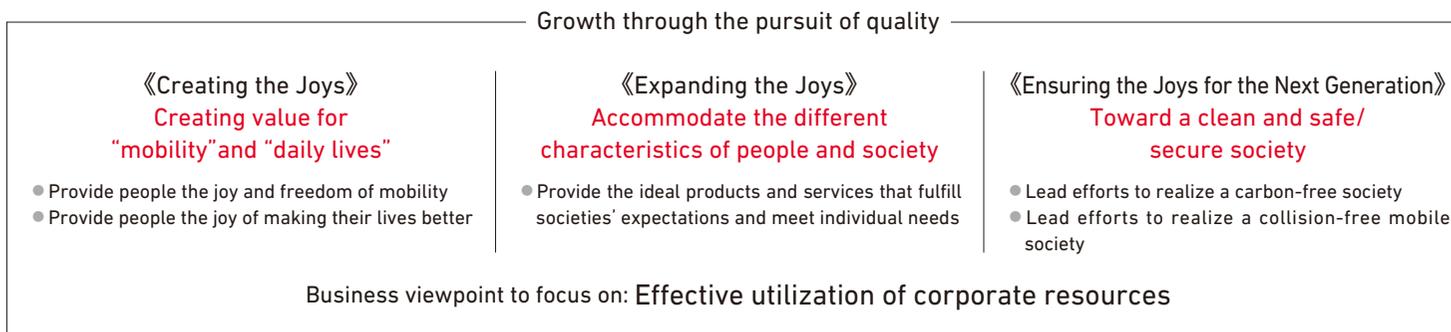
To realize this Vision, the Company will make effective utilization of limited corporate resources to transform and evolve existing businesses and create new value.



2030 Vision

**Serve people worldwide with the "joy of expanding their life's potential"**

—Lead the advancement of mobility and enable people everywhere in the world to improve their daily lives—



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**Materiality Matrix**

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## Evaluation of Issues from the Stakeholders' Perspective (Materiality Matrix)

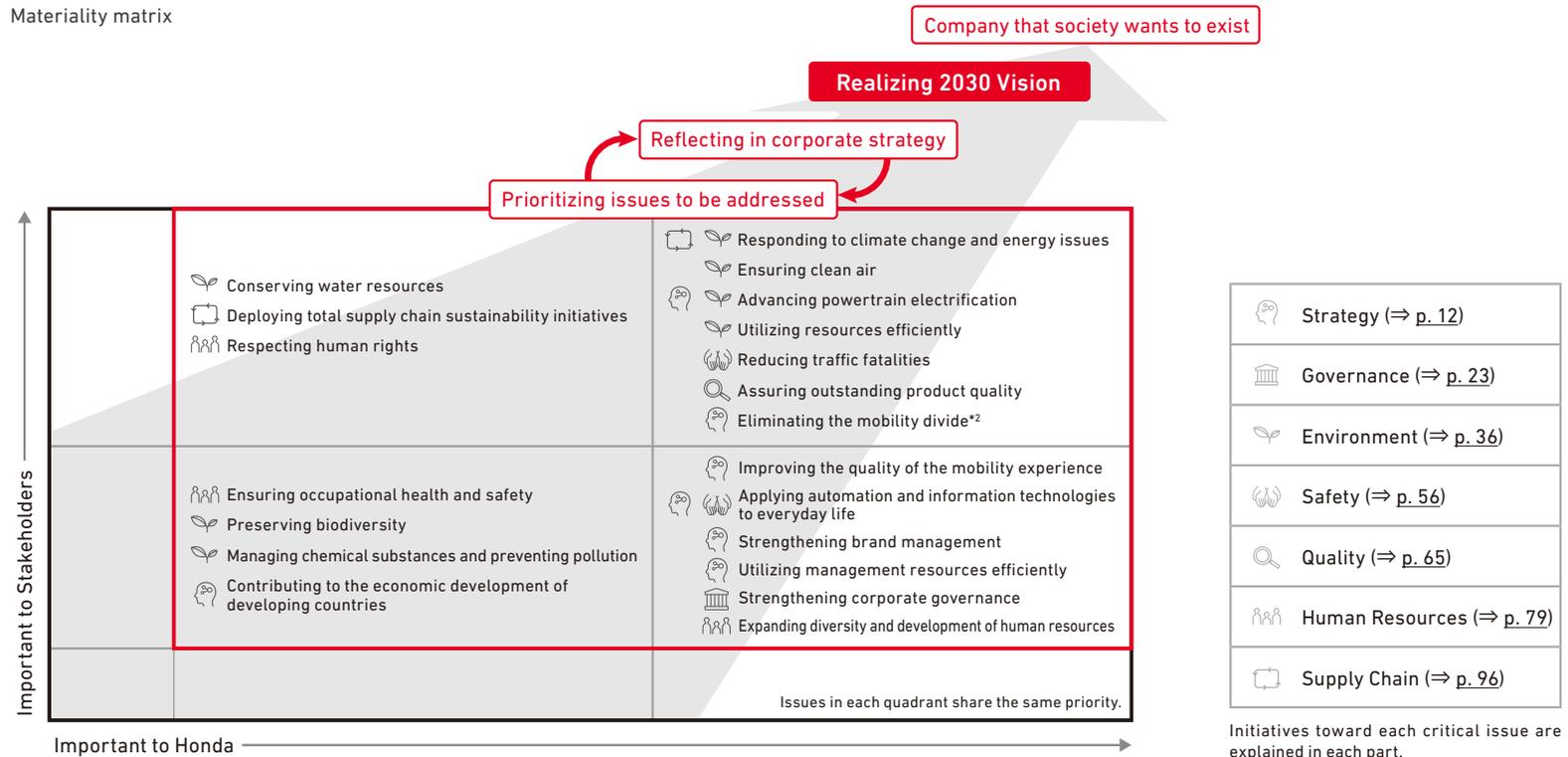
Toward achieving our long-term vision which is based on the Honda Philosophy, key issues to be addressed are organized from our perspective and from the viewpoint of our stakeholders. The materiality matrix provides the essential framework for organizing these issues. By creating and employing this matrix, we confirmed the coverage of overall issues and clarified where each of them is positioned.

