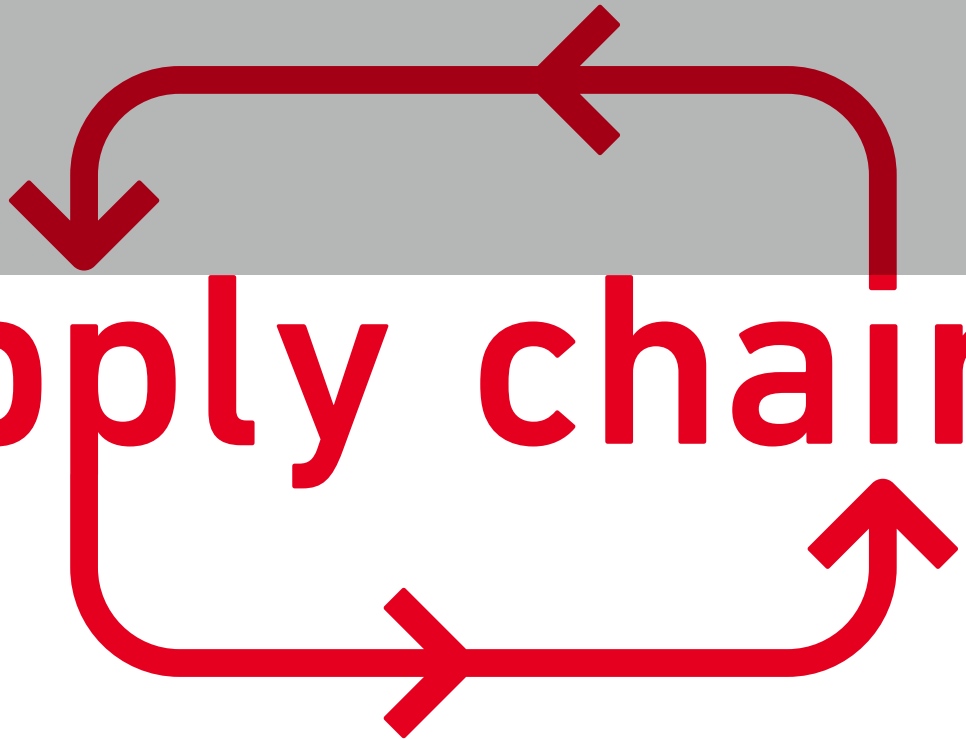


# Supply Chain

# 28

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

# supply chain



## Material Issues

- Responding to climate change and energy issues
- Deploying total supply chain sustainability initiatives

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## 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.

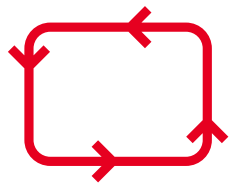
In addition, as awareness of compliance and human rights issues grows worldwide, companies are being asked to verify working conditions and legal compliance not only for themselves but also for their suppliers, as well as to make efforts to take corrective action if required.

From FY2018, Honda is taking part in CDP's supply chain program (an international initiative by institutional investors requesting companies for disclosure of information on climate change policies) and requesting disclosure of risks and opportunities related to Greenhouse Gas (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 mainly in the areas of purchasing and logistics.

Overview of supply chain



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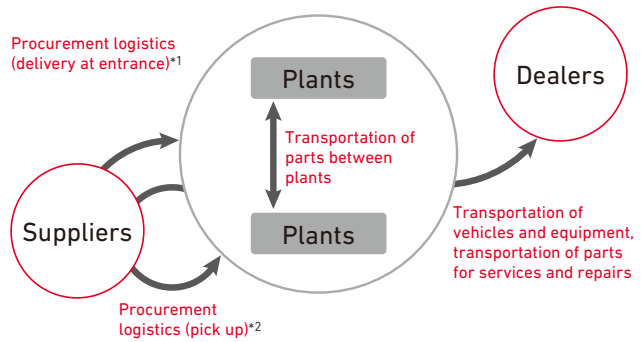
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**Basic Approach to Logistics**

**Management of Logistics from ESG Perspective**

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.

