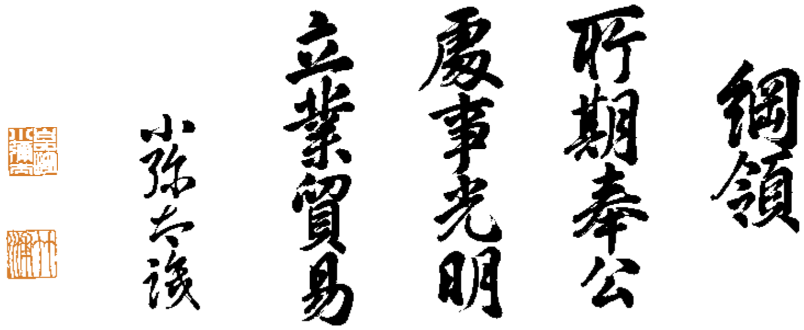
# MITSUBISHI MOTORS CORPORATION

Annual Report 2005

YEAR ENDED MARCH 31, 2005


MITSUBISHI MOTORS

# Mitsubishi Group Philosophy—Three Corporate Principles




**Corporate Responsibility to Society "Shoki Hoko"**
Strive to enrich society, both materially and spiritually, while contributing towards the preservation of the global environment.

**Integrity and Fairness "Shoji Komei"**
Maintain principles of transparency and openness, conducting business with integrity and fairness.

**International Understanding through Trade "Ritsugyo Boeki"**
Expand business, based on an all-encompassing global perspective.

## Contents



**Forward-looking Statements**

This annual report contains forward-looking statements about Mitsubishi Motors Corporation's plans, strategies, beliefs and performance that are not historical facts. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which Mitsubishi Motors Corporation (MMC) operates, management's beliefs and assumptions made by management. As the expectations, estimates, forecasts and projections are subject to a number of risks, uncertainties and assumptions, they may cause actual results to differ materially from those projected. Mitsubishi Motors Corporation, therefore, wishes to caution readers not to place undue reliance on forward-looking statements. Furthermore, Mitsubishi Motors Corporation undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments.

# Mitsubishi Motors Corporate Philosophy



Mitsubishi Motors recently drew up a new corporate philosophy that adheres to the spirit of "The Three Principles" of the Mitsubishi group of companies. It also clearly states the purpose of the company's existence and its future direction. All corporate activities will be based on this corporate philosophy.

> "We are committed to providing the utmost driving pleasure
> and safety for our valued customers and our community.
> On these commitments we will never compromise.
> This is the Mitsubishi Motors way."

## Customer-centric approach

Mitsubishi Motors will give the highest priority to earning the satisfaction of its customers, and by doing so, become a company that enjoys the trust and confidence of the community at large. To that end, Mitsubishi Motors will strive its utmost to tackle environmental issues, to raise the level of passenger and road safety and to address other issues of concern to car owners and the general public.

## A clear direction for the development and manufacturing of Mitsubishi Motors vehicles

The cars that Mitsubishi Motors will manufacture will embody two major concepts: "driving pleasure" and "safety." Mitsubishi Motors will manufacture cars that deliver superior driving performance and superior levels of safety and durability, and as such, those who use them will enjoy peace of mind.

## Going the extra mile

Mitsubishi Motors will pay close attention to even the smallest details in the belief that this approach will lead customers to discover new value in their cars, giving them a richer and more rewarding motoring experience.

## Importance of continuity

Mitsubishi Motors will continue to manufacture distinctive cars with the passion and conviction to overcome all challenges.

