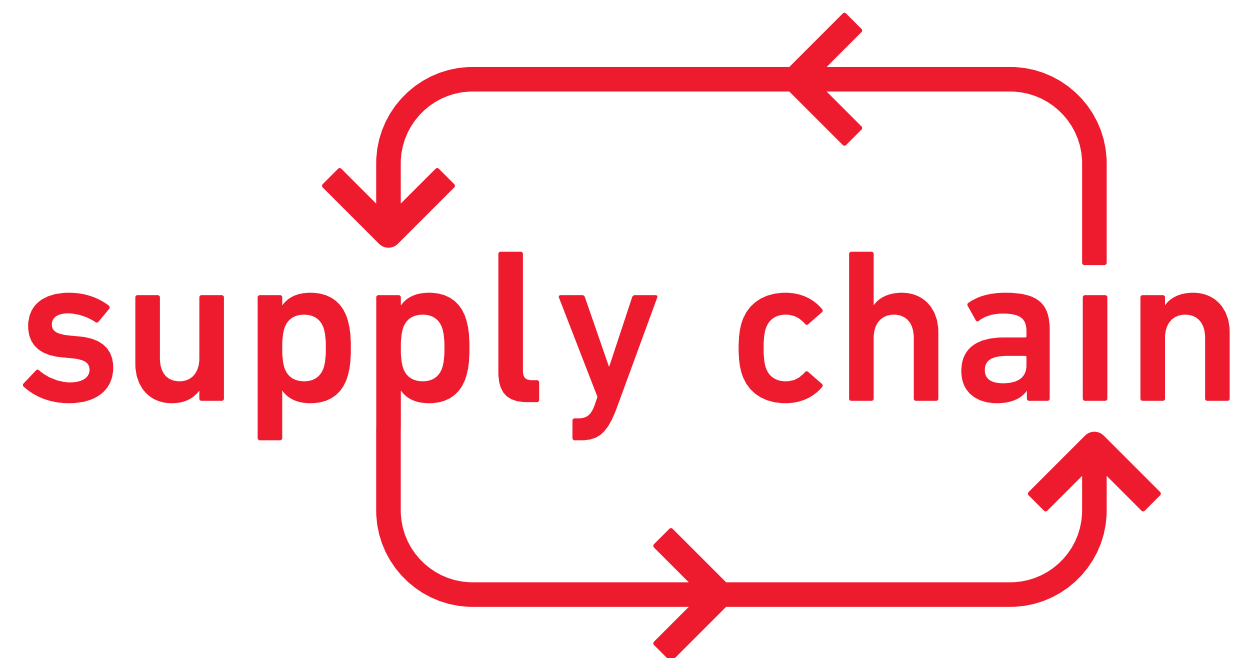


# 7

## Supply Chain



### Material Issues

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

7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

Purchasing Initiatives

Social Contribution Activities .. 146

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.

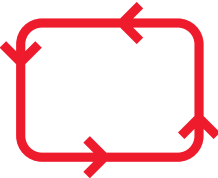
In addition, as awareness of compliance and human rights issues grows worldwide, companies are being asked to verify working conditions and legal compliance not only for themselves but also for their suppliers, as well as to make efforts to take corrective action if required.

