

**Remarks for Masaaki Kato
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Those of us in the industry face a number of difficult challenges that threaten survival. But even if we face a “perfect storm,” Honda’s approach remains the same ... to focus on those things that are within our control. We cannot control the seas, or the weather ... we cannot control the ships of our competitors ... or the course they choose to follow.

Our sole focus is on maintaining a strong “ship” ... able to sail on its own ... using Honda’s corporate philosophy as the guiding star ... to navigate toward our ultimate destination – the customer. The key is to maintain a spirit of continuous innovation. So, that our ship always remains on the cutting edge ... with the highest speed, flexibility and efficiency ... able to react quickly to change.

At Honda, we believe that achieving this upward spiral of innovation is not a matter of facilities and equipment. Rather, it is based on the skills and determination of people. That is why -- 25 years after we first began building products in America -- investing in people continues to be the focus of our efforts.

As many of you know, in one month, Honda will celebrate the 25th anniversary of the first Honda product to roll off an assembly line in America... at the Marysville Motorcycle Plant. This plant – which opened in 1979 – represents the start of the first generation of Honda’s manufacturing operations in North America.

I represent the second generation of these operations... the associates at Honda Manufacturing of Alabama. Honda has advanced well beyond our first efforts at building products in America. But when I say “second generation,” I am really talking about how the spirit of innovation and challenge is passed from one generation of Honda associates to the next.

Before I talk in more detail about this process, I want to make an important acknowledgement. Honda could not – and did not – achieve this milestone alone. I would like to thank our team of suppliers here in North America for supporting Honda over the past 25 years. I know many of them are here today. And on behalf of the more than 30-thousand Honda associates working in North America – thank you!

At Honda, we have long followed a philosophy of building products close to the customer. In this way, we can better serve our local customers. We contribute to the local economy. And we grow together with the local community.

It was our dream that one day we could build products close to our customers in America, the global center of the automobile industry. Pursuing this dream began just as Honda started enjoying success in the auto industry. Starting on a smaller scale ... and a team of associates with little experience in manufacturing ... we began with motorcycle production.

I think this approach repeated the steps used to build the Honda Motor Company more than 50 years ago. Honda started as a small motorcycle company ... with very little money or equipment ... and not so many experienced people compared to bigger companies. But we always had a very large ambition. When I joined Honda years later, I remember thinking “how did Honda grow so rapidly and achieve such success?”

At first, I thought our strength was based only on the genius of our founder, Mr. Soichiro Honda. But that was not true. However, the thinking that we now call Honda philosophy is what continues as the foundation of our business activities throughout the world, including North America.

This strong company culture is based on what we call “respect for the individual.” Through this approach, Honda views everyone as a whole person. We look to associates not just for their physical skill, but for the ability and willingness to challenge with their ideas.

This is important both in getting the most out of everyone’s talents and in achieving outstanding teamwork. But, at Honda, we don’t just have good principles. We make a real effort to live this philosophy every day ... by creating this mindset among our associates. In training, it is easy to say “be challenging” or “be aggressive.” The only way to really learn to challenge and innovate is through daily decisions and activities. In short, what we say should be equal to what we do.

We have succeeded in North America because our associates have embraced Honda’s people-oriented philosophy. The ability and willingness of the first generation of Honda associates in Ohio and Canada to challenge ... led to our growth.

Since building that first motorcycle, Honda’s operations in North America have produced more than 3 million motorcycles and ATVs ... and more than 13 million cars and light trucks. This is more than 25 percent of Honda’s worldwide auto production total.

Looking at this map, you can see Honda’s 25 years of manufacturing leadership in North America now includes 12 plants. With employment of more than 30-thousand associates. And capital investment of more than \$8 billion dollars – not only in manufacturing operations – but also in the R&D centers that design many of the products we make here.

The key to Honda's 25 years of success is that innovation didn't stop with the first dream to build products here. We encourage our associates to constantly renew the dream. This means continuous revolution.... a spiraling improvement that has occurred throughout North America and worldwide.

Within the past five years, we introduced Honda's advanced New Manufacturing System globally, including our auto plants in North America. Through advanced weld equipment and a global standard layout for main assembly functions, we have achieved a new level of speed, flexibility and efficiency to meet the needs of our customers.

