

HONDA MOTOR CO. LTD.

HONDA

Company Background

Honda Motor Co. Ltd. is the world's largest motorcycle and engine manufacturer and one of the leading automakers with a global network of 437 subsidiaries and affiliates. It has 127 manufacturing facilities in 28 countries outside Japan, producing motorcycles, automobiles and power products with net sales of US\$ 87.7 billion in the year 2005-06.

Honda develops, manufactures, and markets a wide variety of products ranging from small general-purpose engines and scooters to specialty sports cars.

Honda Motor in India

Honda operates in India through the following subsidiaries and joint ventures:

Honda Motorcycle & Scooter India (Private) Ltd.

Honda Motorcycle & Scooter India Pvt. Ltd. (HSMI) was established in 1999 and is a fully owned subsidiary of Honda Motor Company Ltd., Japan. The company manufactures and markets motorcycles and scooters in India. Its manufacturing plant is near Gurgaon and has an annual capacity of 750,000 units.



Honda R&D (India) Private Limited

Honda R&D (India) Private Limited is a fully owned subsidiary of Honda R&D Co. Ltd. (a subsidiary of Honda Motors, Japan). The company deals with research and development of motorcycle and power products.

Honda Siel Cars India Ltd.

Honda Siel Cars India Ltd., (HSCI) was incorporated in 1995 as a joint venture between Honda Motor Co. Ltd., Japan and Siel Limited. It manufactures passenger cars under Honda brand for Indian market. The company's product range includes Honda City, Honda CRV and Honda Accord. Company's manufacturing plant is located at Greater Noida and has an annual capacity of about 50,000 cars.

Honda Trading Corporation India Private Ltd.

Honda Trading Corporation India is a fully owned subsidiary of Honda Motor Co. The company deals with import of a diverse range of goods and commodities. It also provides

support services to Honda companies in the areas of market study, marketing activities and other related areas.

TATA Yutaka Autocomp Private Limited

Tata Yutaka Autocomp Private Limited manufactures varied parts for automobiles such as exhaust systems and brake discs. It is a 50:50 joint venture between Tata AutoComp Systems Limited and Yutaka Giken (a subsidiary of Honda Motor Co.). Manufacturing plant of the company is situated at Pune. Key customers of the company include Hero Honda, Hero Siel Cars, Honda Motorcycles & Scooters and Tata Motors.

Honda Siel Power Products Ltd.

Honda Siel Power Products Ltd is a joint venture between Honda Motor Co. and Siel Ltd., India, with Honda Motor Co. holding a 67 per cent equity stake. It was incorporated in 1985 and currently has over 650 employees. The company manufactures portable gensets, portable engines, power sprayers, lawnmowers and portable water pumping set.

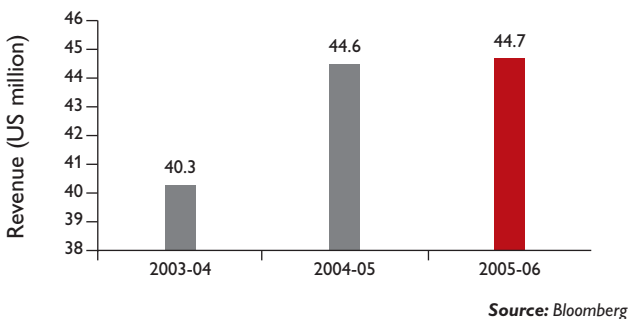




Honda SIEL Power Products Ltd. has an annual capacity of 175,000 units through its manufacturing facilities at Uttaranchal, Pondicherry and Uttar Pradesh.

The company had a net sales of US\$ 44.7 million in the year 2005-06 registering a CARG of 5 per cent over 2004-2006.

Company Revenue over three-year period (US\$ Million)



Hero Honda Motors Limited

Hero Honda Motors Limited, a manufacturer and marketer of motorcycles and spare parts in India. Since its establishment in 1984 as a joint venture between the Hero Group of India and Japan's Honda Motors, the company has expanded its presence all over India. Each partner has a 26-per cent stake in the publicly listed company. Honda had signed an agreement with Hero for 10 years in 1984, which has been renewed again in 2004 for the next 10 years.

The company has about 4,000 employees. Hero Honda manufactured over 2.90 million two wheelers in 2005.