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



## 7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

### — Supply Chain ..... 133

Basic Approach

#### — Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

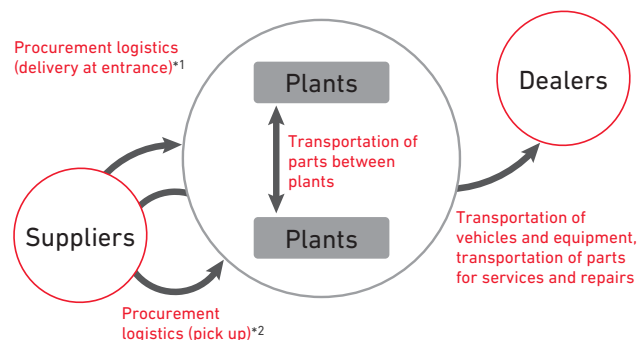
Purchasing Initiatives

Social Contribution Activities .. 146

## Basic Approach to Logistics

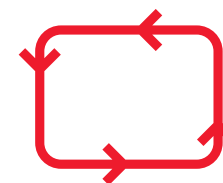
At Honda, many parts that are used in its products are transported from suppliers to its plants. Likewise, the completed models as well as parts for services and repairs are sent directly from the plants to dealers. Due to the extremely large volume of transportation that takes place throughout the manufacturing process at Honda, increasing efficiency, along with reducing environmental burden, compliance and risk management in logistics, are becoming critical issues. For instance, to reduce environmental burden Honda is seeking more efficient container transport.

### 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.



## 7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

### Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

#### Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

Purchasing Initiatives

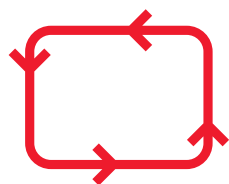
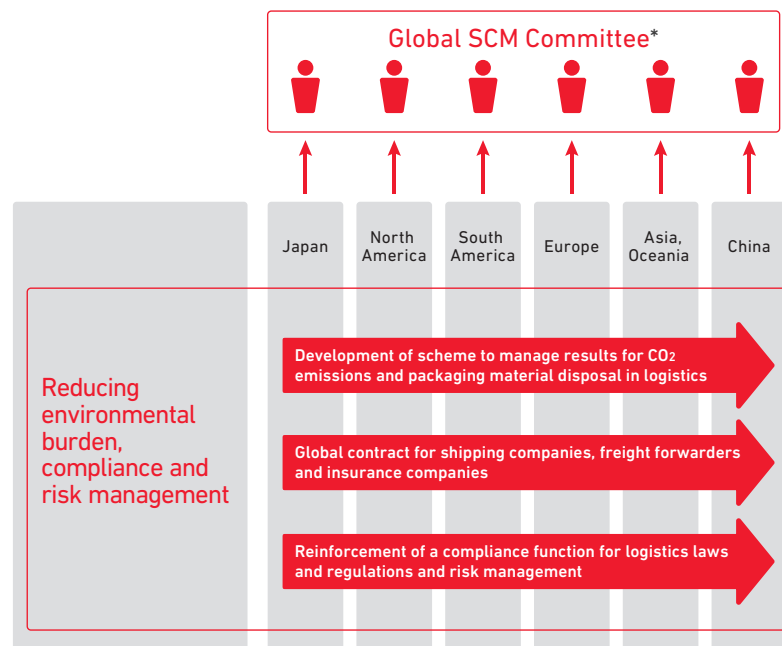
Social Contribution Activities .. 146

## Global Management of Logistics

### Integrated Management Framework Transcending Divisions and Regions

Honda is promoting the reduction of environmental burden derived from logistics as well as compliance and risk management 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 CO<sub>2</sub> reduction, management of transportation companies, response to laws and regulations, insurance policy and risk management, in an integrated fashion.