In May of this year, we also began building a new paint facility at the Marysville Auto Plant that opened in 1982. This major expansion will introduce waterborne paint systems to the Marysville plant. Such systems are already found at newer Honda facilities.

These changes will help achieve a major reduction in emissions ... and will keep our very first auto plant in Ohio on the cutting edge of the auto industry. This type of innovation has not been limited to one or two major investments – it has been an ongoing revolution throughout our history in North America. As a result, 25 years after beginning production in America, I would say we don't have any "old" plants.

Now, Honda is looking forward to its next 25 years in North America. What is important is not the facilities we have constructed, or the money we have invested. But, rather, the experience from the first 25 years to be passed on and further developed by a new generation of Honda associates... such as those in Lincoln, Alabama.

It takes a long time to train and educate people ... to steep them in Honda's unique corporate culture ... and then create an environment where they are able to – and expected to – contribute their ideas.

The first generation of production associates in America began this experience with help from Honda engineers from Japan. The second generation in Alabama is learning through the leadership of those first generation associates in Ohio and Canada.

New associates in Alabama went to Ohio and Canada to learn to build vehicles and engines in a mass production environment. Experienced managers from our plants in Ohio and Canada moved to Alabama to help construct the plant... and begin mass production of the Honda Odyssey on Line 1. And they continued to play a leadership role in the start-up of Line 2. In this way, we assured that each generation of Honda in North America is based on the same foundation.

In Alabama, I always keep in my mind that we are the newest of Honda's manufacturing facilities. We have the most advanced equipment and systems. But naturally our associates have less experience. So, if we can quickly improve our associates, we should become Honda's number one plant in North America. And that is how it should be... children should surpass their parents.

That is why we must create the mindset among associates to challenge and innovate. It is impossible to predict the market situation of the future. We know that difficult situations ... like a perfect storm ... may come. But if our associates have a challenging mindset – and the ability to innovate – they will overcome any situation. The key is to recognize that we cannot create a challenging spirit then. We must create it now.

Importantly, this challenging spirit means not stepping back from a challenging goal. I recall when I was at Honda R&D in Japan in the mid-1990s. A team of engineers came to me with a proposal for developing the Civic GX ... a vehicle powered by compressed natural gas. The team's target was to achieve ULEV emissions levels. But I responded by strongly suggesting that their target should be virtually zero tailpipe emissions.

At first, they used all of their creativity to present me with the many reasons why they couldn't achieve my target. But I wouldn't change my direction. Finally, they gave up resisting against me. And after they found they couldn't refuse, they focused their creativity on how to meet the challenge. And they succeeded. The Civic GX is not only a virtually zero emissions vehicle. In some urban areas, it actually removes pollution from the air.

The EPA called it the cleanest internal combustion engine in history. But just as importantly, our engineers learned a valuable lesson about innovation and challenging themselves – that they are applying to other projects.

Now, my responsibility is building an innovative environment in Alabama. But I am not focused on plants and systems – rather, I am focused on the mindset and culture of Honda associates.

We have Japanese associates who come and go every five years or so. And we have a number of managers from Ohio and Canada. But it is our associates in Alabama who must be the key players. And it is up to experienced associates like me to transfer our knowledge, experience and challenging spirit to them. I view this both as my duty ... and as my gift.

The challenges we face in Alabama provide the opportunity to deliver this gift. Honda started building Odyssey minivans and V-6 engines in Alabama in November 2001. The plant faced big challenges from the very beginning. Customer demand for Honda's light truck products was growing fast. And our

team had to begin mass production just 20 months after breaking ground – six months ahead of schedule. That was the fastest construction in Honda history.

Even after quickly expanding capacity of this first line, demand for the Honda Odyssey, Acura MDX and Pilot that are made in Canada continued to grow. So, we decided to construct a second line in Alabama.

The original plan was to begin mass production on Line 2 last month. But, to meet the needs of our customers ... again, we decided to accelerate construction. We targeted Line 2 start up for April ... just 17 months after breaking ground! Or three months faster than Line 1. Some of our team in Alabama thought this was impossible. And this sounded familiar to me. It is human nature to resist a big challenge.