# Consolidated Financial Summary

For the years ended March 31,

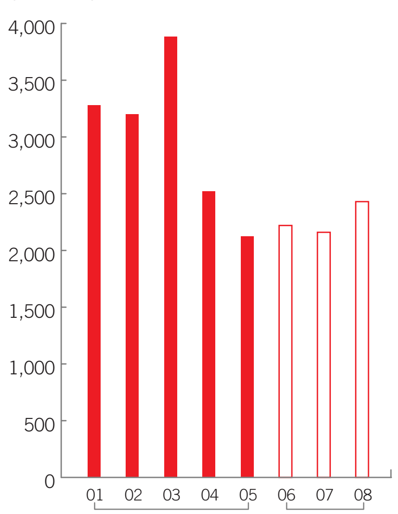
| | | | | | In millions of yen | In thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2005 |
| **For the year:** | | | | | | |
| Net sales | ¥3,276,716 | ¥3,200,699 | ¥3,884,874 | ¥2,519,449 | ¥2,122,626 | $19,765,586 |
| Operating profit (loss) | (73,865) | 40,227 | 82,761 | (96,852) | (128,544) | (1,196,983) |
| Profit (loss) before income taxes and minority interests | (407,289) | (31,875) | 42,206 | (77,173) | (460,906) | (4,291,892) |
| Net income (loss) | (278,139) | 11,256 | 37,361 | (215,424) | (474,785) | (4,421,136) |
| | | | | | In yen | In U.S. dollars |
| **Per share data:** | | | | | | |
| Net income (loss) per share: Basic | ¥(232.77) | ¥7.66 | ¥25.35 | ¥(145.22) | ¥(194.36) | $(1.81) |
| Diluted | – | 7.42 | 23.43 | – | – | – |
| Cash dividends | – | – | – | – | – | – |
| | | | | | In millions of yen | In thousands of U.S. dollars |
| **At year-end:** | | | | | | |
| Total assets | ¥2,981,668 | ¥2,894,560 | ¥2,425,352 | ¥2,029,035 | ¥1,589,286 | $14,799,202 |
| Total stockholders' equity | 256,068 | 270,663 | 280,294 | 29,972 | 324,782 | 3,024,328 |

Notes: 1. U.S. dollar amounts in the accompanying consolidated financial statements are converted, solely for convenience, at a rate of ¥107.39 = U.S.$1.00, the exchange rate prevailing on March 31, 2005.

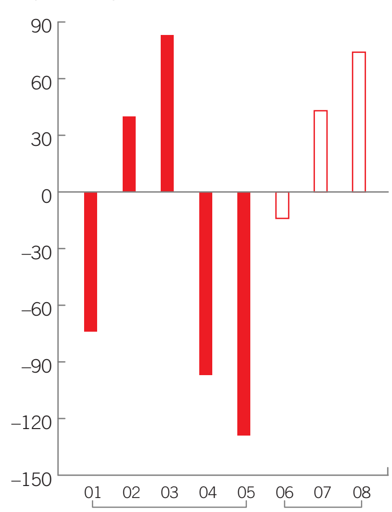
2. In the year 2003, due to a change of accounting period at consolidated overseas subsidiaries, from December 31 to March 31, 15-month figures for overseas subsidiaries have been incorporated.

3. The assets and liabilities of truck and bus operations are not reflected in each account because these operations were spun off and subsequently became an equity-method affiliate of MMC on March 14, 2003 and all remaining shares had been transferred to other parties by the end of March 2005.

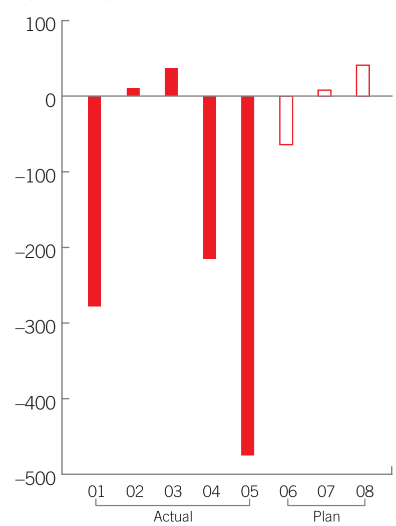
**Net Sales**
(¥ billion)




**Operating Profit (Loss)**
(¥ billion)




**Net Income (Loss)**
(¥ billion)




Note: Fiscal year refers to the accounting period that runs from April to March of the following year (e.g. FY 2004 = April 1, 2004 to March 31, 2005).

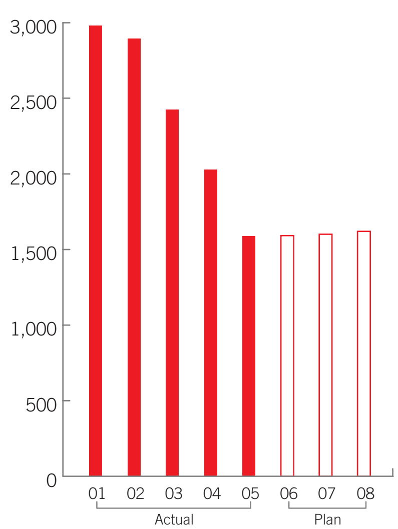
# The Mitsubishi Motors Revitalization Plan—Targets