#### Logistics global management framework



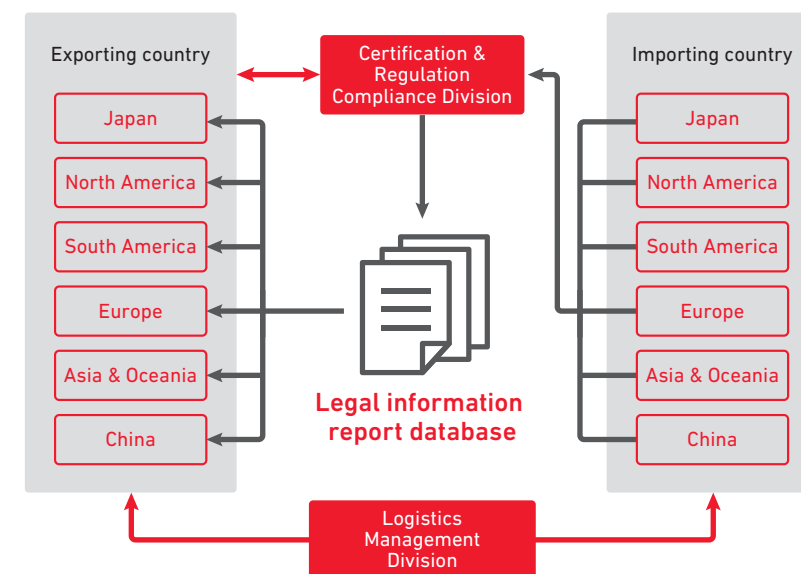
\* A committee to debate Supply Chain Management (SCM) issues at the global headquarters and in respective regions in order to achieve medium-term goals

### 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



## 7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

### Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

#### Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

Purchasing Initiatives

Social Contribution Activities .. 146

## Logistics Initiatives

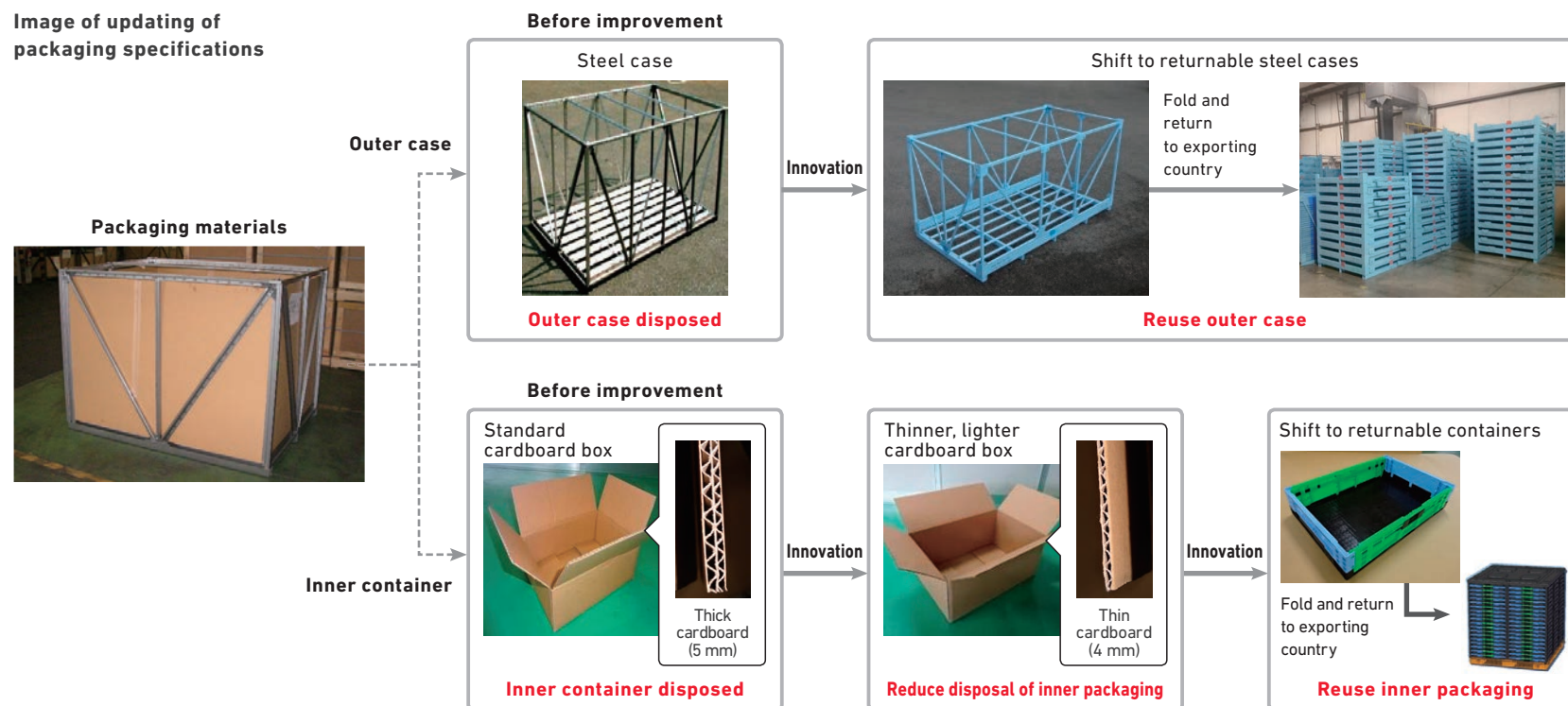
### Technological Advancement of Packaging Materials