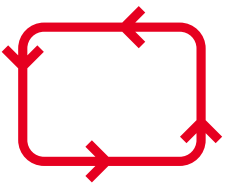
Overview of Honda logistics



\*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.

\*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

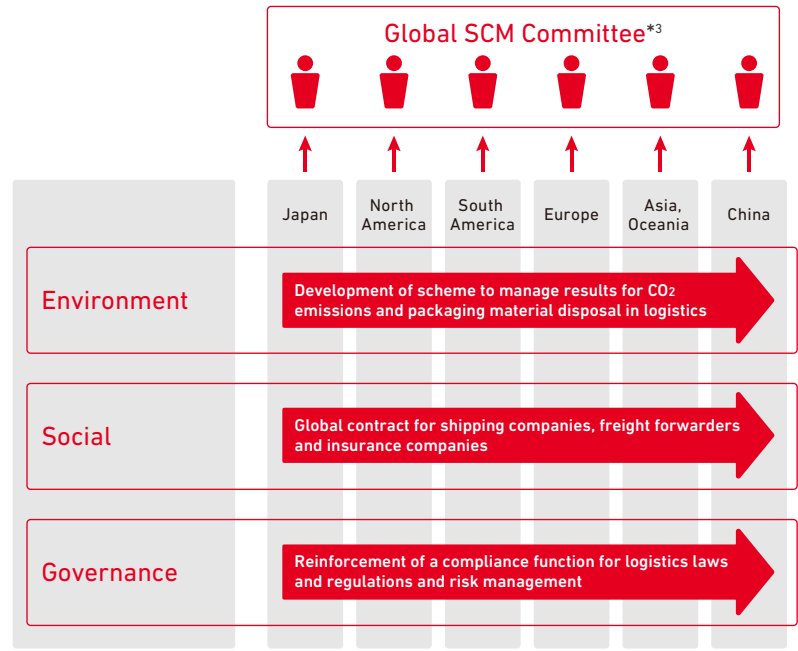


**Global Management of Logistics**

**Integrated Management Framework Transcending Divisions and Regions**

Honda newly established a 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



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**Logistics Initiatives**

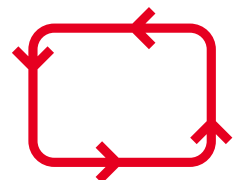
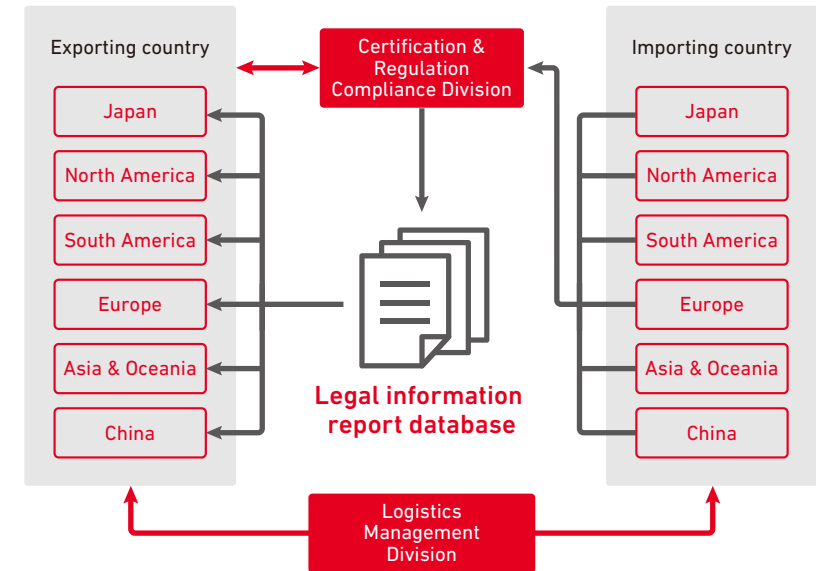
## Integrated Management of Legal Information Concerning Logistics

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.