For the years ending March 31,

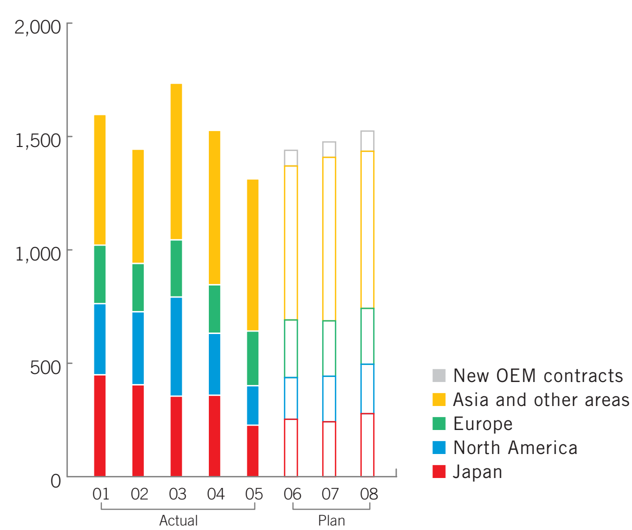
| | 2006 | 2007 | 2008 |
|---|---|---|---|
| | | | Thousand units |
| **Unit Sales Targets** | 1,370.0 | 1,408.0 | 1,435.0 |
| Japan | 253.0 | 242.0 | 278.0 |
| North America | 184.0 | 201.0 | 218.0 |
| Europe | 254.0 | 244.0 | 246.0 |
| Asia and other areas | 679.0 | 721.0 | 693.0 |
| | | | ¥ billion |
| **Performance Targets** | | | |
| Net Sales | 2,220.0 | 2,160.0 | 2,430.0 |
| Japan | 530.0 | 500.0 | 570.0 |
| North America | 450.0 | 490.0 | 510.0 |
| Europe | 620.0 | 520.0 | 630.0 |
| Asia and other areas | 620.0 | 650.0 | 720.0 |
| Operating Profit (loss) | (14.0) | 43.0 | 74.0 |
| Japan | (65.0) | (40.0) | (18.0) |
| North America | (21.0) | 8.0 | (7.0) |
| Europe | 6.0 | (8.0) | 11.0 |
| Asia and other areas | 66.0 | 83.0 | 88.0 |
| Net income (loss) | (64.0) | 8.0 | 41.0 |
| **Balance Sheet Forecasts** | | | |
| Cash and cash equivalents | 175.0 | 168.0 | 150.0 |
| Total assets | 1,592.0 | 1,601.0 | 1,620.0 |
| Interest-bearing debt | 497.0 | 500.0 | 432.0 |
| Total stockholders' equity | 281.0 | 289.0 | 330.0 |
| **Cash Flow Forecasts** | | | |
| Operating activities | 1.0 | 105.0 | 162.0 |
| Investing activities | (122.0) | (115.0) | (112.0) |
| Financing activities | 48.0 | 3.0 | (68.0) |
| Total | (73) | (7) | (18) |

* MMC revised its targets for fiscal 2005 when it released its fiscal 2004 full-year financial results on May 23, 2005. Targets for fiscal 2006 onwards are those announced in the Mitsubishi Motors Revitalization Plan on January 28, 2005.

**Total Assets**
(¥ billion)




**Unit Sales**
(Thousand units)



# TO OUR SHAREHOLDERS AND STAKEHOLDERS

We were elected by the Board of Directors on January 28, 2005 to take over the revitalization of Mitsubishi Motors Corporation from the former management. Our first task was to formulate the new Mitsubishi Motors Revitalization Plan, which was announced on the same day.

Our immediate predecessors steered Mitsubishi Motors through one of the most difficult periods of its history, and in doing so cast off the negative legacy of the past and drew up a roadmap for restoring confidence in the company. The task we face now is to make a collective effort as a group to nurture Mitsubishi Motors into a success story on the ground prepared by the former management.

We took the final steps toward resolving past recall problems on March 30, 2005, with the submission of our final response to a warning issued by Japan's Ministry of Land, Infrastructure and Transport and the filing of a claim for compensation for damages against certain former management in place at the time the problems occurred. We want to use this opportunity to thank everyone for their support during these trying times. Without your understanding, Mitsubishi Motors would have been unable to make a fresh start.