The materiality matrix was prepared in two stages; identifying issues and then categorizing them according to their materiality. Issues were identified through dialogue among members of respective operating divisions within the Company and the process

took into account various viewpoints including global and value chain perspectives, the status of technological innovation, Sustainable Development Goals (SDGs)\*1 and social issues pursuant to the Paris Agreement. We evaluated the materiality of these issues in light of the views of stakeholders through dialogue with leading environmental, social and corporate governance (ESG) rating agencies and NGOs in Europe and the United States that focus on sustainability issues. The contents were also evaluated and assessed by management at the Company's Sustainability Strategy Committee meetings and other occasions.

This resulted in the successful visualization of critical issues on a priority basis as a mobility company, including the realization of a carbon-free and collision-free mobile society. We believe our efforts should contribute to the achievement of certain SDGs, notably Goal 13 "Take urgent action to combat climate change and its impacts"; Goal 7 "Ensure access to affordable, reliable, sustainable and modern energy for all"; and Goal 3 "Ensure healthy lives and promote well-being for all at all ages." Critical issues specified based on the views of stakeholders are being reflected in company-wide strategy and incorporated into respective business activities to achieve the Company's vision.

Materiality matrix



\*1 SDGs are international objectives related to such areas as poverty, hunger, energy, climate change and a peaceful society adopted at the United Nations Sustainable Development Summit in 2015.

\*2 Disparity in quality of life between those who do and do not have access to mobility

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**Sustainability Management Structure**

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## Structure for Deliberating Sustainability Initiatives