In response to the strengthening and increasing complexity of laws and regulations, Honda reinforced its global six-region compliance foundation in FY2017 and made preparations for transport regulations in line with the introduction of new technologies such as electrified technology in FY2018.

Honda will continue deepening relations with each region and working to ensure legal compliance.

Integrated management framework for legal information



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**Logistics Initiatives**

## Reducing CO<sub>2</sub> Emissions

### Identifying Global CO<sub>2</sub> 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 CO<sub>2</sub> emissions in the transportation of automobile production parts, which make up the majority of international marine transport.

Honda continues striving to grasp CO<sub>2</sub> emissions for all products around the world by steadily expanding the scope to other product domains since FY2018.

### Expanding Modal Shifts

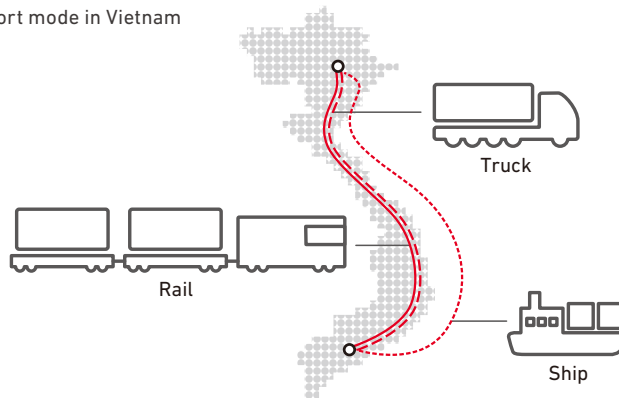
Honda will make efforts toward expanding its modal shift that involves switching means of transportation from trucks to ship and rail transportation, with a focus mainly on transportation to distant regions.

In Vietnam, the distance between Honda's production facility on the outskirts of Hanoi in the north and the major market of Ho Chi Minh City in the south is over 1,700km. For this reason, Honda is replacing conventional trucks with ship and rail transport for long-distance shipments between north and south.

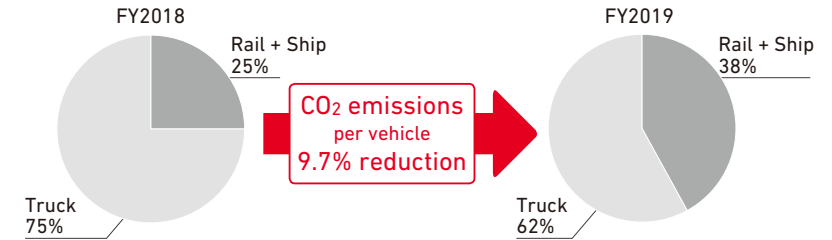
As a result, we will achieve reductions in CO<sub>2</sub> of 27% with rail transport and 65% with ship transport compared with conventional truck transport.

In addition, Honda is working to increase efficiency in each transport mode and in rail transport is introducing freight cars specially designed for shipping automobiles with high load efficiency.

Transport mode in Vietnam



Expansion of rail and ship transport in Vietnam



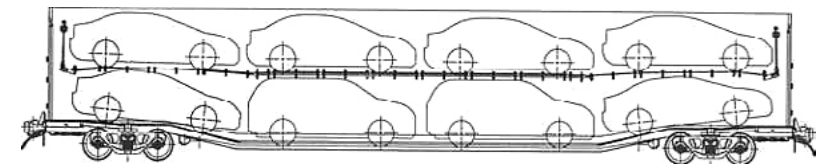
Rail transport in Vietnam



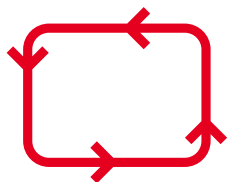
Special freight cars for transporting automobiles



Bright car carrier



Up to eight vehicles can be loaded onto each railcar.



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**Logistics Initiatives**

**Achieved CO<sub>2</sub> Reduction by Increasing the Ratio of Longer Carriers**

In India, Honda achieved around a 6,226t reduction in CO<sub>2</sub> emissions for the year by improving transport efficiency of completed vehicles from its factory to dealers.