The various challenges faced by management during the past eighteen months affected our business results for the fiscal year ended March 31, 2005. Consolidated net sales fell 15.8% from the previous fiscal year to ¥2,122.6 billion. We reported a net loss of ¥474.8 billion, due in large part to a ¥289.8 billion extraordinary loss related to impairment of production facilities, a move directed at lowering future cost outlays. Regarding our financial position, we made capital enhancements of ¥496.0 billion in June and July 2004 and an additional ¥284.2 billion in March 2005. In doing so, we shored up shareholders' equity and restored financial soundness, and secured the funds required to finance our future business plans.

We are now making concerted efforts to win back customer confidence, restore our corporate value, and once again make Mitsubishi Motors a firm that is held in the highest esteem by all stakeholders. To meet the targets of the Mitsubishi Motors Revitalization Plan, as our commitment to stakeholders, we promise to implement the measures outlined below:

### 1. Put the highest priority on customers to win back their confidence

A "customer first" policy now guides all operations, from development and manufacturing to sales and after-sales service. The most urgent issue is to supply customers with vehicles of the highest quality through the unrelenting pursuit of quality enhancement.

### 2. Restructure production and sales networks based on a conservative business plan

The Mitsubishi Motors Revitalization Plan includes a sales plan that incorporates downside risks. We will no longer pursue the over-extended growth strategies of the past. By steadily reinforcing our competitive strengths while maintaining an optimal scale of operations, we aim to increase our corporate value.

### 3. Strengthen business execution

We will build a framework that assures steady implementation and verification of business plans. By integrating our organization into eight divisions, or "headquarters," we have clarified responsibility for each MMC function. We will make sure that we achieve the goals of the Mitsubishi Motors Revitalization Plan by requiring each division to deliver on its commitments.

In April 2005, we established the Business Revitalization Monitoring Committee, an advisory body to the Board of Directors. The committee is monitoring progress toward the goals of the Mitsubishi Motors Revitalization Plan from an external perspective.

The first year of the Mitsubishi Motors Revitalization Plan has already seen several positive developments, including the announcement of plans to develop a next-generation electric vehicle and launch new models in the domestic and overseas markets. There has been a marked change in the mindset of employees, and through our achievements, one by one, we have already been able to feel an effect. Looking ahead, all employees will continue to make unified and concerted efforts to improve corporate value, with the aim of ensuring that MMC carves out a distinctive niche for itself in the face of global competition. Through these and other efforts, we are confident of charting a course that leads to the revitalization of Mitsubishi Motors.

September 2005


T. Nishioka

Takashi Nishioka
*Chairman of the Board*

O. Masuko

Osamu Masuko
*President*

## Business Revitalization – Issues and Initiatives
## Interview with the President

**Question 1: What is your view of fiscal 2004? How did the year turn out for Mitsubishi Motors?**

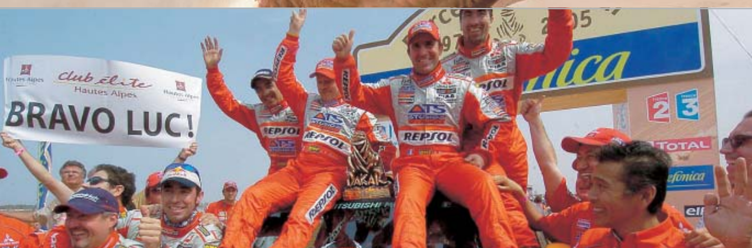
In April 2004, we were informed by then leading shareholder DaimlerChrysler that it would not participate in a capital increase or provide additional financial support to MMC. Having received this notice, in May 2004, MMC unveiled the Business Revitalization Plan, a new medium-term business plan formulated to restore vitality to the company. Subsequently, however, there was a dramatic change in the company's operating environment due to such factors as the loss of public trust triggered by past recall-related issues and customers shunning Mitsubishi-made vehicles. To respond to this unprecedented change in our operating environment, we announced the Mitsubishi Motors Revitalization Plan, incorporating additional countermeasures, on January 28, 2005. In this sense, the past fiscal year was a particularly difficult one for MMC.

