

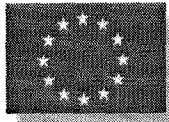
# Honda Briefing

## Honda in Europe

### April 2017

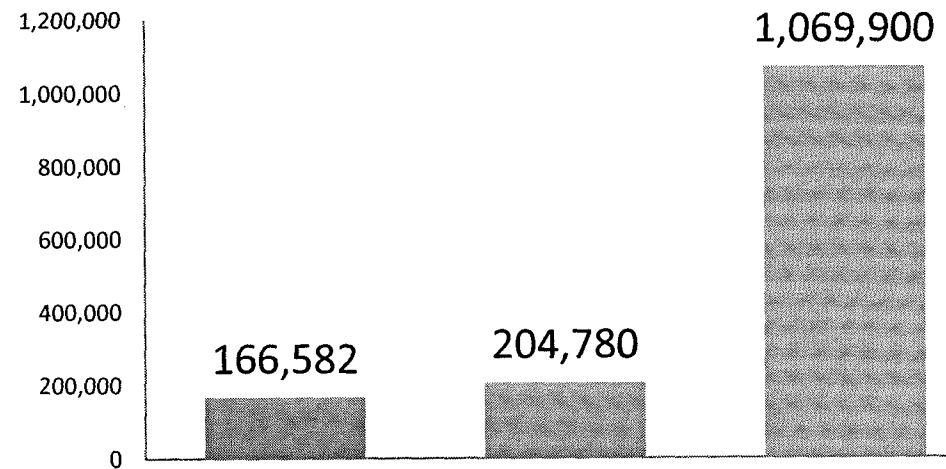


# Honda in Europe

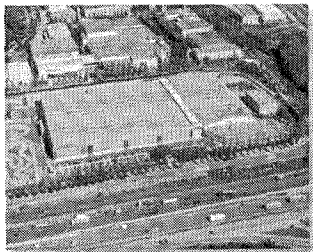


European Head Office, Bracknell, United Kingdom

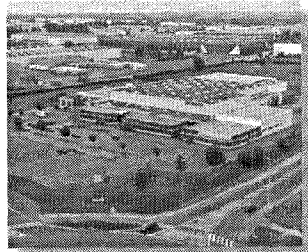
## European Sales 2016



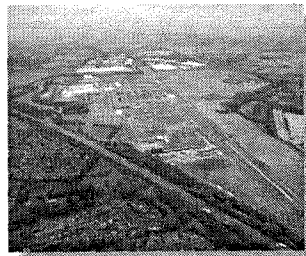
6 wholly owned European manufacturing facilities, with around 8,000 associates



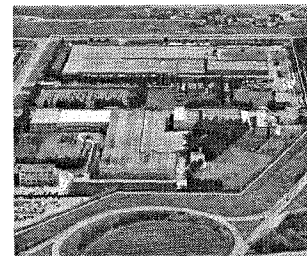
Montesa, Spain  
(Motorcycle)



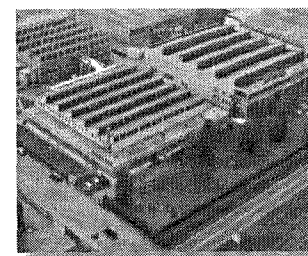
Orleans, France  
(Power Equipment)



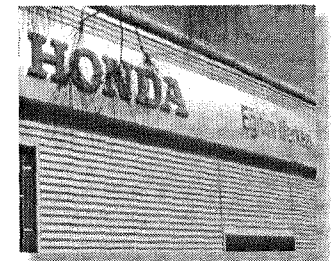
Swindon, UK  
(Car)



Atessa, Italy  
(Motorcycle)



Bologna, Italy  
(Gears)



Gebze, Turkey  
(Car)