Honda India has implemented this initiative in collaboration with logistics service providers and dealers in which longer carriers transport two or more dealers' clubbed orders on the same route, if one dealer order is less than six cars. Previously Honda India has used small carriers with four car capacity for small quantity dealer orders.



A small truck with capacity of four vehicles



A longer truck with capacity for six vehicles

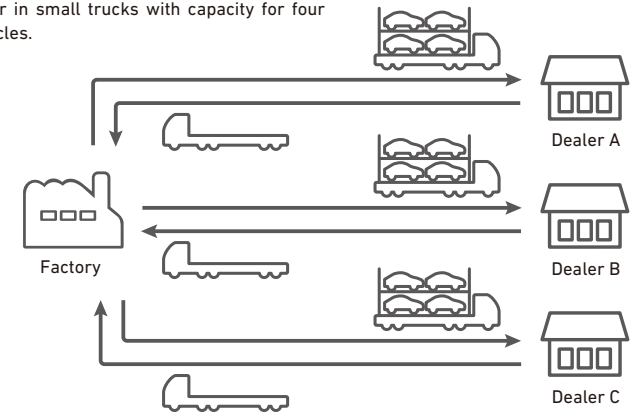


Loading the vehicles



● Previous

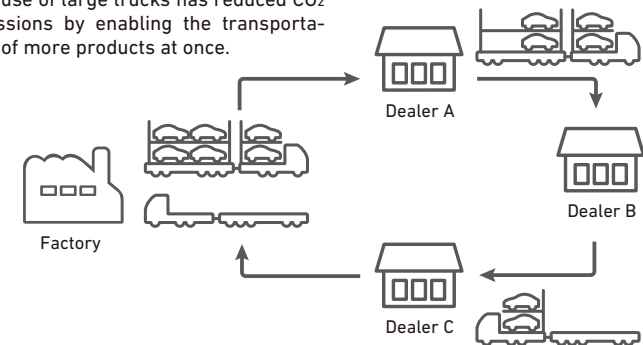
CO<sub>2</sub> is emitted during round trips from each dealer since shipments are made for each order in small trucks with capacity for four vehicles.



Reduced CO<sub>2</sub> emissions by around 6,226t a year

● Since FY2018

The use of large trucks has reduced CO<sub>2</sub> emissions by enabling the transportation of more products at once.