Under these challenging circumstances, MMC was supported by corporations and investors who subscribed to its massive capital increase in expectation of future growth, and the exhaustive efforts of the former management team to win back customer trust lost as a result of past recall-related issues. It was in this context that I took the helm of the company and began leading revitalization efforts in January 2005. I believe that our prospects are now a little brighter on the road to recovery.

In September 2004, we submitted a report to the Ministry of Land, Infrastructure and Transport on measures taken in regard to the problems associated with past recalls. In March 2005, we submitted our final report to the same ministry in response to its written warning. In this report, we outlined measures to prevent any recurrence based on a fact-finding study to establish the causes of the recall-related problems. At the same time, we announced disciplinary actions against the personnel involved, including former directors in place at the time the problems occurred, thus drawing a line to put the issue behind us. Moving forward, MMC will redouble its commitment to being a socially responsible automaker as it seeks to regain the trust of customers and the public at large.

**Question 2: You were appointed president of Mitsubishi Motors just as the company announced its new revitalization plan in January 2005. You come from a trading company, so what are your views on management of an automaker?**

At Mitsubishi Corporation, I was involved in the overseas marketing of cars for more than 30 years. I am not worried, nor do I feel that managing an automaker will put me under enormous





pressure. I have the full support of an outstanding management team and workforce. I also feel that I can draw on my trading company background to initiate management reforms from a different perspective. My priorities are to streamline management while keeping an eye on cash flows and the balance sheet, and at the same time developing a new risk management framework.

**Question 3:** **One key priority of the revitalization plan is to adjust administration to a proper scale. In essence, this means channeling management resources into operations that embody MMC's core strengths. What are Mitsubishi Motors' core strengths and how do you plan to develop them further?**

Mitsubishi Motors is known for its technology. We made history by becoming the first team on record to win five consecutive Dakar Rallies and to claim ten overall victories. We have outstanding technologies in the areas of driving performance, both on and off-road, as well as in terms of durability and safety, all of which have been refined by constantly taking on the challenge of motor sports. By incorporating these technologies into our products, we will provide automobiles that are uniquely Mitsubishi Motors.

It is just as important to use our technologies to develop environmentally friendly products. We are channeling our technological expertise into the environmental aspects of automobiles. These include responding to emission control regulations and other external environmental issues, as well as improving a vehicle's cabin environment, such as in terms of driver safety and comfort. We will raise our profile by developing automobiles that offer superior features from these standpoints. In this respect, the Mitsubishi In-wheel motor Electric Vehicle (MIEV), unveiled in May 2005, is a precursor of things to come (see page 17).

We sincerely apologize to our customers for the inconvenience caused by past recall-related problems. Those problems also hurt our brand value. Our foremost priority is to reaffirm our outstanding technologies and redouble our commitment to quality, safety and the environment.

Mitsubishi Motors also has regional strengths. Sales in Asia and the ASEAN region remained favorable despite the turmoil triggered by the recall problem in fiscal 2004. This demonstrates the very strong brand image Mitsubishi Motors has enjoyed over the years in this region, underscoring the fact that we are a company overflowing with a pioneering spirit. In fiscal 2004, sales growth was also strong in Eastern Europe and other emerging markets. Winning recognition for the Mitsubishi brand in these emerging markets will go a long way toward brightening our future. In fiscal 2004, Mitsubishi Motors' vehicles were highly rated, winning more than 20 awards worldwide (see page 15).


**Question 4:** **What were the factors behind the recent downturn in operating results? What plans do you have for correcting the problem?**

In my view, the most significant factor was over-ambitious growth policies in all areas of operations.

In product development, we introduced a number of regional vehicles targeted at specific regional markets. However, sales volumes were often not high enough to recoup investments. Looking ahead, we will instead concentrate management resources on actively launching global strategic models.

In the U.S., we expanded into business areas beyond our core business of car manufacturing. For instance, we entered the automobile sales financing business on our own. However, we established a joint venture with Merrill Lynch in March 2005 to reduce risk exposure and to reduce operating expenses while offering competitive financial products.

In manufacturing, declining capacity utilization remains an issue. We have been taking several steps to address the issue, including the pursuit of strategic alliances with other automakers to supply vehicles on an OEM basis. In the U.S. and Australia, we booked impairment losses, switched plants to single shifts, and reduced staff to rationalize operations. We plan to restructure our production network while keeping a close eye on sales trends.