The company has two plants, one at Dharuhera and the other at Gurgaon. The unit sale of the company has increased rapidly over the years. The number

Hero Honda Motors Limited: History of Expansion

Year	Activity
1984-1990	<ul style="list-style-type: none"> • Joint Collaboration Agreement with Honda Motor Co. Ltd. Japan, signed & Company incorporated • Engine plant started • Mobile Service Workshop launched
1991-1995	<ul style="list-style-type: none"> • 800 motorcycles per day production started
1995-2006	<ul style="list-style-type: none"> • Environment Management System of Dharuhera plant certified with ISO 14001 by DNV Holland • Crossed the 3 million mark in terms of production

Source: Company Website

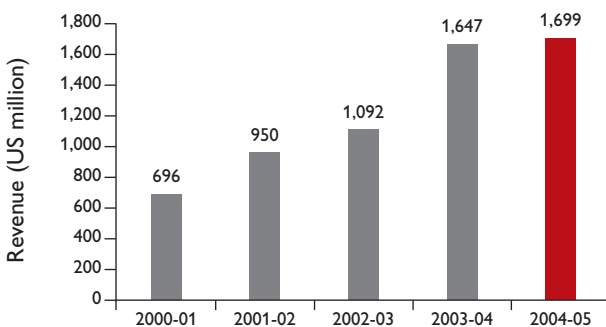


of units being sold increased from 43,000 units in 1985-86 to 2.6 million units in 2004-05. In January 2006, the company also launched a gearless scooter with the intention of expanding its business in the scooter segment.

The company also exports motorcycles. Exports are largely to Sri Lanka, Bangladesh and Latin America. Hero Honda exported 92,600 bikes in the fiscal year 2005-06.

Hero Honda recorded sales of US\$ 1,699 million in 2004-05.

Company Revenue over five-year period (US\$ Million)



Source: Company Website

The revenue of the company increased from US\$ 696 million in 2000-01 to US\$ 1,699 in 2004-05. This represents a CAGR of 24.99 per cent. Further, profit after tax of the company increased from US\$ 53.84 million in 2000-01 to US\$ 181.92 million in 2004-05.

Factors for Success

Upgrading technology & support from Honda Motors Co. Ltd

Honda Motor Co. Ltd., Japan, has renewed its technical collaboration agreement with Hero Honda Motors Ltd. Honda has been supplying the company with the latest technology for the past 20 years. It has helped them to keep pace with the best global practices. Further, Honda has strengthened its R&D facilities in India and will continue to provide Hero Honda with technological support.

Dealer Network

A strong dealer network and reliable after-sales service is a key factor that contributes to the company's success in India. This gives the company massive reach and the ability to better serve its customers. Further, the company has an efficient supply chain of dealers, ancillaries and vendors. This has resulted in cost savings that improve its bottom line.

Honda understands the importance of dealers and considers them as important part of the value chain. This is reflected from the fact that HMSI and HSCI were ranked highest in dealer satisfaction with their principals in the Two and Four-Wheeler industry segments, respectively.

Product Range and New Models

Hero Honda Motors keeps revamping its models according to the needs of the customers and changing trends. The product launch strategy till 2008 for Hero Honda has already been planned, and some of the models are already under development. Honda management has also confirmed to continue with full technical support and assistance for new products.

Future Plans

Expansion Plans

Hero Honda plans to increase capacity of its existing production line as well as build a new plant with annual production capacity of 450,000 units. The company is planning to increase annual motorcycle production capacity to 5.2 million units by 2007.

HSCI is planning to raise current annual capacity to 100,000 cars by 2007.

Focusing on R&D

The growing demand for electricity is leading to a rapid growth in gensets in India. Moreover, as per Government of India decision, diesel gensets manufacturers should conform to air and noise pollution norms. Honda Siel is expected to benefit from this as the unauthorised local manufacturers don't have the necessary capability to comply with these norms. The company is working on developing new products and technology for engines. It is conducting research on developing a technology that enables the use of LPG in engines used in gensets, water pumps and sprayers.

Increase share in scooter segment

Hero Honda has announced plans to introduce a host of new models after the launch of its gearless scooter – Pleasure. The company aims to sell 100,000 scooters by December 2006.



Increasing Exports

Hero Honda and Honda Motor Corporation are looking at opportunities to sign an export-oriented agreement, which would enable Hero Honda to export bikes to the European markets.