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**Logistics Initiatives**

## Reducing Waste from Packaging Materials

### Updating of Packaging Specifications

Like CO<sub>2</sub> 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\*

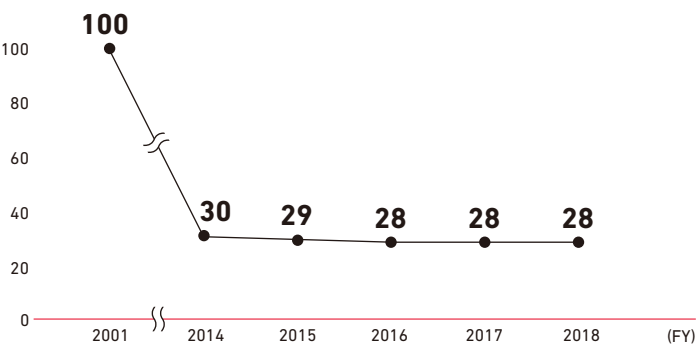
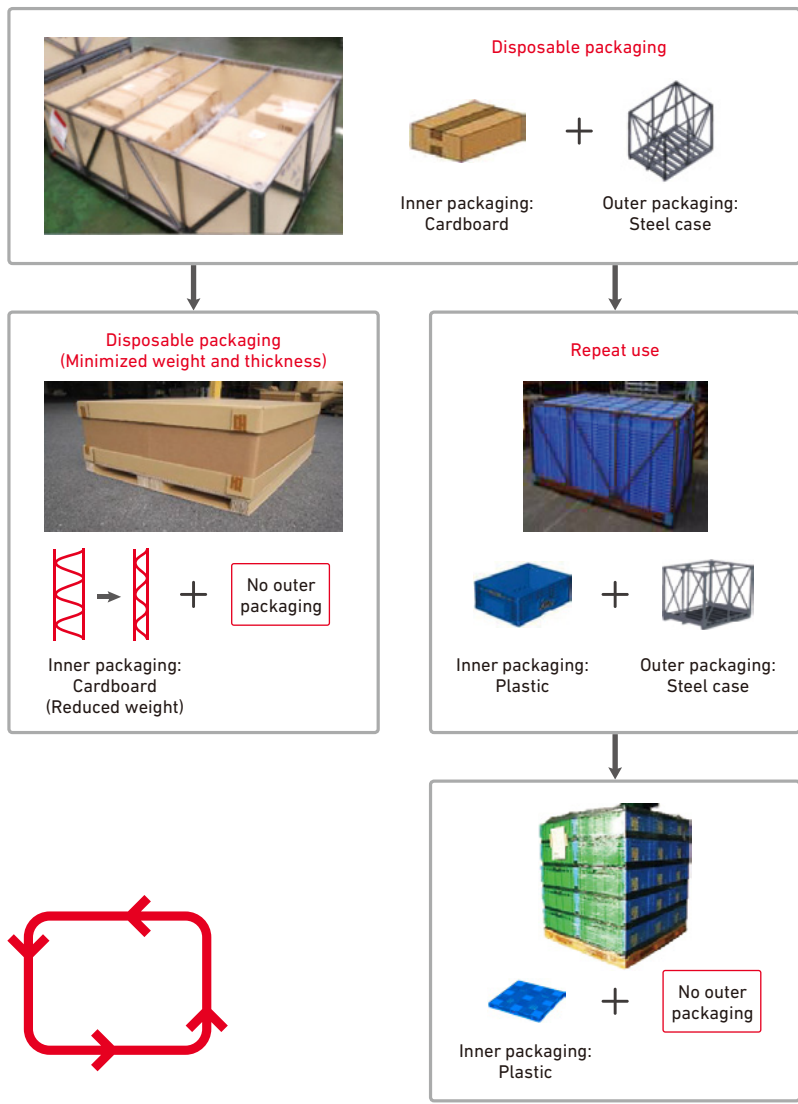


Image of updating of packaging specifications



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

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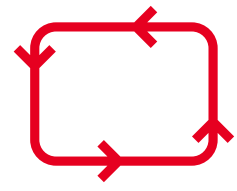
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## Purchasing Belief, Three Purchasing Principles and Purchasing Code of Conduct

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.