**HONDA**  
The Power of Dreams

# Honda's European Operations



- ▲ AUTOMOBILE
- ▲ MOTORCYCLE
- ▲ POWER EQUIPMENT
- ▲ R&D

**BRACKNELL, UK**  
EUROPEAN and UK HQ

**FRANKFURT, GERMANY**  
R&D FACILITY

**MONTESA, SPAIN**  
MOTORCYCLE AND CAR  
COMPONENT PARTS

**GEBZE, TURKEY**  
CAR PRODUCTION  
Start of Production 1997  
2015 Production 33,000  
Results (units/year)  
Major Production Models  
Civic (4D)

**MILTON KEYNES, UK**  
F1 FACILITY

**SWINDON, UK**  
CAR & ENGINE PRODUCTION  
Start of Production 1989  
2016 Production 140,000  
Results (units/year)  
Major Production Models  
CR-V & Civic  
R&D FACILITY

**ORLEANS, FRANCE**  
POWER EQUIPMENT PRODUCTION  
Start of Production 1986  
2016 Production 209,000  
Results (units/year)  
Major Production Models  
Robot mowers (Miimo), Lawnmowers,  
Brushcutters & Generators

**ATESSA, ITALY**  
MOTORCYCLE PRODUCTION  
Start of Production 1976  
2016 83,121  
Results (units/year)  
Major Production Models  
SH125, Forza 125, PCX 125,  
CB1000R