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 involves usage of packaging materials, which are classified into outer case and inner container.

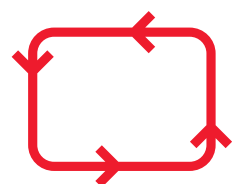
In the past, these packaging materials were disposed of in the importing country. To counter this, Honda has innovated packaging technology to reuse containers and reduce the weight of packaging materials, thereby reducing both waste and CO<sub>2</sub> output.

#### 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



7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

— Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

— Basic Approach to Purchasing

Global Management of Purchasing

Purchasing Initiatives

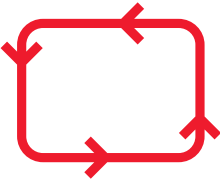
Social Contribution Activities .. 146

Basic Approach to Purchasing

Purchasing Belief, Three Purchasing Principles and Guiding the Code of Conduct for purchasing associates

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 has also defined points that should be followed by each and every associate engaging in purchasing activities as the Guiding the Code of Conduct for purchasing associates. By following these Rules, the Company ensures trust both internally and externally and builds sound relationships with suppliers.

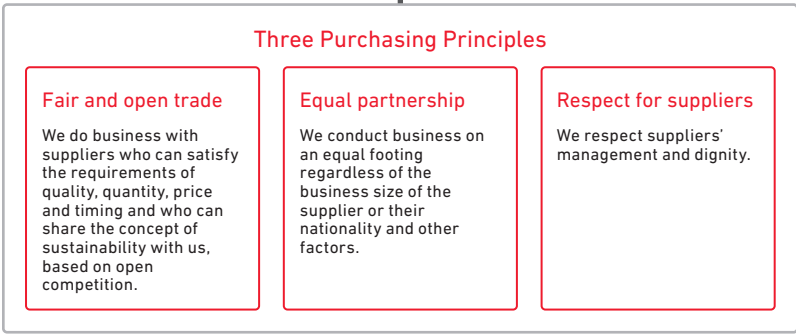


Purchasing Belief and Three Purchasing Principles

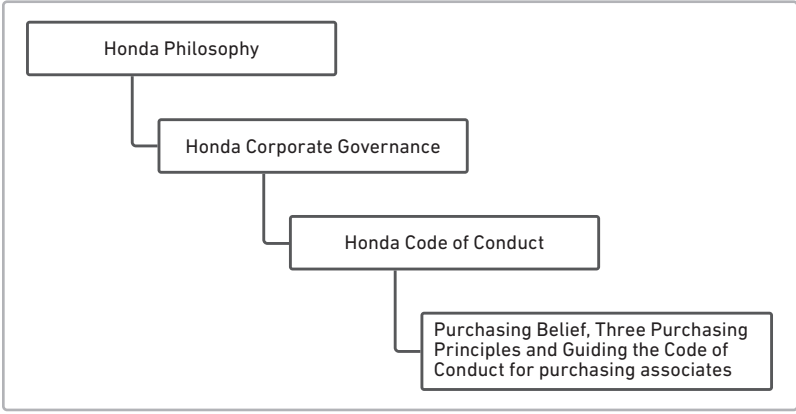
We do fair and equitable business with transparency based on the "Purchasing Belief" and the "Three Purchasing Principles."

