

Supply Chain

supply chain

Material Issues

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

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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.

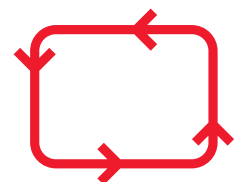
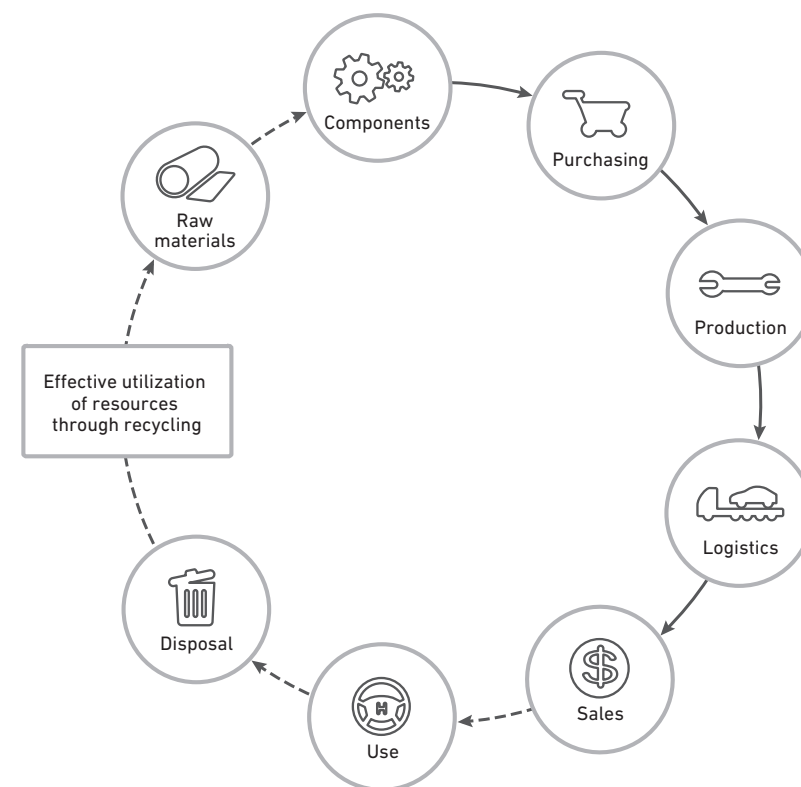
In addition, as awareness of compliance and human rights issues grows worldwide, companies are being asked to verify working conditions and legal compliance not only for themselves but also for their suppliers, as well as to make efforts to take corrective action if required.

From FY2018, Honda 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, Honda will actively promote sustainable initiatives at its development and manufacturing facilities in cooperation with all its suppliers around the world. By doing so, Honda is seeking to realize a supply chain where Honda co-exists and co-prospers with local communities as "a company that society wants to exist."

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

Overview of supply chain



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Basic Approach to Logistics

Management of Logistics from ESG Perspective

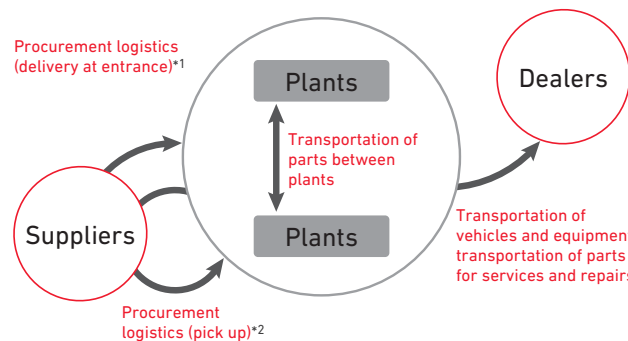
At Honda, many parts that are used in its products are sourced from suppliers and transported to its plants. Then, they are incorporated into the Company's products, and the completed models are sent directly from the plants to dealers. In addition to this, parts are also transported between plants, and parts for services and repairs are sent to dealers.

Due to the extremely large volume of transportation that takes place throughout the manufacturing process at Honda, increasing efficiency, along with reducing environmental burden, compliance and risk management in logistics are becoming critical issues.

For instance, focusing on long-haul transport, Honda is working to expand the "modal shift" and technological advancement of packaging materials.

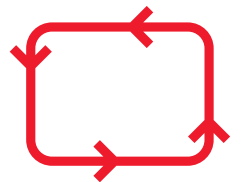
Honda is conducting management from an environmental, social and governance (ESG) perspective.