Through these and other measures, we will selectively concentrate resources in key areas, as we strive to rescale business operations to an optimal level and build cars with features that fully exert our strengths. The overriding goal is to transform MMC into a company of choice for consumers.

**Question 5:** **The new revitalization plan is based on sales volume targets that fully reflect downside risk, and you are committed to its achievement. What is the most important initiative for the achievement of the revitalization plan?**

The most important initiative is improving sales in Japan and North America. Sales are favorable in other areas, particularly in the ASEAN region. The chief causes of our poor business performance were a loss of consumer confidence in Japan following the recall issue and over-ambitious policies for growing sales in the U.S. in the past. While we also want to boost sales in other regions, restoring sales in Japan and North America will be the key to revitalizing the company.

In Japan, we will boost sales by launching two new models: the *Outlander* in October 2005 and *i* in January 2006. In fiscal 2004, we worked to regain customer trust through a free inspection campaign for 3.4 million MMC car owners. We will continue to work to earn the trust of

**Osamu Masuko**
*President*



customers through additional measures, such as the "Five Point Reassurance Program" now under way (see p. 24).

In North America, the all-new *Eclipse*, launched a month ahead of schedule in May 2005, has been well received. In October 2005, MMC will launch the *Raider* pickup truck, which will be supplied by DaimlerChrysler on an OEM basis. This launch will mark our entry into the local pickup truck market, a large market segment in the U.S. We expect these new models to boost dealer traffic and benefit sales of other products as well.

**Question 6:** **The new revitalization plan reflects the input of cross-functional teams (CFTs). What is your impression of the younger team members? What will be their role in the future?**

The report of the CFTs was the product of lively discussions on the company's future held by around 80 younger employees. I'm pleased to say that they produced many useful, constructive ideas. I'm also convinced that their vision and enthusiasm will be a major driving force behind our revitalization plan. Now that the plan has been announced, the CFT team members are not only improving operations in their own units, they are also involving themselves in the overall management of the company by working with me at the Corporate Planning Office, and implementing the revitalization plan at the frontlines, including at our domestic and overseas dealerships. They are responsible for putting into practice the ideas and plans formulated in CFT sessions.

**Question 7:** **When you were appointed president, you expressed your resolve in terms of the three keywords of Decisiveness, Achievement and Speed. Could you elaborate on the concepts behind these keywords?**

These concepts are key to reforming our corporate culture. Decisiveness means a strong commitment to face up to even the most difficult issues instead of sweeping them under the carpet. Achievement refers to the results we must deliver through the decisions we make. Of course, good decisions alone will not deliver positive results. Decisiveness must be followed by appropriate action to achieve the goals we have set. When taking action, speed will be of essence. Instead of merely waiting for results after action is taken, employees must be encouraged to take the initiative to deliver results. Serious daily efforts by each and every employee, along with a firm commitment to achieve goals, will be a hallmark of the corporate culture of the new Mitsubishi Motors.

# The Mitsubishi Motors Revitalization Plan: Toward Revitalization

On May 21, 2004, MMC announced the Business Revitalization Plan, a roadmap for achieving self-revitalization and restoring credibility with all stakeholders. Guided by this plan, the company raised capital and steadily implemented various measures to achieve the plan's targets. However, shortly after the plan was unveiled, the company's handling of past recalls led to the occurrence of a loss of trust from customers and society. This triggered sharper-than-expected falls in sales volumes in Japan and overseas, raising concerns over possible delays in the turnaround of the MMC Group's operations and about its financial soundness. These developments made it difficult for MMC to secure funds.

To surmount these obstacles and revitalize the MMC Group, ongoing efforts have been made to restore trust. However, additional measures were deemed necessary to shore up the company's financial position and procure funds to fuel the revitalization as well as to ensure an improvement in earnings. After due consideration, MMC announced a new plan, the Mitsubishi Motors Revitalization Plan, on January 28, 2005.

In the process of formulating this plan, members of cross-functional teams (CFTs), consisting mainly of younger employees led by the Revitalization Committee, identified issues faced by the company and held lively discussions on how to rectify these issues as well as the future of MMC in general. Furthermore, MMC enhanced the plan's objectivity and trustworthiness by taking into consideration the advice of 150 outside experts.

The main thrust of the plan is to change our over-stretched regional strategy, and make a clean break from our over-ambitious product line-up strategy. We are selectively concentrating resources in key areas, as we strive to properly scale business operations and build cars with features that fully exert our strengths. The overriding goal is to transform MMC into a company of choice for consumers.

