Mitsubishi Motors announces FY 2004 first-half financial results, forecast for fiscal year and revitalization progress

Tokyo, November 8, 2004 — Mitsubishi Motors Corporation (MMC) today announced its first-half financial results for fiscal year 2004, ending March 31, 2005, and outlined its forecast for the full year and the status of its Business Revitalization Plan.

[Presentation slides]
*** Presentation slides will be uploaded at 2:30 p.m.**

1. **Fiscal year 2004 first-half results**

   Consolidated net sales for the first half totaled 1,070.8 billion yen, down 136 billion yen from the same period of the last fiscal year (1,206.8 billion yen). Region by region, the launch of the new Colt combined with overall brisk sales in the United Kingdom, Russia and the Ukraine boosted sales in Europe by 29.2 billion yen, for a total of 348 billion in sales. In Japan, the past recall problem triggered sales to decline by 109.7 billion yen with sales for the period totaling 182.8 billion yen. In North America, a decision to reduce fleet sales, the decrease in retail sales and other factors combined for sales of 237.3 billion, a decrease of 43.9 billion yen. For Asia and the rest of the world, a large portion of sales comprised of lower revenue-yielding parts and components for overseas production resulted in a decline of 11.6 billion yen on 302.7 billion yen in sales.

   In terms of unit volume, in Japan some 96,000 units were sold, or 75,000 fewer units than last year. In North America, 92,000 units were delivered, a drop of 58,000 from the previous year. European figures have grown by 8,000 units, reaching a total of 112,000 vehicles. In Asia and the rest of the world, weak sales in Australia were offset by strong figures in Indonesia, Latin America, the Middle East and Africa, for a total of 346,000 units, a slight decrease of 1,000 units.

   Operating revenue improved by 12.9 billion yen year-on-year for an operating loss of 63.5 billion yen. Trends affecting profit included the decrease in sales volume in both Japan and North America and the increased costs incurred as a result of the warranty claims caused by the past recall problems in Japan. These were countered by the reduction of sales promotion expenses, including domestic advertising and sales incentives in the US, the non-recurrence of a one-time charge against the financial services business in the US, and a reduction in material costs. Ordinary revenue was affected mainly by non-operating expenses deriving from losses at equity-method affiliates, and fees from the issuing of new shares in June and July. As a result, ordinary loss increased by 11.9 billion yen for a total of 97.7 billion yen.

   As a result of revitalization initiatives, extraordinary expenses during the period led to a net loss of 146.2 billion yen, or 66 billion yen more than the same period last year. Extraordinary losses recorded by MMC included measures to restore trust in the market which included free vehicle inspection services in Japan, restructuring costs related to our facilities in Australia, costs incurred by the integration of production facilities in the Nagoya area, and write-off for the cancellation of the development of a new car.

   With regard to MMC's financial standing at the end of September this year, shareholders' equity, which was bolstered by a capital increase, stood at 373.7 billion yen with an equity ratio of 19.5 percent compared to 30 billion yen and 1 percent respectively at the end of fiscal year 2003. Total outstanding interest-bearing debts were reduced during the first half to 717.9 billion yen (automotive debt: 538.1 billion yen, financial services debt: 179.8 billion yen) compared to the 1,062.6 billion yen outstanding at the end of March this year (automotive: 869.3 billion yen, financial services: 193.3 billion yen), for an overall improvement of 344.7 billion yen.

2. **Forecast for fiscal 2004**

   The full-year outlook, based on the current sales atmosphere, is that while North America and Japan will likely fall below last year's levels, Europe, Asia and the rest of the world are projected to surpass their previous year respective figures, such that global totals are predicted to reach 1.4 million units, or 127,000 units less than the previous fiscal year. This number is 53,000 units less than what was forecast in the Business Revitalization Plan announced on May 21.

The outlook for overall performance for the year is estimated to be 2.1 trillion yen, or 419.4 billion yen off of last year (150 billion short of earlier company projections). An operating loss of 120 billion yen is forecast, which is in line with the earlier forecast and is 23.1 billion yen over last year's losses. Ordinary losses are forecast to reach 180 billion yen, exceeding earlier projections by 30 billion yen and last year's losses by 69.7 billion yen. Net losses are anticipated to be 240 billion yen, which is 24.6 billion over the same term last year, and are 10 billion yen over the initial forecast.

3. **Business Revitalization Progress**

Second-half sales initiatives

- **Japan**
  First half sales dropped significantly owing to the chain of events surrounding the recall problems. The launch of the new compact wagon the Colt Plus was also rescheduled for the end of October rather during the first half of the fiscal year, however, the July to September period saw sales volumes of 51% compared to last year, versus the 50% target announced in the revisions to the Business Revitalization Plan on June 16. Furthermore, sales for October were at 61% of last year's levels, indicating a steady trend towards sales recovery. During the second half, free car inspections and other activities to regain customer trust will continue, which combined with the launch of the Colt Plus, the resumption of advertising and the release of attractive, special-edition vehicles will enable us to meet sales of 220,000 units for the fiscal year.
- **Europe**
  The European Colt, launched in May this year, has recently been awarded "Car of the Year" honors in several competitions. With the addition of a 1.1L gasoline engine and diesel engines, which are a popular powertrain in this market, and also with the new three-door models shown at the Paris Motor Show in September, the Colt lineup will be further strengthened during the second half of this year. MMC will further build on its strong results in mature markets like the UK and newer markets such as Russia and the Ukraine, and along with corrective measures in the currently weak German market, we plan to aggressively promote sales.
- **North America**
  In North America, MMC has taken measures to normalize its sales patterns by drastically reducing fleet sales which in turn will better balance the volume of cars available in used car auctions, thus creating favorable used car price trends. Furthermore, MMC stands by its product quality and has introduced a comprehensive, industry leading after sales service campaign. This "Best Backed Cars in the World?" campaign was introduced in July and a television marketing campaign was rolled out in October to attempt to gain further appeal in the eyes of customers. MMC, in addition to strengthening communications with dealers, is also reinforcing dealer incentives and helping to promote individual dealer advertising. Normalizing sales and getting back on track will still require some time, and we will endeavor to steadily improve the MMC brand image and strengthen sales networks before the launch of new products next year.
- **Asia and the rest of the world**
  In North Asia, from this December a Mitsubishi-branded Pajero will begin to be produced and sold by Hunan Changfeng Motor, while Beijing Jeep will bolster its product lineup with the production and distribution of a refreshened Outlander. At the same time, a new sedan is being developed by China Motor Corporation for introduction into the Taiwanese market in December. In this way, MMC reinforces its regional policy of introducing new products and strengthening ties with local partners. For ASEAN regions, backed by strong demand, we have launched the Grandis in Thailand and we will launch the Montero Sport in the Philippines, while we have reinforced local sales in Thailand through the introduction of new management. Also, the launch of the Japanese-made Colt in Australia will lead to increased sales, while favorable results in the Middle East, Africa, and Latin America indicate increased demand, and we are therefore expecting increased sales in Asia and the rest of the world.

