

We Are Committed to Achieving the Goals of the Revitalization Plan and to Addressing Environmental and Social Challenges

After unveiling the Mitsubishi Motors Revitalization Plan in January 2005, we have made a fresh start. We are now taking on the challenges of restoring our corporate vitality and regaining the trust and confidence of the public. At the end of March 2005, based on the results of our investigations into the past several recalls that helped to precipitate the crisis of 2004, we announced disciplinary measures against the people involved and instituted a program of measures to prevent any reoccurrence. We have now made a clean break with the past.

The new corporate philosophy that we formulated as part of the discussions leading to the creation of the Revitalization Plan will serve as the basis for all corporate activities. The philosophy places the greatest value on our corporate responsibilities to customers and society at large. We have made concerted efforts to internalize this philosophy so that it underpins all of our actions. Reflecting this shift in thinking, we have changed the name of our annual environmental sustainability report to the Social and Environmental Report. The content has been upgraded to include sections on our social activities, such as business ethics compliance and quality control improvements.

The Mitsubishi Motors Environmental Sustainability Plan that we launched in 2002 has guided our environmental protection activities over the past few years. The sharp deterioration in our business conditions during fiscal 2004 necessitated major changes in product development plans, which in turn led us to extend the deadlines for achievement of some performance targets contained in the Environmental Sustainability Plan. However, there has been no change in our commitment as a company to environmental protection.

We continue to channel our resources into the development of vehicles with eco-friendly performance. For instance, we have lowered exhaust emissions with the *Colt*, *eK-WAGON* and other leading small passenger car models to a level where many qualify for a SULEV rating from the Japanese authorities. We have launched a series of cars in Japan with improved fuel efficiency to allow customers to benefit from the preferential tax treatment of eco-friendly vehicles. In addition, a centerpiece of our low-emission vehicle development program is the MIEV, a next-generation electric vehicle with ultra-low emissions that employs high-density lithium-ion batteries to power an original system of in-wheel motors (see page 24). We plan to launch commercial versions by 2010.

I believe that companies will need to find a balance between their economic, social and environmental activities to survive in the 21st century. Although our business will continue to face challenges in fiscal 2005, we are wholly focused on making sure that we move forward in line with the Revitalization Plan. At the same time, to earn the trust of the public again, we are channeling our energies into activities that address environmental protection and social issues such as road safety. We also pledge to maintain a commitment to full disclosure so that our customers can better appreciate our efforts. We ask for your support as we take on these important challenges.

Osamu Masuko
President



What is the thinking of Mitsubishi Motors on CSR?

Interview With Executive Officer, CGM of CSR Promotion Office

Yoshikazu Nakamura

Specifically, what is the role of the CSR Promotion Office?

Nakamura: Broadly speaking, the CSR Promotion Office has two functions. One is internal and external communications, and the other is monitoring. If we were to do only what we thought was right, I believe that it would inevitably create a gap between MMC and the public at large. To close that gap, we need to ensure external disclosure of all the appropriate information while asking for reviews by third parties. So this makes our communications with society vital to our role.

In addition, besides monitoring from outside, we also need to monitor our operations from an internal perspective. For instance, the Internal Audit Department performs regular checks to see whether or not our internal business processes, from financial accounting to business flows, are compliant both with internal rules and with external laws and regulations. Similarly, the Quality Audit Department checks that the processes related to establishing product quality are compliant with internal rules, as you would naturally expect, and that any recall processes implemented in the event of a defect are applied properly.

Was there previously any monitoring of recall processes such as that now entrusted to the Quality Audit Department?

Nakamura: In the past, we had a cross-functional monitoring function that performed audits and checks across divisions. However, there was no function such as the Quality Audit Department to check recall processes. Now that we have upgraded internal monitoring functions, I am confident that we are able to perform the necessary level of checks on product quality and on any recalls that we need to make in response to a quality defect.

Corporate social responsibility (CSR) is in your office's title. What is your view of CSR?

Nakamura: I think that CSR is critical to a company's survival. Particularly in our case, where I believe that our stance as a company on compliance and other issues related to past recall-related problems will be a major factor affecting our continued existence. The spotlight is turned on CSR in Japanese society, and we have a lot of issues to address because we have been evaluated harshly under these new conditions. Among these issues, I think that CSR is an extremely important one. There is a general tendency to confuse social responsibility with business morals, but I think that focusing purely on moral questions is inadequate as a response because it is passive. In the same vein, CSR does not merely mean obeying the law. Beyond moralizing and trying to inculcate a law-abiding spirit, I think that CSR and

compliance promotion is about taking proactive measures to earn a reputation from society as a company with integrity.