# HUM Products



*Tourer*  
**CIVIC**

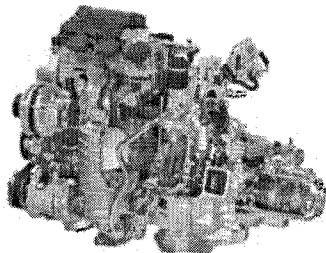


**CR-V**

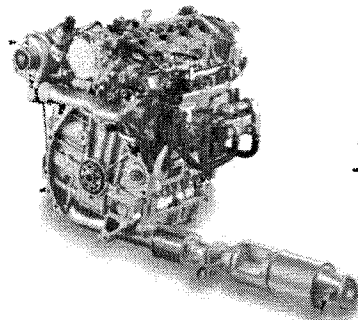


*New 5 door*  
**CIVIC**

1.4 L  
1.8 L  
2.0 L

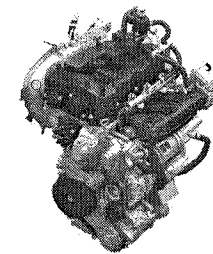


**i-VTEC**  
Petrol



**i-DTEC**  
Diesel

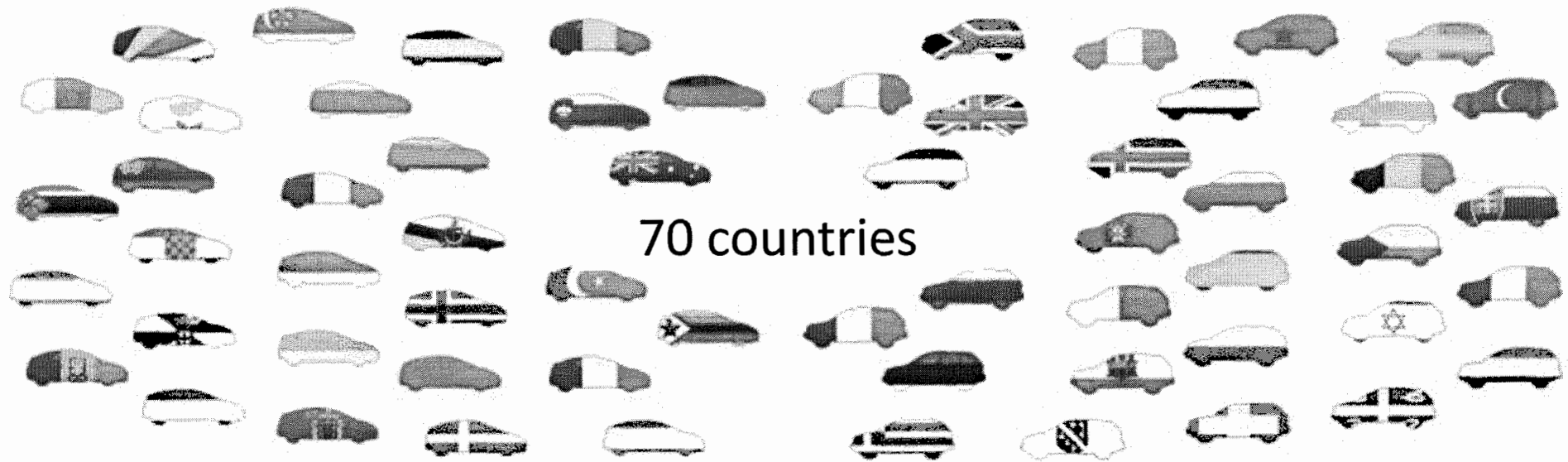
1.6 L Mid  
1.6 L High



1.0 L VTEC TURBO  
and  
1.5 L Petrol Engine



# Customers



## Product Destination

UK Market 15%, Europe 35%, Rest of World 50%

# Short and Medium Term Plans

- Following a £200m investment and the creation of 600 new jobs, Swindon is now the global production hub for the 10th generation Civic from July 2017.
- The Civic five door is produced for the European market as well as being exported to key global markets, with 40% of production going to the USA.
- This investment and launch shows a very clear and sustainable future for HUM and Honda's car manufacturing in Europe.

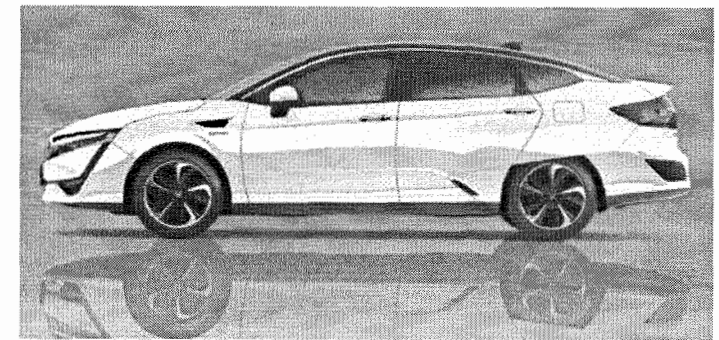
*As we reveal this new Civic, we look forward with confidence as we expand the role of our Swindon manufacturing plant. Honda has made significant investments in this facility and this next step is an important endorsement of the skills and expertise of our workforce.*

– KATSUSHI INOUE, HONDA



# Longer Term vision

- By 2030, we anticipate two-thirds of Honda sales will be low or zero emission vehicles.
- In Europe, we face increasingly strict emissions legislation and we will accelerate the deployment in Europe of new and next generation electric technologies.
- Our European manufacturing and R&D operations should have a significant role to play in driving these innovations forward.



# Honda Brexit Views:

- Honda is a Japanese company, with global operations and interests.
- Management in Japan are concerned about the impact the UK's departure from the EU might have on:
  - *Restrictions on access to talent*
  - *Disruption to our supply chain*
  - *Regulatory Divergence*
  - *Import and Export Tariffs*
- In the medium term, Honda will be investigating opportunities for the next model(s) to be produced at our European factories. This decision will be made on a number of factors, including cost, efficiency and quality.
- We hope to be confident that the EU will have a business environment which supports and encourages free trade, both with the UK and globally.



# Access to Talent

## Issue:

Honda and our suppliers require access to a mix of professional, skilled and unskilled labour, as well as the ability to transfer employees across the business, to support our European Headquarters, R&D facility and manufacturing operations.

## Impact:

art.4.2 and 4.3

The operational requirements of running a European HQ require a multinational, flexible workforce.

art. 4.2 and 4.3

## Mitigation:

- Continued access to talent, wherever it may be found.
- Ensure the right to remain of EU27 nationals currently in the UK.
- Maintain the ability to move associates flexibly throughout Europe.