Purchasing Belief

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



Positioning of Purchasing Belief, Three Purchasing Principles and Guiding the Code of Conduct for purchasing associates



7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

Purchasing Initiatives

Social Contribution Activities .. 146

Basic Approach to Purchasing

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 on the right.)

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, the Company is working to instill and promote the Guidelines throughout the entire supply chain by performing checks on the status of suppliers' related initiatives and utilizing sustainability-

related check sheets for 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.

Establishing a Hotline to Receive Suggestions and Consultation Requests from Suppliers

Honda has established the Business Ethics Kaizen Proposal Line (⇒ p. 43) to accept suggestions and requests for consultation from all suppliers from a fair and neutral standpoint.

PDF

Honda Supplier Sustainability Guidelines

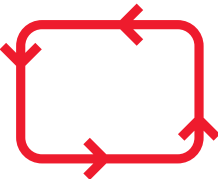
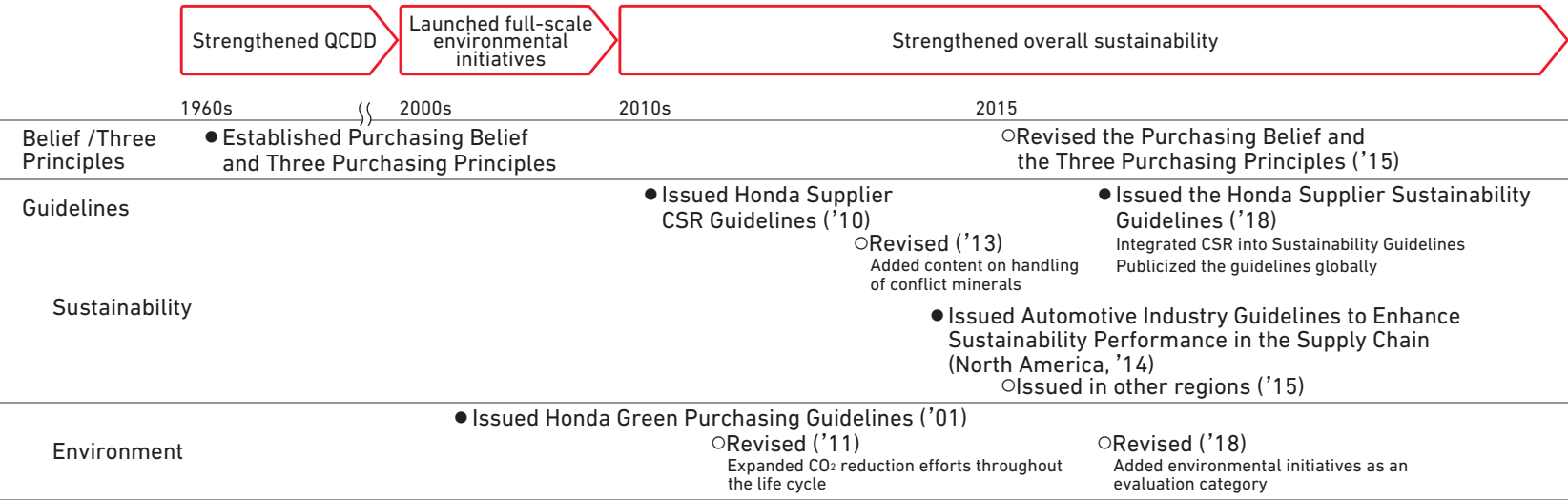
> [https://global.honda/sustainability/cq\\_img/report/pdf/supply-chain/supplier-sustainability-guidelines.pdf](https://global.honda/sustainability/cq_img/report/pdf/supply-chain/supplier-sustainability-guidelines.pdf)

PDF

"Honda Green Purchasing Guidelines"