Specific measures of the Business Revitalization Plan

The restructuring of the company as set out in the Business Revitalization Plan continues, with activities such as the reduction of fixed and variable costs being put into effect. Already a number of activities specified in the announcements made on May 21 and June 16 have been initiated ahead of schedule. In the three months following July, 27 billion yen was saved, with the year's goal being 89.4 billion in cost savings. These efforts will be continued through the second half of the year.
Key points in the progress of the Business Revitalization Plan are as follows.

- **Production capacity adjustment**

  - With the goal of normalizing sales in North America, it has been necessary to adjust production levels accordingly. Therefore, as of October, the plant operated by MMNA in Illinois has reduced production from two shifts to one shift.
  - The termination of mass production at Okazaki assembly line (slated for the end of December 2005) has been coordinated and negotiations with the Toyota group concerning displaced employees have been concluded. Local businesses have also been contacted, and the question of the remaining workers will be resolved in the second half of this year.
  - An early retirement program is underway in Australia, and is proceeding smoothly toward the closure of the engine plant, which is scheduled for the end of FY 2005, and capacity reorganization of the main assembly facility in FY 2006.

- **Headcount reduction**
  Headcount adjustment has been promoted in Japan, North America and Australia, with targets of a 22 percent reduction in total labor and a 30 percent reduction in indirect labor to be reached by the end of FY 2006. As of the end of September, these figures are at 8 and 10 percent, respectively. Cost reductions based on these adjustments will be factored into the second half of the year.
- **Material cost reduction**
  The market for materials has been adversely affected owing to a rise in the price of steel. The current fiscal year goal of reducing material costs by 36 billion yen appears to be difficult to reach, considering the tremendous market pressure. However, the company has responded to these risks, including the enhancement of our on-going New-MXP activities by increasing manpower, as well as expanding these activities in overseas locations such as Thailand where we expect production to increase.
- **Reorganization of financial services business in the U.S.**
  MMC understands that financial services for customer and dealer support are an absolute necessity for business, and we will continue to offer a competitive financing program to dealers and customers. In late September, MMC has signed a letter of intent with a major US financial institution, and since then a collective full-scale evaluation of its financial services operations has been initiated. In addition, we are considering the possible sale of MMCA's outstanding asset portfolio. Furthermore, MMC is considering to set up a new J/V company where MMCA will remain as the point of origin for both customers and dealers and this new company will have the function of procuring funds and servicing loans. A complete and detailed plan on the reorganization of the U.S. financial services business will be finished soon and its details will be announced by the end of the year.
- **Corporate compliance**
  One of the cornerstones to the Business Revitalization Plan was making compliance a top priority. A written pledge of legal compliance has been created and all corporate executives have signed. All employees and corporate executives were also required to attend seminars on corporate ethics. And also, every department has held meetings concerning business ethics problems.
  The results of the business ethics problems meetings were positive; these meetings covered matters that we as a company must pay attention to and that we must improve. Through these discussions the staff understood the importance of corporate ethics, and since we believe the issue to be important enough to ensure that the proper time is taken to see that it is meaningful, the deadline for the written pledge by all employees has been rescheduled for the end of December. Accordingly, the survey for all

employees on progress of business ethics throughout the company and all successive activities have been rescheduled as follows:

Action Schedule (* indicates item has been rescheduled)

June 29:	Chairman and president declare company will place utmost priority on legal compliance; all executives sign pledge of legal compliance
July:	Business ethics organization and rules and regulations revamped
July - August:	Business ethics seminar for all executives and employees
August - September:	Each department to hold meetings on business ethics problems
November *:	Survey for all employees on depth of business ethics throughout the company
End of December *:	All employees to submit pledge of legal compliance
January 2005 *:	Business Ethics Committee to evaluate how far compliance issues have taken root
February 2005 *:	Draw up plan on business ethics for 2005

- **Business Revitalization "Action Plan"**
  As part of the activities of the Revitalization Committee, which was set up in June to promote the Business Revitalization Plan, Cross Functional Teams (CFTs) comprised of younger employees have been coming up with proposals to realize mid- and long-term restructuring and basic strategy since August. A Business Revitalization follow-up team was established in September. This team's job will be to examine in closer detail the financial aspects of the CFT's proposals. The team will make proposals in cooperation with the CFTs. Proposals will be carefully reviewed and considered by the Board of Directors, then it will be determined and officially announced as the "Business Revitalization Action Plan" in mid-December.