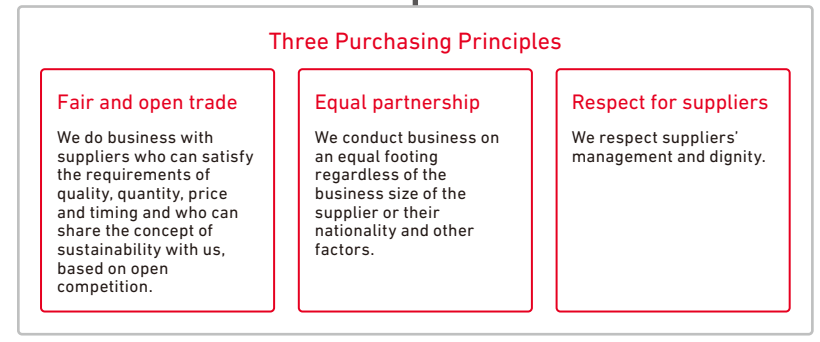


### Purchasing Belief and Three Purchasing Principles

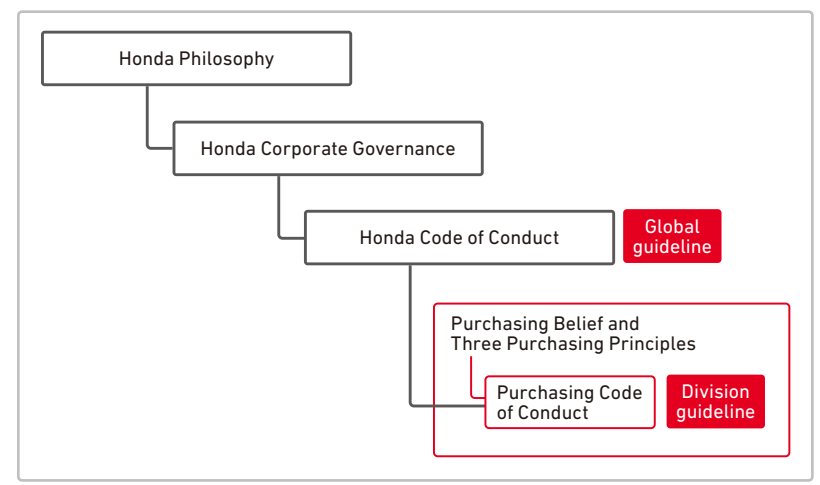
We do fair and equitable business with transparency based on the "Purchasing Belief" and the "Three Purchasing Principles."

#### Purchasing Belief

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



### Positioning of Purchasing Code of Conduct





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**Establishment of Guidelines**

The Company published the Honda Supplier CSR Guidelines and Honda Green Purchasing Guidelines to share its approach to sustainability with suppliers worldwide and to promote Honda initiatives. (Please refer to the links below.)

Through the Guidelines, Honda seeks to prevent compliance violations and other issues in advance along with reducing environmental impact.

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, via the Business Ethics Improvement Proposal Line (⇒ [p. 31](#)), Honda

accepts reports and requests for consultation from all suppliers from a fair and neutral standpoint.

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 Quality, Cost, Delivery, Development and Environment (QCDD), human rights, labor, safety, compliance, risk, protection of information and other aspects to determine the best and most sustainable supplier.

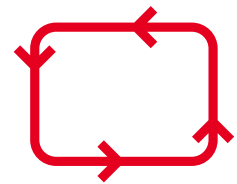
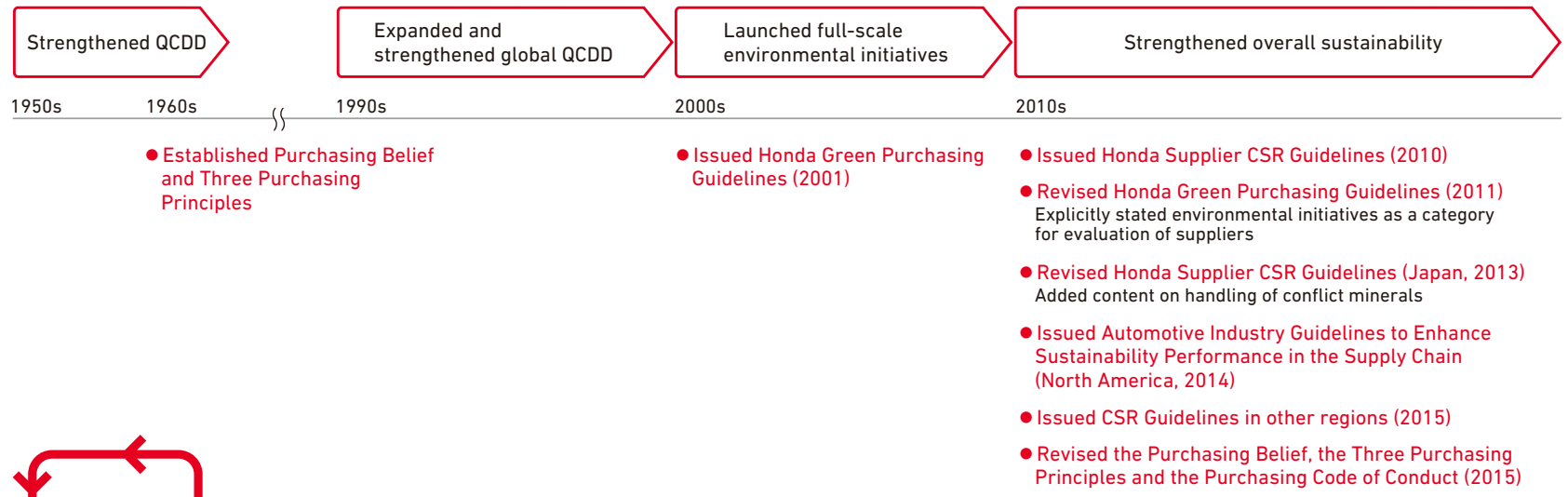
PDF "Honda Supplier CSR Guidelines"