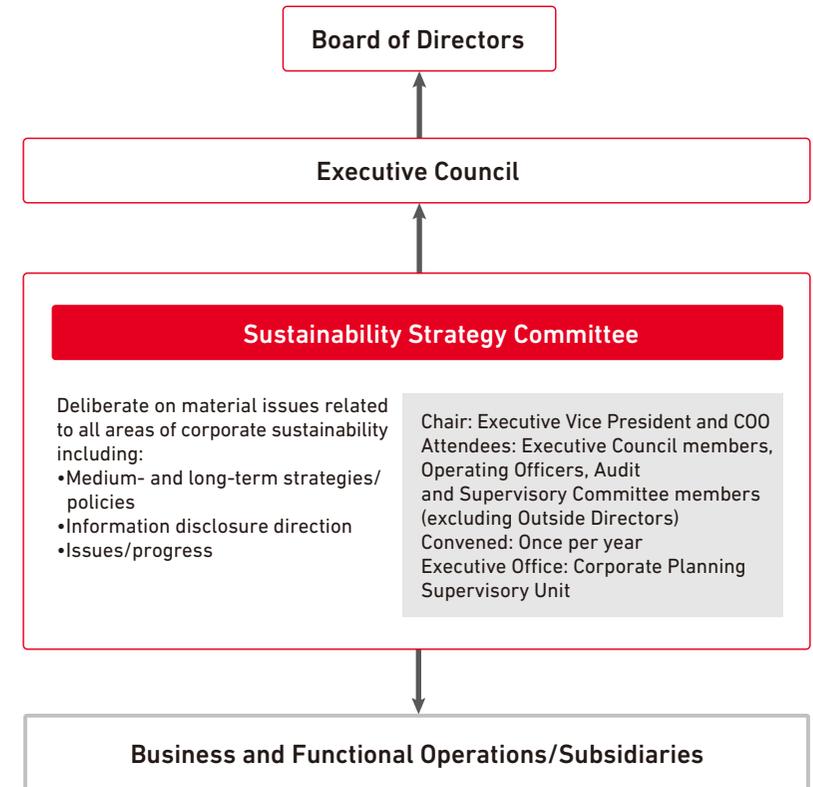
Honda organized the Sustainability Strategy Committee, chaired by the Executive Vice President and COO, as a platform to discuss and assess policy and initiatives related to sustainability activities.

Through this Committee, we identify the challenges in realizing the long-term vision of the Company, referring to the expectations and demands of key stakeholders recognized through dialogue, and deliberate on material issues at the management level, including verifying progress of response and implementation.

From FY2018, it has been decided that sustainability issues are discussed in one committee in a more integrated manner, including environmental and safety-related domains that were discussed in a different committee until the previous fiscal year.

Honda determines corporate strategies through the Executive Council and Board of Directors, taking into consideration the key challenges examined here. Then the Company breaks them down into policies and measures for business and functional operations and subsidiaries for actual execution.

Sustainability management structure from FY2018



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**Stakeholder Engagement**

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**Basic Approach**

To be a “company that society wants to exist,” Honda must appropriately and accurately convey to society the value that it seeks to offer. Together with this, Honda must put into practice a communication cycle in which it engages in dialogue with diverse stakeholders to grasp and understand the demands and expectations placed on the Company, translate these into concrete measures and implement them, and finally listen to stakeholders’ evaluations of its activities.

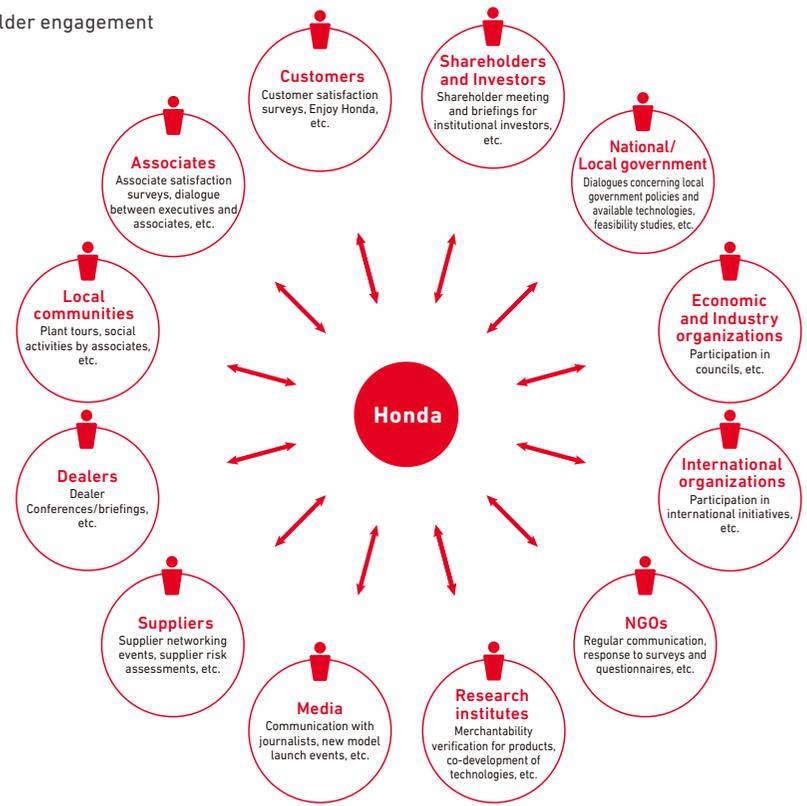
Especially in recent years, the growing scale and globalization of companies, along with the rapid proliferation of IT, have heightened the impact of companies on society, and vice-versa. As this process continues to accelerate, Honda considers that stakeholder dialogue is a beneficial tool that leads to a proper understanding of