What specific actions are you taking on compliance and other corporate ethics issues?

Nakamura: In April 2004, the chairman and president issued a declaration that committed senior managers to place the highest priority on corporate ethics compliance. At the same time, we instituted a "compliance-first" action program. All directors and employees were asked to sign corporate ethics compliance declarations to signify our commitment across the whole of MMC to establish and implement the highest ethical standards.

One item on the "compliance-first" action program was the reconstruction of our business ethics promotion structure. As part of this, we established new positions of Compliance Officer within each company office. This structure ensures that all employees possess a high awareness of corporate ethics and that all programs are implemented. The Business Ethics Committee established in June 2004 also oversees these activities, providing further guidance and advice where necessary.

Would you care to give us any final message?

Nakamura: Advertising and public relations are the best ways for us to send messages to customers about MMC. In 2004, we limited our promotional activities due to the recall-related problems, but in 2005 we have begun advertising our products more actively again. There was various media coverage of our recall-related problems during this period of self-restraint on the advertising front. In future, my goal is to ensure that we are transparent about our problems by disclosing information timely. In this way, I hope that we can restore the trust of customers in MMC.



What is Mitsubishi Motors doing to develop more eco-friendly vehicles?

Interview With Managing Director in Charge of Product Development and Environment Affairs Group Headquarters
Tetsuro Aikawa

Your position as managing director covers the two divisions for product development and for the environment. How do you see the link between these two roles?

Aikawa: Environmental issues related to vehicles affect all aspects of the life cycle, from development, production, logistics and sale to the period of customer use and then final disposal. But, from our perspective as an automaker, development issues have perhaps the most significant impact in environmental terms. Specifically, the most important point is to create an eco-friendly design for the car that you plan to manufacture. To achieve this, it is vital that there is a high level of environmental awareness within the product development operations. In that sense, I think that managing the development and environment divisions in a single job can help me to tackle the environmental issues more quickly and more efficiently. Another point in its favor is that if you create an eco-friendly vehicle at the development stage then it becomes much easier to tackle the environmental issues that arise during all the later downstream stages.

Turning to recycling, which is one of those downstream stages, how is MMC responding to the automobile recycling legislation that was recently enacted in Japan?

Aikawa: In March 2002, we created the Recycling Promotion Office. We prepared carefully for this law, and we are making excellent progress as a result. The law actually came into effect in January 2005. In the first three months of 2005, our recycling operations generated significant volumes of reusable resources. Fluorocarbons from air-conditioning systems totaled the equivalent of 15,000 vehicles. We also recovered the equivalent of air bags for 2,000 vehicles as well as 21,000 vehicles-worth of shredder dust. At 60.1%, the recycling rate for shredder dust was considerably higher than the statutory minimum level of 30%. The mandatory target for 2010 is 50%, so we have met this goal well ahead of the legal deadline.

How would you characterize the Environmental Sustainability Plan that MMC has published?

Aikawa: In 1999, we formulated an Environmental Policy as the basis for tackling related issues. Next we formulated a five-year medium-term plan, the Environmental Sustainability Plan, for environmental activities starting in 2002 to put this policy into practice. The Environmental Sustainability Plan is our way of communicating to people outside the company what

activities we are doing and the achievement status for each aspect of the plan, which is updated on an annual basis. The four major areas of the plan are environmental management, recycling, prevention of global warming and prevention of environmental pollution. We update our activities in each of these areas each year based on discussions within the Environmental Council and examples of what other companies are doing.

“DfE” is one of the headline goals of the plan. What does this mean?

Aikawa : “DfE” is short for “Design for Environment,” which basically means eco-friendly design. At MMC, we aim to make DfE the central motif of our product development process as we seek to minimize the environmental impact of our passenger cars over the entire life cycle from development to disposal. In practice, this means taking an overall look at the processes involved to determine what volume of CO₂ is emitted during the manufacturing stage or the degree to which the vehicle could be recycled. We try to minimize life cycle eco-impact by creating a more eco-friendly car at the design stage. At the moment, we are still in the process of developing the various practical tools involved. By the end of fiscal 2005, we expect to have refined the overall process into a systematic form so that we can start to apply it to all new vehicle development.

MMC is undertaking various environmental management initiatives. What impact do environmental considerations have on the new vehicle development process?

Aikawa: One good example is our development of a next-generation electric vehicle that would not produce any CO₂ at all. In this project, we are aiming to develop an application for original MMC technology. The development of EVs was popular within the car industry over a decade ago, but efforts foundered because low battery power caused very short cruising range. Interest in EV development faded away, and other automakers turned their attention to hybrid vehicles. Here, however, we took the other path of trying to improve battery performance.