## Targets:

- **Restore profitability on a net income basis in fiscal 2006**
- **Maintain profitability in fiscal 2007 and beyond**

### 1. Reinforcing Capital and Funding

- **Reinforce financial position and obtain funds for revitalization**

Following the increase in capital of ¥496.0 billion in 2004, MMC raised a total of ¥284.2 billion in March 2005 through an allocation of shares mainly to three Mitsubishi group companies (Mitsubishi Heavy Industries, Ltd., Mitsubishi Corporation, and The Bank of Tokyo-Mitsubishi, Ltd.). As a result, shareholders' equity improved to ¥324.8 billion as of March 31, 2005, compared with ¥30.0 billion a year earlier. With this step, MMC obtained a level of capital sufficient to dispel concerns over its financial soundness. By fiscal 2007, MMC plans to procure an additional ¥270.0 billion (in March 2005, MMC received a loan of ¥30.0 billion from the Development Bank of Japan.) This will ensure sufficient funding for the R&D expenses and capital expenditures essential to meeting the targets of the Mitsubishi Motors Revitalization Plan.

**Business Focus and Decisiveness**

In our current state, we cannot hope to succeed by spreading ourselves too thin. The key to achieving the targets of our revitalization plan is to reduce costs by selectively concentrating resources in strategic areas and focusing on domains where we are certain to be successful. It is also essential that we change the mindset of our workforce so that each and every employee feels that they bear part of the responsibility for making the revitalization plan successful, as they work to reach the targets of their respective divisions. With unwavering decisiveness, the newly established Revitalization Promotion Department will play a central role in the pursuit of management reforms that leave no stone unturned.

**Heki Kasugai**
*Executive Vice President*
*Revitalization Promotion Officer*
*In Charge of Corporate Planning, Corporate Affairs & Quality Affairs Group Headquarters*

## 2. A Highly Credible Business Strategy

- **Business plans fully reflect downside risks**
- **Proactive alliances with other automakers**
- **Removal of excess production capacity and restructuring of sales systems (U.S., Australia, and Japan)**

MMC's sales volume targets incorporate many risk factors such as a larger effect from the recall issue in Japan, a slow recovery in North America, and a slowdown in the Chinese market. In this manner, MMC has set conservative sales volume targets that are achievable.

Furthermore, MMC is taking appropriate measures to deal with overcapacity in production and sales networks. In Japan, MMC has been integrating its network of vehicle sales subsidiaries and auto-parts sales companies to achieve greater geographical efficiency. Overseas, substantial headcount reductions have already been implemented at plants in the U.S. and Australia. In parallel, the company has reduced its shifts from two to one in these countries and has booked impairment losses. Meanwhile, MMC has been pursuing opportunities to form strategic alliances with other automakers to raise plant utilization. In addition to ramping up the OEM supply of minicars to Nissan Motor Co., Ltd., MMC has officially signed an agreement with PSA Peugeot Citroën on supplying a new SUV model on an OEM basis. MMC will continue to examine all possibilities for business alliances. These include expanding the range of models supplied on an OEM basis, mutual supply of components, and joint logistics and purchasing of components.

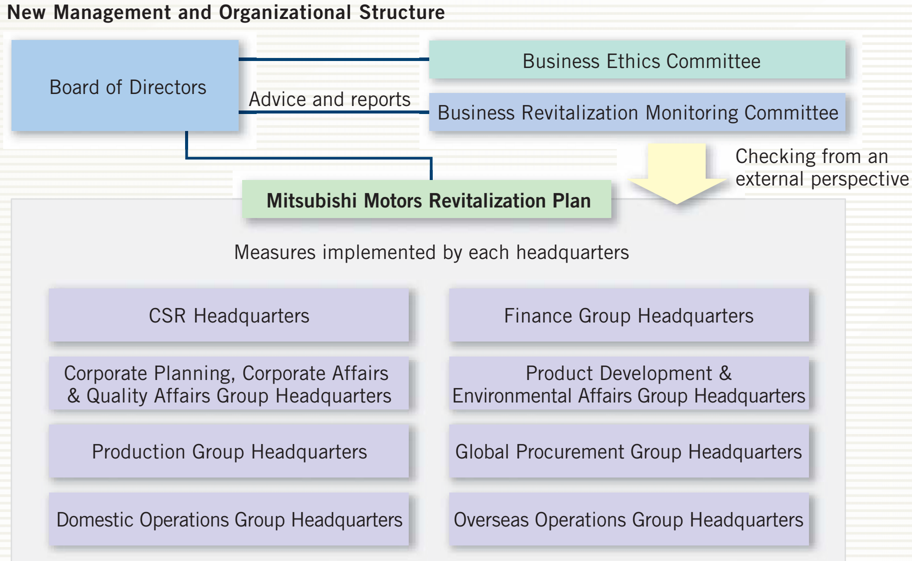
## 3. Strengthen Business Execution and Establish Monitoring Functions