stakeholders regarding the Company’s initiatives while also giving the Company an understanding of changes and risks in the social environment.

Based on this understanding, the various divisions at Honda conduct dialogues globally through a variety of opportunities with the stakeholders engaged in Honda’s business, namely, those stakeholders shown in the diagram below that either are impacted by Honda’s business activities or whose activities impact Honda’s business activities.

In addition, opinions gained from leading ESG rating agencies and NGOs are reflected in the Materiality Matrix (⇒ p. 16), which is utilized in identifying issues Honda ought to be addressing.

Stakeholder engagement



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**Stakeholder Engagement**

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## Cooperation with External Organizations

To carry out our responsibility as a global mobility company, Honda engages in dialogues with government, economic and industry organizations and also cooperates with external bodies. In Japan, Honda personnel serve as vice chairman, committee head and committee member within the Japan Automobile Manufacturers Association, president of the Society of Automotive Engineers of Japan, as well as vice president of the Tokyo Chamber of Commerce and Industry.

In addition, Honda personnel serve as technical committee chairs and other representatives in the international motorcycle and automobile industry bodies such as The International Motorcycle Manufacturers Association (IMMA) and Organisation Internationale des Constructeurs d'Automobiles (OICA). Furthermore, Honda cooperates with initiatives related to sustainability through membership in the World Economic Forum (WEF) and the World Business Council for Sustainable Development (WBCSD).

At Honda, we delegate authority to regional operations within a certain scope when executing business in respective regions in order to enhance local autonomy and enable speedy decision-making. Political contributions are made following required internal procedures based on the laws and regulations of respective countries.

## External Evaluations

### Honda Selected to the Dow Jones Sustainability World Index

In September 2017, Honda was selected for the first time as a component of the Dow Jones Sustainability World Index after being ranked fifth in the global Automobiles sector in the annual review of the Dow Jones Sustainability Indices (DJSI), one of the key benchmarks for socially responsible investing. At the same time, the Company was selected for the third consecutive year as a component of the Dow Jones Sustainability Asia/Pacific Index.

The DJSI are investment indices run and offered cooperatively by U.S.-based S&P Dow Jones Indices and Switzerland-based RobecoSAM. The sustainability of the world's leading companies are evaluated from three perspectives in terms of economic, environmental and social criteria and select companies that demonstrate overall excellence for inclusion in the indices.



### Selected for the Third Straight Year with a Bronze Class Rating in the RobecoSAM Sustainability Index

Honda was selected for the third year running with a Bronze Class rating in the Automobiles sector of the Sustainability Award 2018 issued by Switzerland-based RobecoSAM. RobecoSAM evaluates sustainability of approximately 2,500 companies worldwide in terms of economic, environmental and social criteria. Companies deemed to be particularly outstanding in each sector are rated in categories of Gold Class, Silver Class and Bronze Class each year.



### Securing an A- on the CDP Japan 500 Climate Change Report 2017

In October 2017, CDP released the results of a survey on climate change initiatives and reduction of GHG emissions for 5,000 major companies worldwide.

Honda received an A- rating, a score at the leadership level, in recognition of activities deemed to be best practices in environmental management in the CDP Japan 500 Climate Change Report 2017, one of those categories.

CDP is an international NPO that provides a global system for measuring, disclosing, managing and sharing important environmental information from companies and cities. Company initiatives in environmental challenges are evaluated in the four stages of information disclosure, awareness, management and leadership.