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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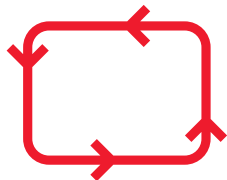
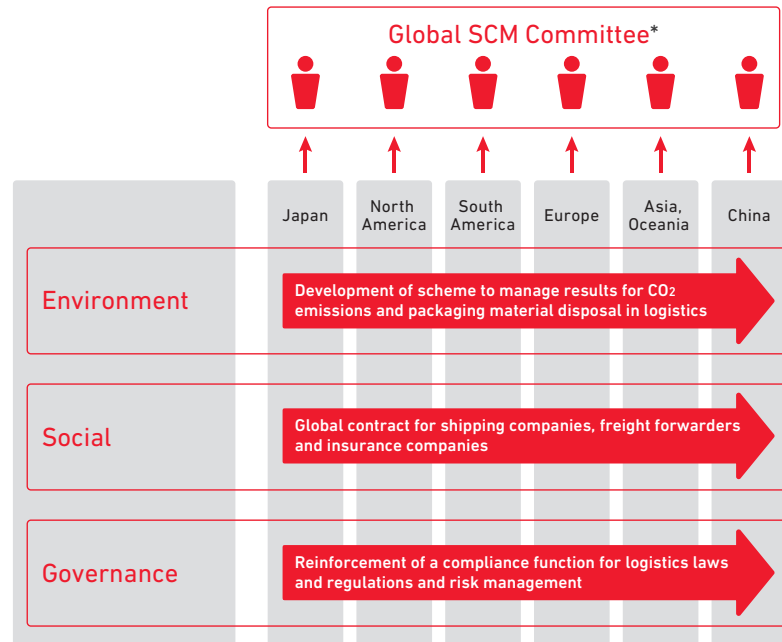
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Global Management of Logistics

Integrated Management Framework Transcending Divisions and Regions

Honda is progressing ESG management of logistics through a global organization. This body has teamed up with logistics-related divisions and the six regional headquarters worldwide to formulate policies and carry out strategies for tackling the various logistics-related pending issues and challenges. The aim is to manage the challenges, including environmental response for CO₂ reduction, management of transportation companies, response to laws and regulations, insurance policy and risk management, in an integrated fashion.

Logistics global management framework



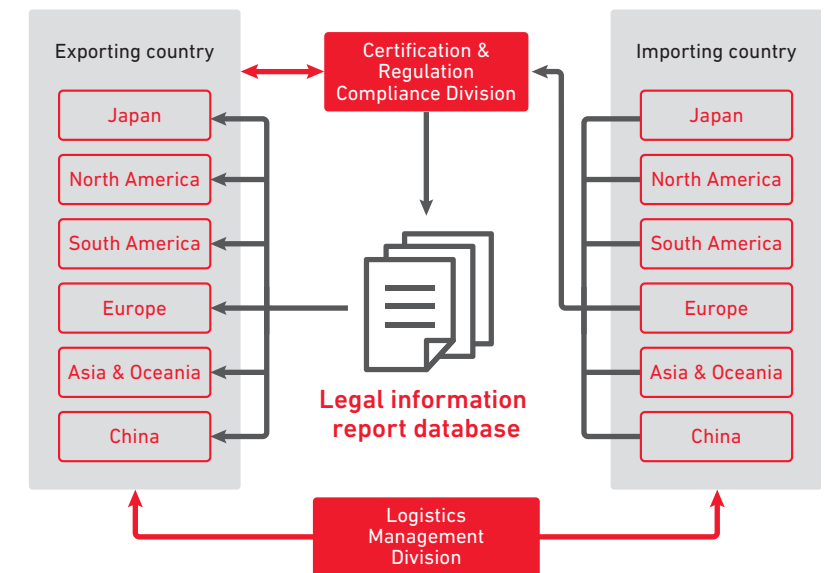
* A committee to debate Supply Chain Management (SCM) issues at the global headquarters and in respective regions in order to achieve medium-term goals

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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 aims to consistently secure precise information and enable efficient, accurate and early global response. To do so, the Company strives to strengthen compliance with laws and regulations by creating a function for the integrated management of international treaties and legal information concerning logistics operations and by ensuring swift response.