PDF "Honda Green Purchasing Guidelines"

▶ <http://world.honda.com/sustainability/supply-chain/pdf/csr-guideline.pdf>

▶ <http://world.honda.com/sustainability/supply-chain/pdf/green-guideline.pdf>

Changes in purchasing practices



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**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 supervises the global function overall, is 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.



Six Region Sustainability Purchasing Meeting

**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 FY2018, the Global Correlation Meeting was held in Japan to coordinate the direction of sustainability initiatives.

**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 CO<sub>2</sub> 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.

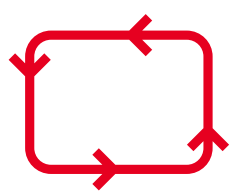
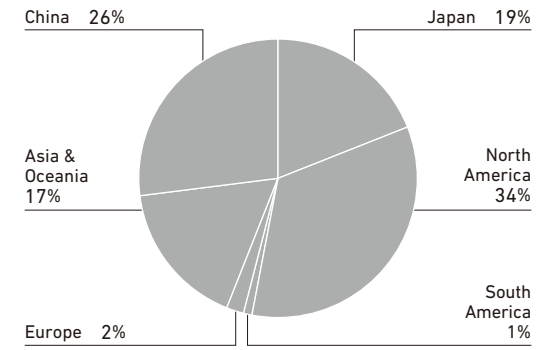
Honda's global purchasing network



Global meeting structure



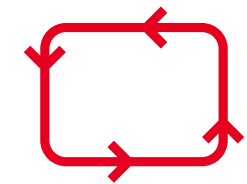
Regional distribution of purchasing volume



**supply chain**

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**Purchasing Initiatives**

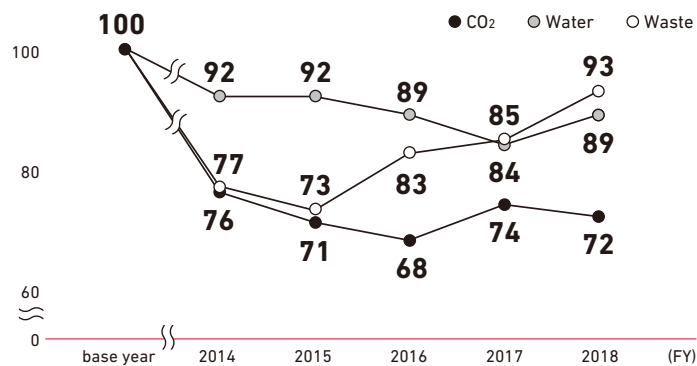
## Reducing Environmental Impact at Suppliers' Sites

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.

Performance of reducing environmental impact index of CO<sub>2</sub> emissions/water use/waste generation per unit of production



\*CO<sub>2</sub>: FY2001, Water/Waste: FY2009  
\*Scope of data: all consolidated tier 1 suppliers in Japan

### Operating a Management System for CO<sub>2</sub> 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 CO<sub>2</sub> emissions at suppliers since FY2012, which commenced full-scale operation in FY2015.

Honda is using this system to share reduction targets (reduce CO<sub>2</sub> emissions intensity by 1% per year) and progress status and to implement the PDCA cycle with suppliers worldwide.

As of 2017, 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 CO<sub>2</sub> at suppliers.

### Initiatives to Reduce Environmental Impact in the Supply Chain

Honda promotes initiatives to reduce environmental impact in each region together with suppliers, notably efforts to reduce CO<sub>2</sub> and ensure the efficient use of resources.