But our team had good reason for concern. Honda Manufacturing of Alabama is less than three years old. And we were not just building a second line. We were hiring all new associates – to effectively double employment and capacity – and become Honda's largest source for light trucks in the world.

We were building a product that was new to our plant – the Honda Pilot. And on Line 1 we were preparing for our first full model change this fall – when we will become the exclusive global source for the Odyssey. Every one of these issues was a major challenge.

Yet, on April 27, we started mass production on Line 2. The single most important element in meeting all of these challenges was Honda's existing foundation in North America ... in other words, the leadership of our associates from Ohio and Canada.

Our locally-hired Alabama associates have been outstanding – I am proud that the Odyssey minivans built in Alabama lead the minivan category in initial quality. But credit for these achievements also goes to the excellent training and direction we received from our North American leadership.

Without the experience from Honda's first 25 years of manufacturing in North America, I believe we would have failed at the tremendous challenges we faced in Alabama. Because I credit this leadership with bringing a true spirit of innovation to Alabama.

For instance, our Line 1 is only three years old. And this first line made a number of advancements based on the experience of our Mother Plant in Canada that first launched production of the Odyssey, MDX and Pilot. But technologies advance every year. So, when we were building Line 2, if we made it just a mirror image of Line 1, it would not have been on the cutting edge of the industry.

Instead, our team of associates applied a number of innovations to further advance flexibility, efficiency and safety. On Line 1, sub-assembly of the instrument panel occurs away from the point on the main line where it is installed in the vehicle.

For Line 2, our associates moved sub-assembly directly across from the point where it is installed. And this is helping to reduce inventory. It also improves communication -- providing rapid feedback on quality and other issues from the main line back to sub-assembly.

It is standard practice in Honda auto plants to remove the doors during production -- making it easier to perform assembly functions inside the vehicle. On Line 1, we use multiple carriers to convey doors through sub-assembly. Our Line 2 team changed the system, to allow doors to remain on one carrier until they are reinstalled on the frame. This improves efficiency. They also added height adjustments to the carrier to improve ergonomics for different processes.

In some cases, very small changes pay big dividends. In stamping, Line 1 requires that an air-line be plugged in to the vacuum cups on the handling arms with each die change. This takes four and a half minutes. On Line 2, they redesigned the equipment so that the air line runs into a base plate -- and doesn't require insertion by hand. This die change now takes just 4 minutes. A die change occurs about every two hours. So, on average, we are now getting five to six more parts per die change -- that is 11-thousand pieces per year!

When you engage associates in fostering this type of innovation all over the plant -- you create a faster, more flexible and efficient operation ... one that is better able to react to market demand ... and better able to deliver high quality, reasonably priced products to the customer.

Now, we are involved in the first full model change in the history of the plant. This month, our associates on Line 1 will begin mass production of the all-new 2005 Odyssey minivan. I can't provide you with any details about the new Odyssey. But I will say that this challenge has already had a great impact on Honda associates in Alabama.

Our experience over the 25 years of producing products in North America has shown that full model changes provide the best opportunity for the growth and maturity of associates. And during the early stages of development, a number of our engine associates went to Japan to build engines in a prototype lab. And some 120 Alabama associates went to the New Model Center in Japan to work with R&D on the processes now used to assemble the new Odyssey.

By making hundreds of change requests, they helped innovate the design of the product ... and the manufacturing processes used to build it. As a result, I feel very good about our ability to launch an all-new product with the highest quality.

Experience matters. It teaches you how to work together and support each other ... and it teaches that the key to success in this ever-changing business environment is to continuously challenge and innovate.

Honda's ongoing challenge to manufacture quality products in North America is inspiring Alabama associates to make this type of contribution. As a result, Honda Manufacturing of Alabama is no longer just a result of our experience in North America. Our associates are rapidly becoming a part of that experience.

Twenty five years after starting production in North America, the scale of our operations here has grown. But the most precious fruit is not the size of these operations, but the knowledge, experience and corporate culture that will continue to be passed onto new generations of Honda associates.

Most importantly, by pursuing our dream to produce products close to our customers in America ... we are now better able to deliver innovative products and other new dreams to those customers.

Thank you for your attention.

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