Integrated management framework for legal information



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Logistics Initiatives

Grasping and Reducing 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 procurement, thereby reducing environmental impact.

For instance, focusing on long-haul transport, Honda is working to expand the modal shift to switch the transportation method from trucks to rail and ship transport, and to facilitate the technological advancement of packaging materials.

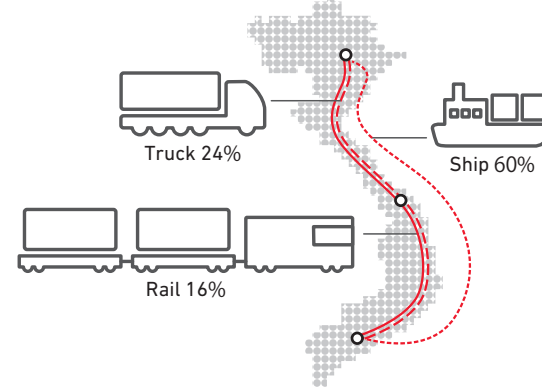
Honda continues to promote CO₂ emissions monitoring of all products throughout the world, such as managing CO₂ emissions from international marine transportation.

Expanding Modal Shifts

Initiatives in Vietnam

In Vietnam, the distance between Honda's motorcycle 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 switching from conventional truck transport to rail and ship transport for motorcycle shipments to its warehouse in the south. Through this effort, Honda successfully reduced CO₂ emissions by approximately 1,000t.

Traffic route through modal shift in Vietnam



Modal shift in Vietnam



Inside one of the containers

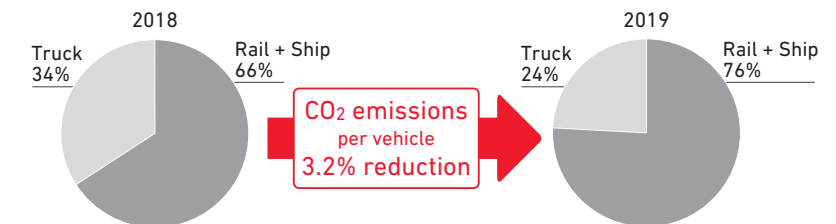


Container ship



Loading a container for rail freight

Expansion of rail and ship transport in Vietnam



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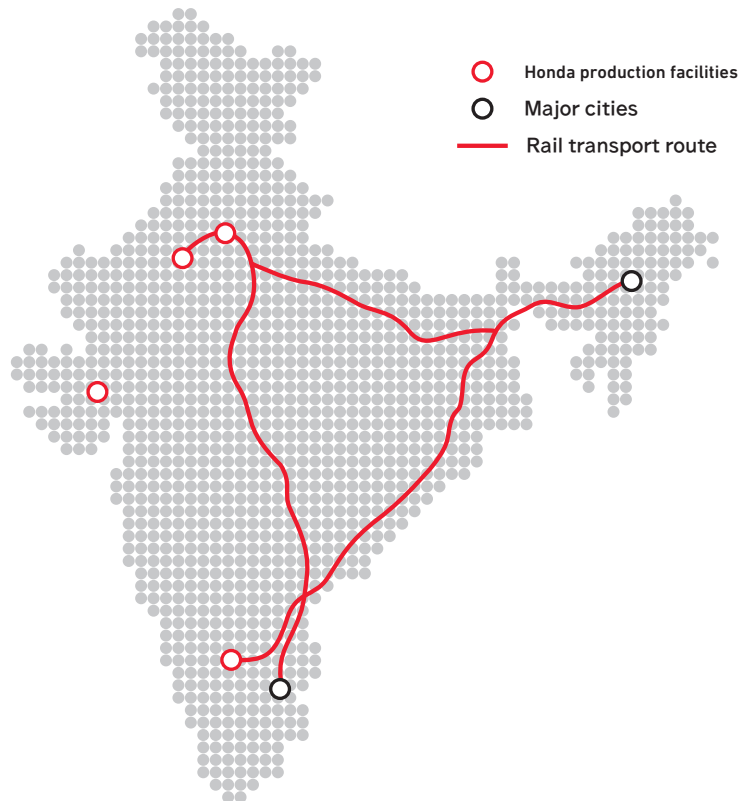
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Logistics Initiatives

Initiative in India

In India, CO₂ emissions were reduced by 330t annually by switching the transportation method from the motorcycle factory to the sales base and replacing conventional truck transportation with rail transportation.