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## Value Creation from an Independent Entity

In 1960, Honda spun off the research and development division from Honda Motor Co., Ltd. as an independent entity with the founding of Honda R&D Co., Ltd.

As expressed by words of Honda's founder Soichiro Honda, "What I am researching is not technology, but rather what people like," the aim of Honda's research is not just to research technologies but to also undertake research that extends to people's values. This is because researching people's values will enable Honda to create new value through the cultivation of unexplored domains.

Honda R&D has separate research centers for the motorcycle, automobile and power products businesses to research and develop products. These research centers have established structures in their respective regions to carry out highly efficient product development in accordance with the products and market characteristics of each business. Additionally, Honda R&D promotes wide-ranging in-house development that encompasses products as well as technologies for raw materials and elements. This has enabled Honda to gain a deep understanding of these technologies and allowed for the creation of proprietary technologies and products using unique concepts. The research centers share research results with one another for effective usage, while working to develop products suited to local markets and to gather information on leading-edge technologies and markets through cooperation and coordination with local regions. Moreover, in response to recent technological innovations and industrial changes, Honda has declared a commitment to joint development and collaboration with a wide range of technological and business partners and is firmly pushing ahead with these efforts. Besides advancing existing businesses, the aim is to drive innovation that transcends conventional fields.

Besides these centers, at the Fundamental Technology Research Center, research has been conducted based on diverse ideas that give an insight into the future. From here, aircraft, aircraft engines, fuel cell vehicles, hydrogen production stations and walking assist devices have been commercialized. In addition, robotics technology developed at the center has been used for posture control for racing motorcycles and in automated driving research for automobiles. The center was transformed into R&D Center X in 2017 with the aim of creating further new value (⇒ p. 21).

\*1 Steel sheet with tensile strength higher than that of ordinary steel sheet  
 \*2 Honda survey (as of August 2017)  
 \*3 A pillar-shaped material that connects the body with the roof between the front seat and rear seat. It is visible when getting in and out of a vehicle and is an essential component for body strength.

T O P I C S

### Large Weight Reduction by Reviewing the Basic Body Frame from Materials and Joining Methods

Along with a full model change for the N-Box, the top-seller in Japan's mini-vehicle category for three consecutive years, Honda redesigned approximately 90% of components, beginning with a newly designed platform and powertrain, to reduce weight by around 80kg even while installing enhanced safety features and other functions.

For the body, where the largest weight reduction was achieved, Honda expanded the use of high-tensile strength steel sheets\*1 to allow the use of thinner materials while ensuring sufficient strength. As a world-first\*2, Honda utilized the 1180MPa-class high-tensile strength steel sheet, which up to now was used mainly for inner frame reinforcement due to the difficulty in shaping, for the outer panel of the center pillar\*3.

Honda also effectively introduced new production technologies such as shifting from usually applied spot welding to seam welding and joining surfaces by high viscosity adhesive materials to increase the body rigidity while significantly reducing weight. In addition, Honda reviewed body structure to improve crashenergy absorption during collisions and enhanced crash safety performance at the same time. These advancements enabled Honda to complete the basic body frame, which simultaneously realized improved cabin space and collision safety performance, high rigidity, secure and fun driving experiences as well as excellent fuel economy.

Previous model

(MPa)

- 980
- 780
- 590
- 440
- 270

Steel sheet with over 780MPa-class tensile strength

New model N-Box

(MPa)

- 1180
- 980
- 780
- 590
- 440
- 270

Steel sheet with over 780MPa-class tensile strength

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## Promoting Open Innovation That Accelerates Research & Development in New Fields

Honda has been striving to evolve mobility and the daily lives of people all around the world as part of our 2030 Vision (⇒ p. 15). This requires R&D in new domains in addition to the existing motorcycle, automobile, power products and aircraft domains. The potential for creating new value is growing in increasingly diverse fields in line with advancements in artificial intelligence (AI), big data and other digital technologies. Honda sees this as a favorable opportunity and is focusing on R&D in more new areas.

In addition, Honda is taking a proactive approach to open innovation, which encourages strategic ties with innovative partners. There is no denying that development in a closed environment would not be able to keep pace with the speed of change in today's world. To enable a swift response, Honda is embracing open innovation. Based on the concept of "AI × Data × Honda's strengths," we are working toward *Mono-zukuri* (the art of making things) and *Koto-zukuri* (new experiences drawn from the art of making things) that provide new value in harmony with people as an extension of our manufacturing projects up until now.