In the past few years, we have achieved dramatic improvements in the range that can be achieved on a single battery charge. The battery is now at a stage where it would certainly be of practicable application in an automobile. Our research into hybrid vehicles kept pace with that of other manufacturers, but we have lagged behind at the commercialization stage, unfortunately. To

regain lost time, we plan to commercialize EVs as quickly as possible. In environmental terms, EVs are actually superior to hybrid vehicles because they produce no CO₂ emissions whatsoever.

By this you mean MIEV (pronounced “MEEV”), a next-generation electric vehicle project that MMC announced recently?

Aikawa: That’s correct. MIEV uses original technology that features the combination of a high-powered lithium-ion battery with small motors fitted to the wheels (known as “in-wheel motors”). In the nearly 100 years since the Ford Model T was launched in 1908, the complex drivetrain of the mass-production car has barely changed. MIEV technology eliminates these complexities by using a vastly simplified structure, in which the battery is connected directly to motors in the wheels. I believe that we can claim with some pride that the development of the MIEV for mass production would represent a revolution in automotive drivetrain technology.

Besides a simpler structure, what are the other practical benefits?

Aikawa: The MIEV design has motors in each wheel capable of independent operation. If we apply the 4WD technology from the *Lancer Evolution* models, we can make the handling safer and more enjoyable than many conventional vehicles by providing independent control of potential wheel slip and of the inner and outer wheels during cornering. In addition, because the motors are located inside the wheels, the space usually needed for the engine and transmission simply disappears. This frees up many of the typical restraints on the car’s basic packaging. So MIEV technology actually gives us a platform for making cars that customers will find easy to drive.

Furthermore, such a car would have low operating costs as well as be kind to the environment because it would use no gasoline. It represents an extremely economical vehicle. We estimate that, assuming battery charging was done during the day, the total cost of the electricity would be only one-third or so that of the fuel for an equivalent-sized gasoline engine. This ratio would drop to about one-tenth with overnight charging, due to cheaper tariffs.

When do you plan to launch MIEV on the market?

Aikawa: We hope to have commercial vehicles based on MIEV on the market by 2010. We are also trying to accelerate the development program so that our

customers do not have to wait a day longer than is necessary.

(Please refer to page 24 for details of the MIEV project.)

Finally, what are your product development ambitions?

Aikawa: Looking ahead, we are making progress in the development of next-generation engines producing higher fuel efficiency and lower emissions. In addition, we are focusing on developing attractive cars in the minicar segment, where lower fuel consumption naturally favors eco-friendliness. We hope to get more people driving this type of car, which would be better for the environment. At the same time as making eco-friendly vehicles, my aim is to ensure that our cars deliver the utmost driving pleasure and safety, as espoused in the new Mitsubishi Motors corporate philosophy.



How is Mitsubishi Motors improving quality control?

Interview With Senior Executive Officer ,CGM of Quality Affairs Office

Mitsuo Hashimoto

How have you found the first year in your position?

Hashimoto: This past year has been primarily concerned with putting in place all the measures needed to clear up the past recall-related issues. In order to strengthen our quality assurance systems, we have created an office under my control of about 1,200 people that are focused entirely on quality. In concrete terms, we have integrated departments involved in quality control, such as Quality Control at each plant, Engineering Verification Certification and Regulation Compliance, Warranty Management and Supplier Parts Quality Engineering. As a result, we have integrated all our quality-related teams into a single division.

Do you think that this integration has helped to define the role of the Quality Affairs Office (QAO) more precisely?

Hashimoto: I think that the integration process has clearly defined the QA responsibility for all vehicles as falling under the purview of the QAO. In other words, the role of the QAO is to display leadership on all quality-related issues throughout the stages from product development through production and sale.

What is the relationship between your operations and the Quality Audit Department inside the CSR Promotion Office?

Hashimoto: The role of the Quality Audit Department is to conduct objective internal audits of the QAO to verify that our operations are being performed by the proper procedures. In practice, people from the Quality Audit Department attend all the key meetings that we hold as the QAO, and there is a lot of advice from them about decisions that we take. The set-up is designed to act as a series of checks and balances.

Aside from organizational changes, what are you doing to restore trust in quality control at MMC?

Hashimoto : Any process that involves the handling of many things will inevitably produce some kind of defect, no matter what level of care and consideration you take. I think what is important is to react swiftly and appropriately once the defects have been discovered. Last year, we put a lot of stress on making the recall decisions from a customer-centric perspective. I think that we succeeded in establishing this process, but the speed is still not good enough. I am now in the process of establishing schemes for raising our speed of response.