Rail transport route in India



Railway transportation in India



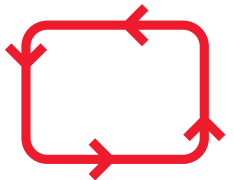
Honda motorcycles transported by rail



Inside a container



Railway transportation



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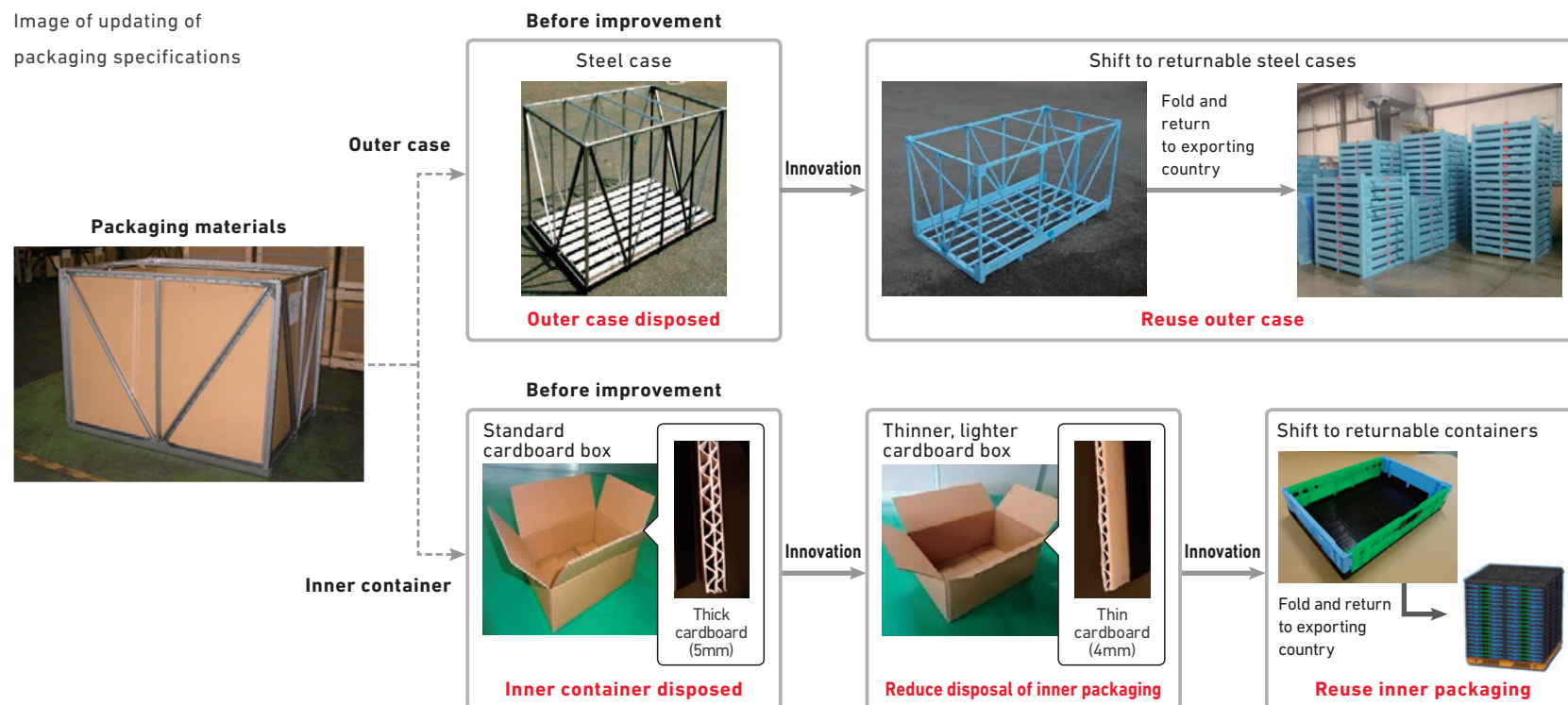
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Technological Advancement of Packaging Materials

Honda exports (supplies) parts between factories across different countries and regions, and conducts assembly of vehicles and equipment in the importing countries.