# Access to UK market

## Issue:

Honda's European supply chain is highly integrated, with barrier free access to the UK market a key factor in our European factories' competitiveness.

## Impact:

Factory	Total Production (units)	Volume exported to UK (%)	Volume exported to UK (Units)
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]

Redactions  
under art.  
4.2 and 4.3

## Mitigation:

- A tariff and barrier free trading relationship between the EU and UK
- An EU/UK customs union



# Integrated EU supply chain

## Issue:

Honda's Swindon factory imports up to 40% of parts used in production from EU based suppliers. Outside of the EU, these parts could be exposed to tariffs and customs barriers.

## Impact:

- art. 4.2 and 4.3
- art. 4.2 and 4.3

## Mitigation:

- A tariff and barrier free trading relationship between the EU and UK
- An EU/UK customs union

# Customs

## Issue:

Leaving the Customs Union may create administrative barriers and disrupt cross border logistics flows, resulting in disruption to our highly efficient “Just in time” model as well as hampering the export of goods from our EU factories.

## Impact:

Up to 40% of components used at Swindon are imported from the EU27, resulting in:

- Two million daily component movements
- 350 lorries a day deliver EU sourced parts
- Components for 1 hours' worth of production are held line side
- Local warehousing holds a half days' worth of UK and EU sourced components

art. 4.2 and 4.3

art. 4.2 and 4.3

## Mitigation:

- An EU/UK customs union
- Increased investment to reduce bottlenecks at ports and investment in customs capacity in both UK and EU



# Tariffs: Impact on export of cars to EU

## Issue:

Outside of the EU and Customs Union, vehicles manufactured at Swindon and exported to the EU would face a 10% tariff under WTO rules.

## Impact:

art. 4.2 and 4.3

art. 4.2 and 4.3

## Mitigation:

- Tariff free trade between the UK and EU27.

# Tariffs: Impact on EU to UK exports

## Issue:

Outside of the EU and Customs Union, WTO tariffs would apply to the export of completed products, spare parts and accessories from the EU to the UK

## Impact:

Product	Value of export to UK (€)	WTO Tariff rate	Tariff impact (€)

Redactions  
under art.  
4.2 and 4.3

## Mitigation:

- Tariff free trade between the UK and the EU27



# Regulatory Divergence

## Issue:

Honda benefits from the simplicity of complying with a single regulatory and approvals regime across Europe, for the manufacture and sale of cars, as well as motorcycles and power products.

## Impact:

The European Commission estimates the cost of US/EU regulatory divergence in the automotive sector is equivalent to a 26% tariff. Assuming a similar ratio between the

art. 4.2 and 4.3

Removing the UK fleet from the European pool would make it difficult to comply with the fleet wide CAFE cap on Co2 emissions. A rebalanced sales and marketing strategy to increase the number low emissions vehicles in the EU would imply extra costs.

## Mitigation:

- Equivalence between UK/EU automotive regulation
- Mutual recognition of type approvals
- EU and UK fleets to be counted together for CAFE compliance.

# Rules of Origin

## Issue

With certain Free Trade Agreements in place between the EU and third countries, Honda can benefit from lower/zero duty rates on imports and exports when “Rules of Origin” are met.

## Impact

It is only possible to source 40% of the parts needed to build a modern car from the UK, making it difficult to meet the 60% threshold of most Free Trade Agreements.

The need to comply with Rules of Origin processes will result in significant new administrative costs and complexity.

## Mitigation

- Membership of a customs union with the EU
- Both EU and UK content should be considered local in future Free Trade Agreements



# Future of Honda in Europe

- Brexit poses significant challenges to Honda's European operations, but we will work to make a success of the new arrangements.
- Following the UK's departure from the EU, we would hope for:
  - A barrier free trading relationship between the EU and UK
  - A clear plan for regulation, ensuring equivalence or mutual recognition of automotive regulation
  - Continued access to current and future EU Free Trade Agreements
  - A migration system that allows us to access the skills and labour we need for growth
  - A smooth exit process, avoiding disruptive “cliff edges”