> [https://global.honda/sustainability/cq\\_img/report/pdf/supply-chain/green-purchasing-guidelines-2018-en.pdf](https://global.honda/sustainability/cq_img/report/pdf/supply-chain/green-purchasing-guidelines-2018-en.pdf)

Changes in purchasing practices



7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

— Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

— Global Management of Purchasing

Purchasing Initiatives

Social Contribution Activities .. 146

Global Management of Purchasing

Promotion Structure

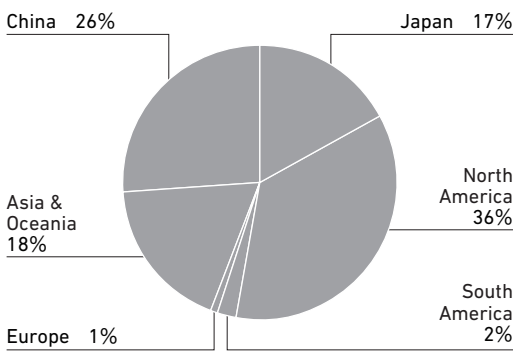
Honda conducts business in six regions worldwide and has respectively established purchasing functions. In line with Honda’s corporate philosophy of “building products close to the customer,” each region is encouraged to source locally. The rate of local procurement in the United States, Honda’s primary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

The Purchasing Planning Division in Japan, which supervises the overall, global purchasing function, provides coordination across regions and businesses and formulates sustainability policies and goals. In 2016, the Company established a department dedicated to reinforcing and accelerating sustainability initiatives.

In addition, to discuss and examine the direction Honda should take globally over the medium to long term, Honda holds periodic meetings with the management team of respective companies operating in each region and facilitates collaboration with them.

The Environmental Purchasing Meeting had been held since 2011 in order to strengthen initiatives aimed at a low-carbon society across the entire global supply chain. This meeting was composed of working level staff from each region. 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 Sustainability Purchasing Meeting.

Regional distribution of purchasing volume (FY2021)







## 7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

## Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

## Purchasing Initiatives

Social Contribution Activities .. 146

## Purchasing Initiatives

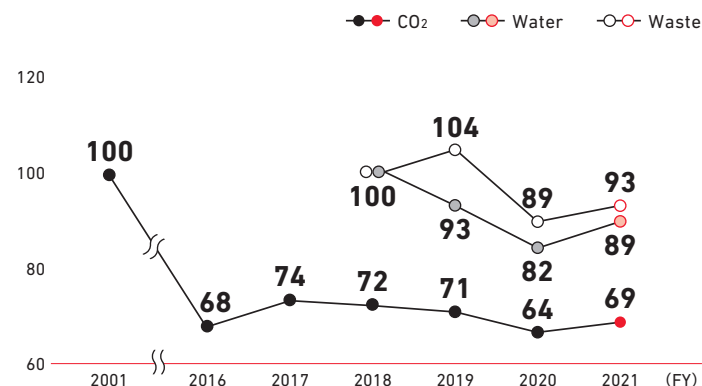
### Reducing Environmental Impact at Suppliers' Sites

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.

When launching new transactions, Honda shares the guidelines and the grand design with all suppliers in each region, and with their consent, jointly 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 millions of yen



- CO<sub>2</sub>: FY2001, Water/Waste: FY2018
- Scope of data: all consolidated tier 1 suppliers in Japan

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
CO <sub>2</sub> (t/millions of yen)	1.01	1.11	1.08	1.07	0.95	<b>1.03</b>
Water (m <sup>3</sup> /millions of yen)	10.08	9.48	9.99	9.29	8.19	<b>8.91</b>
Waste (t/millions of yen)	0.53	0.54	0.59	0.62	0.53	<b>0.55</b>

## Management of CO<sub>2</sub> Data

In order to increase the effectiveness of reductions in environmental impacts in the supply chain, Honda established a system for the integrated management of data on reduction in CO<sub>2</sub> emissions at suppliers in FY2012 and commenced full-scale operation in FY2015. Since FY2018, Honda has been taking part in CDP's supply chain program (an international initiative by institutional investors requesting companies for disclosure of information on climate change policies) to share similar data.