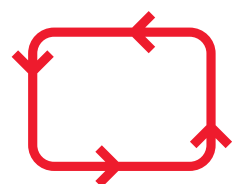
Such export of parts involve usage of packaging materials, which are classified into outer case and inner container. In the past, these packaging materials were disposed of in the importing country. To counter this, Honda has innovated packaging technology to reuse containers and reduce the weight of packaging materials, thereby reducing both waste and CO₂ output.

Image of updating of packaging specifications



Classification and evolution of packaging materials

Packaging materials	Use	Evolution of packaging techniques
Outer case	Case to be loaded onto containers	Returnable steel cases
Inner container	Container to pack parts, which is then enclosed in an outer case	Use of thin, light cardboard boxes; shift to returnable containers



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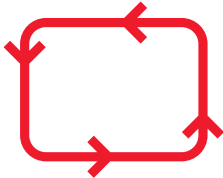
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Basic Approach to Purchasing

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.

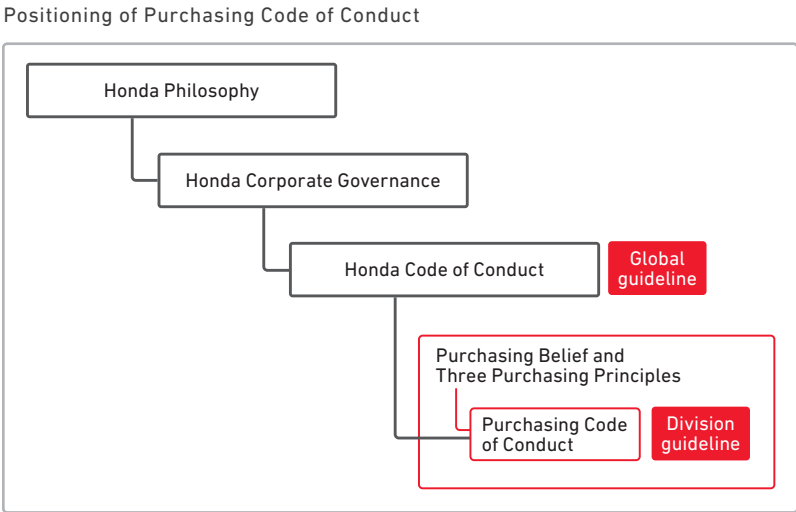
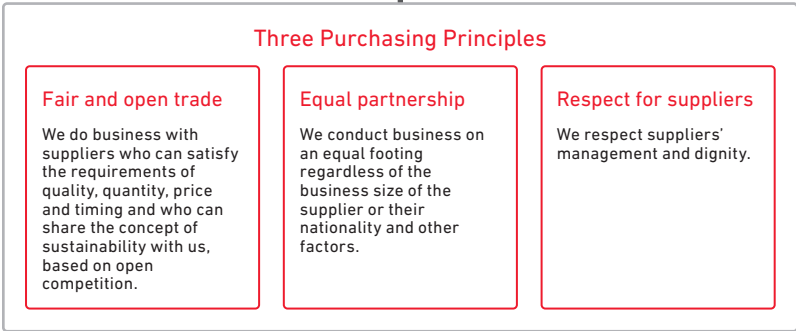


Purchasing Belief and Three Purchasing Principles

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

Purchasing Belief

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



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Establishment of Guidelines

The Company published the Honda Supplier Sustainability 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 its 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. 34), 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 (QCDDE), human rights, labor, safety, compliance, risk, protection of information and other aspects to determine the best and most sustainable supplier.

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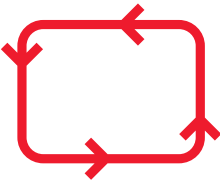
Honda Supplier Sustainability Guidelines

> https://global.honda/about/dam_img/sustainability/report/pdf/supply-chain/supplier-sustainability-guidelines.pdf

PDF

"Honda Green Purchasing Guidelines"

> https://global.honda/content/dam/site/global/about/cq_img/sustainability/report/pdf/supply-chain/green-purchasing-guidelines-2018-en.pdf



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Global Management of Purchasing

Changes in purchasing practices

Strengthened QCDD

1950s

1960s

1990s

2000s

2010

2015

- Established Purchasing Belief and Three Purchasing Principles

Expanded and strengthened global QCDD

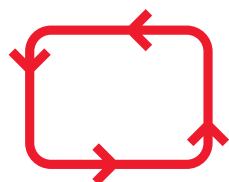
Launched full-scale environmental initiatives