### Opened R&D Center X

In April 2017, Honda established R&D Center X, which takes a non-traditional approach to assume responsibility for R&D in "new value" areas ahead of new challenges.

R&D Center X will conduct R&D with a focus on long-term strategy in consideration of Honda's ideal image for 2030 and with 2050 as its starting point. In robotics, one of Honda's R&D domains, we aim to realize a robotics society that will further highlight the inherent greatness of human beings in areas that include autonomously operated machines and systems, such as mobility systems in addition to robotics technology, and energy management, which is necessary to power them. The Center has stated 3E (Empower, Experience, Empathy) as the concept behind its R&D.

In February 2017, Honda opened Honda Innovation Lab Tokyo in Akasaka, Tokyo, as a new hub to promote open innovation prior to the establishment of R&D Center X. We have received a high number of inquiries already as a space for strategic ties with outside entities and there are high expectations that it will produce significant results in the future.

3E concept



TOPICS

### Proposing a Robotics Society at CES 2018

Honda once again took part in the Consumer Electronics Show (CES), the world's largest trade show in the consumer electronics field held in the United States in January 2018. The Company's exhibit was centered on Honda's 3E concept and proposed a robotics society that will further highlight the inherent greatness of human beings, one of Honda's aims. A concept model of a robot embodying 3E was presented at the venue, attracting the attention of visitors.



- The 3E-A18 can communicate and interact with people.
- The 3E-B18 empowers people to be mobile in a variety of situations.
- The 3E-C18 can learn by observing and serves as a platform for product sales and mobile advertising.
- The 3E-D18 supports people in a broad range of work activities on grueling terrains.

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## Roles of Honda R&D Innovations

In 2015, Honda established Honda Xcelerator, an open innovation program headquartered in Silicon Valley. With locations in Silicon Valley, Detroit, Europe, Israel, China and Japan, Honda Xcelerator serves as a catalyst to discover new technologies and proactively seeks to partner with startups globally. The program helps startups with innovative ideas through access to a collaborative workspace, test vehicles and support from Honda mentors. Focus areas of development for the program include energy, human machine interface (HMI), personal mobility, automated driving, artificial intelligence (AI), robotics, advanced materials and industrial innovation as part of aims to revolutionize mobility and energy management.

Silicon Valley-based Honda Innovations (Honda R&D Innovations, Inc.) is the driving force behind Honda Xcelerator. Honda first established Honda Research Institute, established in Silicon Valley in 2000 and added a corporate venture capital (CVC) function in 2005. In 2011, the CVC group became part of Honda R&D Americas, transforming into an open innovation lab called Honda Silicon Valley Lab. In April 2017, the lab became Honda Innovations, an independent new company with an expanded mandate — a global role for R&D in new value areas, growing from development focused on the conventional automobile. The new company, Honda Innovations, has taken on the role of discovering and developing new technologies, focusing on near-future developments.

Honda Innovations has already partnered with a number of startups and is pushing ahead at the speed of Silicon Valley. Honda Innovations also partners closely other Honda R&D facilities in Japan and overseas in a push toward viable future application. Headquartered in Silicon Valley, Honda Xcelerator has established a network of satellite operations in Boston, Israel, Detroit, Europe, China and Japan.

In 2014, Honda Innovations also established “Honda Developer Studio,” an open innovation program focusing on new services, connected vehicles and applications leveraging Honda products, such as the automobile as a platform. Development is focused on such areas as new services and payment systems as well as in-vehicle entertainment for passengers.

Honda Innovations serves as the open innovation hub for Honda globally and leverages several tools to share information and promote interdepartmental collaboration. One such tool is an internal newsletter shared with Honda engineers and researchers around the world. Also, a “Demo Day” is held twice a year to introduce the latest technology trends and technologies under development, and anyone from Honda who wishes to participate can do so. Demo Days help to uncover the needs of engineers and researchers, provide hands on experience and spread the culture of open innovation throughout Honda.

Honda will continue to proactively promote open innovation and pursue development in new value areas at the global level.

Global development of Honda Xcelerator

