THE NEW THREE-YEAR BUSINESS PLAN

Fiscal 2004 marked the second year of the New Three-Year Business Plan that we unveiled in October 2002. Under this plan, we aim to capitalize on our technological advantages in diesel engines and specialize in commercial vehicles. We are striving to strengthen all of our corporate functions—from development through marketing—as well as strengthen our earnings structure. Our core markets will be Japan; promising markets in China and ASEAN where we have taken the lead in establishing local facilities; and North America. The integration of our bus operations with those of Hino Motors is helping us to create an even more efficient business structure.

The New Three-Year Business Plan »

The New Three-Year Business Plan includes three main elements:

Eliminate uncertainties

- Overhaul the structure of the North American SUV business
- Form a powertrain joint venture with General Motors
- Reduce the size of our workforce mainly through voluntary early retirement
- Consolidate our manufacturing infrastructure

Enhance management control

- Executive Vice President from General Motors
- Executive Vice President from Mizuho Corporate Bank
- Set up department to oversee progress on the New Three-Year Business Plan

Recapitalization

- Debt-for-equity swap
- Retirement of shares held by General Motors
- Raise fresh capital

Steps taken in fiscal 2004 »

Many of the measures outlined above were already taken in fiscal 2003, helping Isuzu to post record earnings in fiscal 2004. We overhauled our North American SUV business, shrank our workforce, strengthened our powertrain alliance with General Motors, and improved our capital structure. In fiscal 2004 we forged ahead on implementing this program, taking the following steps:

In April 2003 we announced that we would postpone the planned relocation of our Kawasaki Plant operations designed to accommodate the sharp increase in demand for commercial vehicles both within and outside Japan.

In May 2003 we announced a departmental reorganization designed to clarify and optimize the scope of management authority as well as strengthen the local management structure for our operations in North America and ASEAN.

In September 2003 we announced the formation of a holding company, along with Hino Motors, with the objective of integrating the bus manufacturing operations of the two companies.

In October 2003 Isuzu, General Motors, and GM's other two Japanese business partners—Suzuki and Fuji Heavy Industries—announced a series of initiatives in the areas of the sharing of products, powertrains and technologies; market expansion and growth; and purchasing.

In January 2004 Isuzu Motors America absorbed its American Isuzu Motors subsidiary with the aim of eliminating the duplication of functions between the two companies and improving business efficiency.

In January 2004 we announced that we would move forward on the relocation of the manufacturing functions handled by our Kawasaki Plant in May 2004. We estimate that the move will result in an annual cost savings of about ¥5 billion.

In March 2004 we announced the sale of the Kawasaki Plant property to an outside buyer for ¥15,371 million. The transfer of the property is slated to be completed in February 2005.

Actual performance versus plan targets »

Isuzu has made solid progress towards attaining the concrete objectives laid out in our New Three-Year Business Plan. In fiscal 2003, we exceeded all of our targets, and we did so again in fiscal 2004. Under the plan, in fiscal 2004 our goal was for consolidated sales of at least ¥1,250,000 million, and we actually reported sales of ¥1,430,333 million. We aimed for operating income of ¥50,000 million, and our actual result was ¥84,490 million. Likewise, we targeted a net profit of ¥35,000 million, and the actual figure was ¥54,713 million. Finally, we hoped to reduce interest-bearing liabilities to ¥510,000 million or less, and as of March 31, 2004 the figure was ¥452,600 million.

Looking ahead to fiscal 2005 »

But we can't content ourselves with the results seen in fiscal 2004. Most of our profits came from domestic sales, and our profits from overseas sales—which account for about half of our total sales—are lacking. We are keenly aware of the fact that there is still room for us to exert ourselves to further improve our earnings structure.

Recently, the yen has strengthened and domestic demand has slowed, making the business environment more difficult. However, forecast demand is still much higher than the levels foreseen when we put together the New Three-Year Business Plan, so we believe that we can still attain the goals set forth for this fiscal year: sales of ¥1,270,000 million, operating income of at least ¥60,000 million and a net profit of at least ¥50,000 million.

Going forward, Japanese demand for commercial vehicles is expected to fall back from the extraordinary levels seen in fiscal 2004 due to the implementation of new emissions rules. Therefore, to make up for this decline in Japanese demand, Isuzu intends to redouble its truck marketing efforts overseas.

In North America, we have been able to sharply reduce our losses by taking steps such as dissolving the Subaru Isuzu Automotive alliance with Fuji Heavy Industries, and in fiscal 2004 we roughly broke even. However, we recognize the need for further improvement in North America. Moving forward, we are committed to enhancing profitability by breaking even in SUVs and developing our commercial vehicle business.

Streamlining our distribution structure in Japan is another key issue for Isuzu. Although we have been able to steadily lift the operating cost coverage ratio by working to cover our dealerships' fixed costs with revenue generated from activities other than new vehicle sales—such as parts sales, and maintenance and repair services—we have not made much progress on debt reduction. We must strive to recover our receivables more quickly.

Reducing the cost of materials is another major lingering issue. We want customers to think in terms of how much they are paying per liter of engine or how much per kilogram for a truck. The unified efforts of purchasing, development and production teams are beginning to bear fruit, but we need to look at costs once again.

The final key issue for the final phase of our New Three-Year Business Plan is the relocation of the manufacturing functions handled by our Kawasaki Plant.

The attainment of our goals for this year is largely dependent on the overall success of these projects.