Honda is using these tools 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 2020, approximately 1,700 companies, equating to more than 80% of purchasing value on a global level, are using these tools.

Going forward, the Company will comprehensively analyze data to assist in activities to reduce CO<sub>2</sub> at suppliers, including their efforts to achieve total emissions control targets.

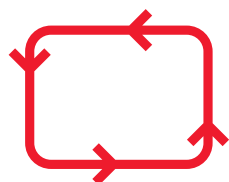
## Initiatives to Reduce Environmental Impact in the Supply Chain

Honda promotes initiatives together with suppliers to reduce environmental impact, that is, reduction of CO<sub>2</sub> emissions and efficient use of resources in each region.

In Japan, Honda sets specific numerical CO<sub>2</sub>, water and waste targets for its Honda Group suppliers and promotes reduction initiatives in partnership with each.

As part of this initiative, Honda has provided tools to these suppliers to analyze their respective progress and past performance and has been checking their activities to reduce environmental impact as well as their stance in this area.

By communicating and sharing information with Honda Group suppliers via the Internet, Honda actively collaborates with them to promote efforts to achieve the set targets.



# supply chain

7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

— Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

— Purchasing Initiatives

Social Contribution Activities .. 146

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 guarantee that the components they supply satisfy the standard. The Company also uses an industry standard management system for specific data on chemicals contained in components, which are evaluated prior to commencing mass production.

## Measures to Counter Procurement Risk

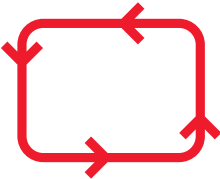
Honda views all phenomena that can impact production, including disasters, fires, financial issues and labor issues within the supply chain, as risks. Accordingly, the Company works to reduce these risks and prevent the spread of any impact if they materialize throughout the supply chain, beginning with 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 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. In conducting business, the Company concludes basic agreements on component procurement that specify areas of attention such as safety, disaster prevention, environmental preservation and protection of resources. The agreements also contain terms regarding compliance with each country's laws and regulations, including competition laws and laws and regulations related to the prevention of bribery.





## 7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

### — Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

### — Purchasing Initiatives

Social Contribution Activities .. 146

## Purchasing Initiatives

### ESG Inspection for Suppliers

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

Honda introduced an environmental, social and governance (ESG) inspection 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. The inspection is now carried out globally. Following the flow diagram indicated on the right, in Japan Honda performs this inspection periodically on suppliers who account for more than 80% of purchasing value. Based on the inspection results, the Company identifies high-risk suppliers who are prone to problems and may have a significant impact on Honda when a problem does occur. In a written survey, Honda carries out the following three activities accordingly.

- Distribute a check sheet based on international standards
- Confirmation of the compliance status of the guidelines
- Promote improvement

The check sheet encompasses all aspects of human rights and labor matters, including eliminating race, ethnicity, nationality, religion, gender and other discrimination, as well as banning child labor, forced labor and human trafficking and guaranteeing minimum wages. The check sheet verifies supplier activities in a broad range of fields as it also covers such evaluation categories as the environment, compliance and information disclosure.

Next, Honda conducts and verifies the following items in an interview survey with high-risk suppliers.

- Check relevant records, actual production processes and related facilities
- Verify the progress through a report on improvement plan and result
- Conduct a follow-up investigation (including an on-site check as necessary)