Strengthened overall sustainability

- Issued Honda Green Purchasing Guidelines (2001)

- Issued Honda Supplier CSR Guidelines (2010)
- Revised Honda Green Purchasing Guidelines (2011)
Explicitly stated environmental initiatives as a category for evaluation of suppliers
- Revised Honda Supplier CSR Guidelines (Japan, 2013)
Added content on handling of conflict minerals
- Issued Automotive Industry Guidelines to Enhance Sustainability Performance in the Supply Chain (North America, 2014)

- Issued CSR Guidelines in other regions (2015)
- Revised the Purchasing Belief, the Three Purchasing Principles and the Purchasing Code of Conduct (2015)
- Issued the Honda Supplier Sustainability Guidelines (2018)
Reviewed the content of the Honda Supplier CSR Guidelines and renamed as Sustainability Guidelines
- Revised Honda Green Purchasing Guidelines (2018)



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Purchasing System

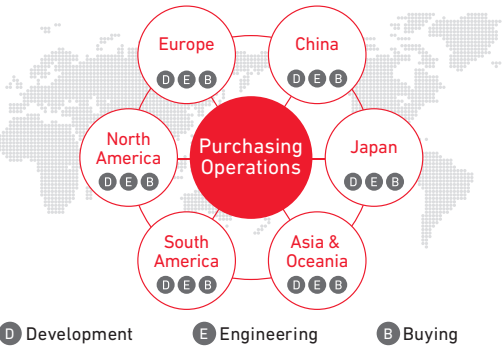
Honda conducts business in six regions worldwide and has respectively established purchasing functions. In line with Honda’s corporate philosophy of “building products close to the customer,” each region is encouraged to source locally. The rate of local procurement in the United States, Honda’s largest 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 2016, 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. Through these meetings, collaboration between Purchasing Operations and each of the regional and business operation is promoted, enabling implementation of the PDCA cycle on a global scale.

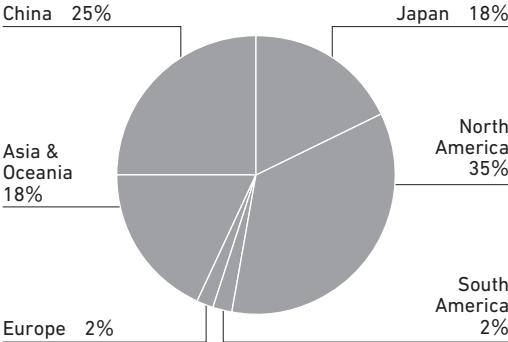
Honda’s global purchasing network



Global meeting structure



Regional distribution of purchasing volume (FY2019)



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Global Management of Purchasing

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 FY2019, the Global Correlation Meeting was held in Japan to coordinate the direction of sustainability initiatives.

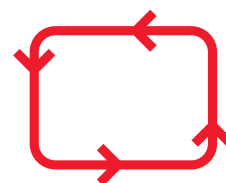
Six Region Sustainability Purchasing Meeting

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 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



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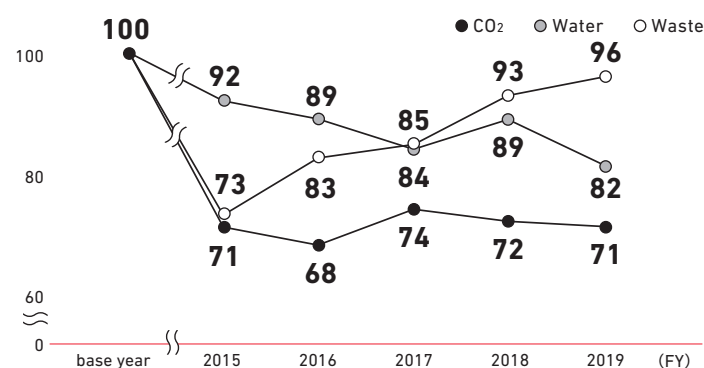
Reducing Environmental Impact at Suppliers' Sites

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 CO₂ emissions/water use/waste generation per unit of production



• CO₂: FY2001, Water/Waste: FY2009

• Scope of data: all consolidated tier 1 suppliers in Japan

Operating a Management System for CO₂ Data

In order to increase the effectiveness of reductions in environmental impacts in the supply chain, Honda started to establish a system for the integrated management of data on reduction in CO₂ emissions at suppliers in FY2012 and 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 2018, approximately 1,700 companies, equating to more than 80% of purchasing value on a global level, are using the system.