To reduce CO<sub>2</sub>, Honda has been undertaking the Energy Conservation Caravan, which started in Japan in 2009, in various regions. This activity proposes energy conservation measures and supports the establishment of a structure for these initiatives by visiting supplier production sites. Honda also makes efforts to analyze CO<sub>2</sub> data from suppliers and provide each with individualized feedback, noting areas of weaknesses and progress in achieving reductions. This program started in Japan and will be expanded to other regions going forward.

To ensure efficient use of resources, Honda will consecutively start an initiative in FY2019 concerning the management of water and waste targets (maintain or reduce consumption/emission intensities compared with FY2018 levels) for the Group company's suppliers.

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## Purchasing Initiatives

### 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 the 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.

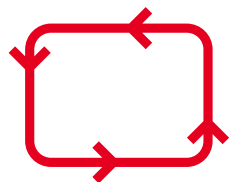
Honda began operating a procurement risk management system with suppliers in Japan in December 2014. Through the operation of this system, the Company established structures to assess damage and identify the impact on production at suppliers in a short time after the occurrence of a major disaster.

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.

### 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.



# supply chain

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## 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 significant influences on the Company in line with rising expectations worldwide to fulfill corporate social responsibility that also includes the supply chain. Going forward, Honda will expand the initiative to high-risk suppliers where there is higher potential for issues or the impact on the Company may be great in case a problem did arise, based on the flow diagram indicated on the right.

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.

- Distributes an audit check sheet based on international standards
- Confirms the status of sustainability activities
- Provides feedback on the results of analysis

The audit check sheet sets broad categories for evaluation that include the environment, compliance and information disclosure in addition to human rights and labor matters, such as child labor and forced labor, in an effort to verify supplier activities.

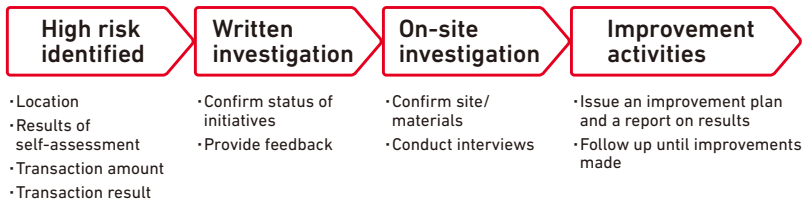
Next, in the on-site investigation, persons in charge from Honda and an auditing company visit a supplier's office to conduct interviews and prepare reports in light of the findings of the written investigation. The status of sustainability initiatives is also examined together with the supplier after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

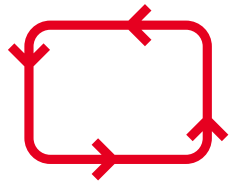
Going forward, Honda will expand application of third-party audits in cooperation with overseas purchasing sites.

There were no instances of issues bearing significant risk in FY2018.

Flow diagram of third-party audit



Confirming the status of wastewater treatment at a supplier site



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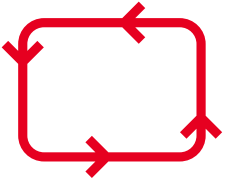
**Purchasing Initiatives**

## 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 (OJT). 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 automotive 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 FY2018, meetings were held in 30 locations around the world. At regional conferences, Honda presented Supplier Awards to recognize those suppliers who have achieved outstanding results in each aspect of QCDD.

In Japan, Honda has held annual Suppliers Conferences since 1974. Senior management from 328 suppliers attended the conference held in January 2018. At the conference, Honda explained both company-wide policies and purchasing policies for the motorcycle, automobile and power products businesses. In FY2018, Honda started presenting the Sustainability Awards to those suppliers making outstanding efforts in all areas concerning environmental, social and governance (ESG) aspects. The award is an extension of the former Environment Awards that focused on greenhouse gases (GHG) by also including social and governance aspects.

In the North American region, Honda presents the Sustainability 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 Sustainability Award to Sumitomo Rubber Industries, Ltd. in Japan



Presentation of Sustainability Award to Axalta Coating Systems Ltd. in North America