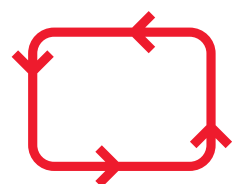
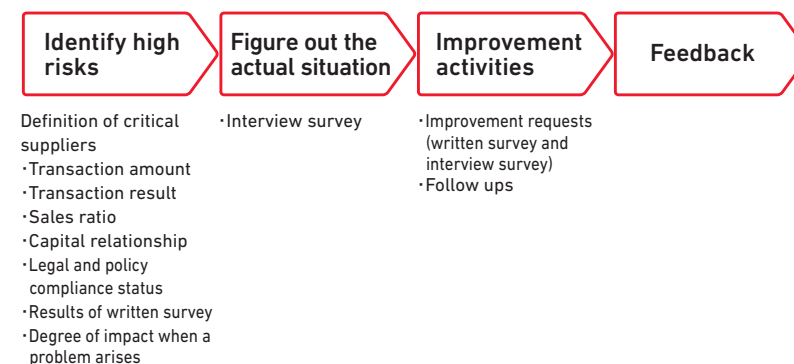
Recent examples of improvement include formulation of an internal rule to prohibit suppliers from keeping ID documents of non-Japanese workers in

their custody.

Going forward, Honda will work with overseas purchasing sites to promote the ESG inspection globally while enhancing education for associates responsible for the investigation to cultivate required skills.

There were no instances of issues bearing significant risk in FY2021.

#### Flow diagram of ESG inspection



# supply chain

7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

— Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

— Purchasing Initiatives

Social Contribution Activities .. 146

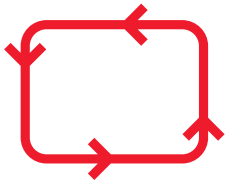
Purchasing Initiatives

## 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.



## 7 Performance Report

Environment ..... 51

Safety ..... 77

Quality ..... 93

Human Resources ..... 109

## — Supply Chain ..... 133

Basic Approach

Basic Approach to Logistics

Global Management of Logistics

Logistics Initiatives

Basic Approach to Purchasing

Global Management of Purchasing

## — Purchasing Initiatives

Social Contribution Activities .. 146

## Purchasing Initiatives

## Joint Efforts 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 and Suppliers

Honda North America Inc., Honda's U.S. subsidiary, participates in working groups established by the Automotive Industry Action Group (AIAG) to strengthen sustainability in the supply chain. They participate in the Responsible Materials working group, the Human Rights and Trade working group, the GHG working group and the Chemical Management working group. AIAG offers supplier training and encourages participation in training sessions on corporate ethics, environmental regulations, the working environment, human rights and other topics for tier 1 and sub-tier suppliers in North America since 2012.

In addition, Honda participates in AIAG's Corporate Responsibility Steering Committee and Drive Sustainability\* to proactively identify issues, needs and trends in and outside the automobile industry.

In North America, e-learning programs using computer-based training (CBT) are also provided for suppliers in order to facilitate their understanding of sustainability. Under the theme of sustainability, these programs deal with the environment, export control, social responsibility, safety and health, diversity, governance, compliance and ethics.

## Dialogue with Suppliers

In June 2020, Honda convened a Sustainability Information Sharing Meeting, where it shared current social trends and provided feedback on the results of inspections at suppliers in accordance with the Honda Supplier Sustainability Guidelines.

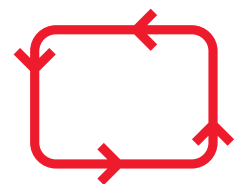
Honda also regularly holds conferences around the world to share with suppliers the direction of its business and the substance of its initiatives. In FY2021, meetings were held in 23 locations around the world. At these regional conferences, Honda presented Supplier Awards to recognize those suppliers who have achieved outstanding results in each aspect of QCDDE.

In Japan, Honda has held annual Suppliers Conferences since 1974. Senior management from about 450 suppliers attended the conference held online in March 2021. At the conference, Honda explained both company-wide policies and policies of the motorcycle, automobile and life creation businesses. The conference is also a venue to present the Supplier Award for Sustainability to suppliers, which extends from the environment to include social and governance aspects.

In North America, 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.



Presentation of Sustainability Department Award to Sumitomo Chemical Co., Ltd. in Japan



\* A partnership for promoting sustainability, formed by 10 automakers around the world