Please tell us more about this initiative to make processes faster.

Hashimoto: In practical terms, we are reinforcing the 10 Technical Centers that we have around Japan so that we can get precise information on defects quickly when customers approach us initially. In addition, since June 2005, we have been using a new process. With this process, designers get involved with the investigation from the time that the information about the defect is initially received to make our response more effective.

Separately, since late 2001, we have been employing the Mitsubishi Motors Development System (MMDS) under the Quality Gate structure introduced under the guidance of DaimlerChrysler. I think that our vehicle development processes will continue to evolve from hereon, too, and we will also upgrade our Quality Gate system along with it.

Do you have any final message for readers of this report?

Hashimoto: I believe that the most critical element in maintaining quality is to maintain good communications with both internal departments and external parties. So we are promoting activities to ensure that there are many opportunities to exchange opinions directly for the people in my office as well as development divisions and those on the frontline, either the salespeople or service engineers.

To raise quality for customers, we must not only improve the quality of our products, but there is also a need to enhance our service quality. To do this, we need to have excellent two-way communications between the QAO and all other departments in the company, particularly the development and sales operations. I believe that it is these types of communications that will help strengthen trust from customers so that they will understand MMC provides safe and enjoyable driving. I think that we will succeed in doing this, so I ask the readers of this report not to lower their expectations of MMC.



What initiatives related to the environment and quality is Mitsubishi Motors undertaking within manufacturing?

Interview With Managing Director in Charge of Production Group Headquarters

Makoto Maeda

What kind of environmental protection activities does MMC undertake at its production plants?

Maeda: Measures to counter global warming and air pollution are two key elements of our environmental protection program. On global warming, we are focusing in particular on reducing our CO₂ emissions. As you are aware, the target under the Kyoto Protocol is a 6% cut compared to the 1990 level, but we have made considerable progress on this front. Our emissions in fiscal 2003 were 24% less than fiscal 1990 levels, and in fiscal 2004 the reduction increased to 32%.

In terms of preventing air pollution, our current priority is to reduce emissions of volatile organic compounds (VOCs). This is in line with recent changes to Japanese laws, which set new limits on VOC emissions. We have our own internal VOC emission standards, which are stricter than the statutory limits. Our manufacturing plants are already in compliance with the revised Japanese regulations, and we are implementing measures to meet our own internal VOC emissions target, which is a 30% reduction relative to 2000 levels by 2010. For example, we have achieved significant reductions in VOC emissions at the Mizushima Plant through the introduction of water-based paints.

And what about the distribution side of MMC's operations?

Maeda: On the distribution side, we are working to reduce CO₂ emissions through more efficient transport of finished vehicles. We are on track to meet the targets in our plan, but we are also trying to find other ways of boosting efficiency in distribution operations.

Another initiative is in packing materials, where we are reducing the amounts of wood that we use. For example, for export shipments of knockdown parts and service parts we are replacing wooden packing materials with containers made out of steel. The new rule that we are implementing is that packing materials should be returnable after delivery. Although the reduction in wooden packing materials that we recorded in fiscal 2004 fell short of our target, in fiscal 2005 we expect to achieve our target, a reduction of 15%, relative to fiscal 2000 levels.

Quality is a major part of production. What is MMC doing to raise quality?

Maeda: First, we are constructing systems with the aim of ensuring that defects do not occur, and that in the unlikely event that they do occur we can respond quickly

to solve the problem. In terms of specifics, we have adopted a system that we call "In Stage Quality Creation" (ISQC) to lower defect rates by raising quality within production processes. ISQC is a system that controls quality all the way through the manufacturing process from the initial stages.

If for some reasons a defect arises we are trying to trace precisely when the problem began and exactly how many vehicles are affected.

For any given finished vehicle, we are trying to pinpoint where and when its engine was made, and even when the cylinder block for that engine was cast. I give a major priority to important components related to customer safety, and we can trace 56 separate chassis components and 21 engine parts. Our plan is to expand the system so that eventually all components are fully traceable.

Finally, how do you see the future of environmental protection activities at MMC?

Maeda: I think that the important point is to change the way of thinking among our employees. We need to make sure that all our employees realize that cars are making an impact on the environment due to exhaust emissions and other factors. Based on this realization, we need to make all our processes more eco-friendly.

In addition, I believe that we need to treat environmental issues not just on a regional level, but also on a global scale. We must be more proactive in engaging in activities that make a positive contribution to various global environmental issues, such as planting trees.