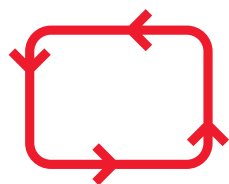
Going forward, the Company will comprehensively analyze data to assist in activities to reduce CO₂ at suppliers.

Initiatives to Reduce Environmental Impact in the Supply Chain

Honda promotes initiatives together with suppliers to reduce environmental impact, that is, reduction of CO₂ emissions and efficient use of resources in each region.

In Japan, Honda sets a specific numerical CO₂ target of its group suppliers and promotes reduction initiatives in partnership with them.

In FY2019, Honda began an initiative concerning the management of water and waste targets (maintain or improve FY2018 results). As part of this initiative, Honda progressively started the "Supplier Visit on Environment Effort." For this initiative, Honda visits each group supplier's site to confirm the results of efforts to reduce environmental impact and their environmental activities at production sites. This is also a good opportunity for Honda and its group suppliers to share information with each other. Honda actively works with group suppliers to promote efforts to achieve its goals.



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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 are meeting 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, including natural disasters, fires, financial issues and labor issues within the supply chain, as risks. Accordingly, the Company works to reduce these risks and prevent the spread of any impact if they materialize throughout the supply chain, beginning with the procurement of components and materials. For example, Honda defines all components and materials that are dependent on production at one facility as Mission-Critical Parts, and inspections and countermeasures are continually countermeasures are implemented continually around the world.

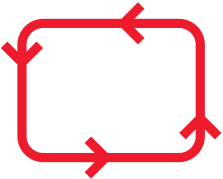
Honda began operating a procurement risk management system with suppliers in Japan in December 2014. Through the operation of this system, the Company established structures to assess damage and identify the impact on production at suppliers in a short time after the occurrence of a major disaster.

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.



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Purchasing Initiatives

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.

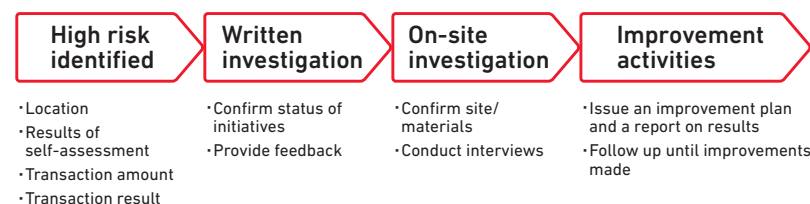
Next, in the on-site investigation, persons in charge from Honda and an auditing company visit a supplier's office to conduct interviews and prepare reports in light of the findings of the written investigation. The status of sustainability initiatives is also examined together with the supplier after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

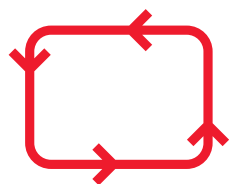
Going forward, Honda will expand application of third-party audits in cooperation with overseas purchasing sites.

There were no instances of issues bearing significant risk in FY2019.

Flow diagram of third-party audit



Confirming the status of wastewater treatment at a supplier site



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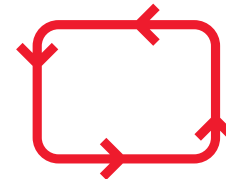
Purchasing Initiatives

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 QCDDE. 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.



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Purchasing Initiatives

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. They are the Responsible Sourcing Work Group, the Sustainability 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 Mexico. In addition, Honda participates in AIAG's Corporate Responsibility Steering Committee to proactively identify issues, needs and trends in and outside the automobile industry.

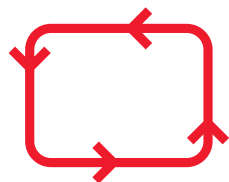
Dialogue with Suppliers

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 FY2019, 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 QCDDE.

In Japan, Honda has held annual Suppliers Conferences since 1974. Senior management from 327 suppliers attended the conference held in January 2019. 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 Europe and the U.S., Honda presents the Sustainability Award to suppliers who made the greatest contributions in social areas such as compliance, safety and health, community contribution activities, the environment, diversity and human rights.



supply chain



Presentation of Sustainability Award to Yazaki Corporation in Japan



Presentation of Sustainability Award to Goodyear Dunlop Tires Germany GmbH, Fulda plant in Europe