- **Adopt a new management and organizational structure**
- **Build a framework for thorough follow up**

On April 1, 2005, MMC adopted a new management and organizational structure to ensure that the targets of the Mitsubishi Motors Revitalization Plan are achieved. Under the new organizational structure, operations are concentrated in eight divisions, or "headquarters," to unify chains of command and clarify accountability. The eight headquarters are CSR; Finance; Corporate Planning, Corporate Affairs & Quality Affairs; Product Development & Environmental Affairs; Production; Global Procurement; Domestic Operations; and Overseas Operations.

A framework for following up on progress has also been built. MMC has appointed an executive vice president responsible for promoting revitalization and established the Revitalization Promotion Department, as internal checking functions. In addition, MMC created the Business Revitalization Monitoring Committee, an external body that monitors progress toward the goals of the Mitsubishi Motors Revitalization Plan. Acting as an advisory body to the Board of Directors, the committee comprises outside experts as well as representatives from three Mitsubishi group companies (Mitsubishi Heavy Industries, Mitsubishi Corp., and The Bank of Tokyo-Mitsubishi). The committee will monitor progress being made toward achieving the goals of the Mitsubishi Motors Revitalization Plan from an external perspective. In addition to offering necessary advice, it will also submit reports and proposals in response to specific requests by the Board.

**New Management and Organizational Structure**

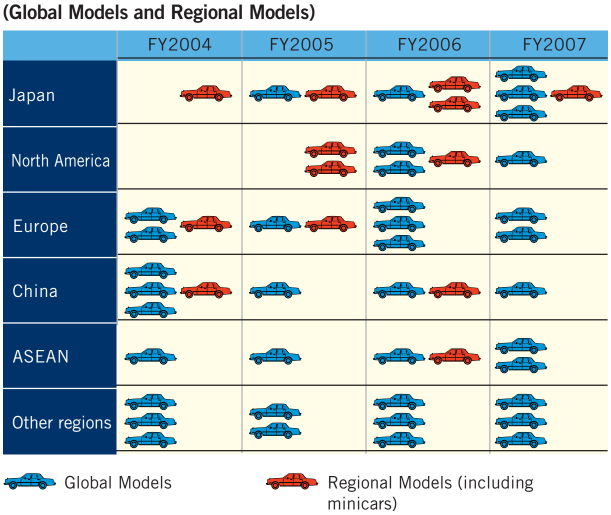


# Business Strategies
## Product Development

### Developing Attractive Products to Achieve the Goals of the Revitalization Plan

As part of the revitalization plan, the Product Development & Environmental Affairs Group Headquarters is committed to rolling out a steady stream of products on schedule over the three-year period through fiscal 2007. The new vehicles will be designed to the highest standard of quality and be cost competitive. The plan calls for launching 29 global models and 10 regional models. The introduction of these attractive new products is a key requirement for achieving the goals of the revitalization plan.

**Launch Plan for New Models (Global Models and Regional Models)**




To put this plan into perspective, MMC launched only four new models in Japan during the three-year period from fiscal 2001 to fiscal 2003. In contrast, the plan calls for introducing a total of nine new models in Japan over the next three years from fiscal 2005 to fiscal 2007. In fact, we plan to actively launch new models in each market around the world.

In May 2005, MMC launched the fully redesigned all-new *Eclipse* in the U.S., the first new product released following the announcement of the revitalization plan. Furthermore, in the second half of fiscal 2005, MMC plans to begin selling in Japan the new *Outlander* SUV and the innovative, new-age minicar *i*. *Eclipse* is a well-known model in the North American market and is giving traction to the Mitsubishi Motors brand. We expect the launch of this new model to help boost sales of other Mitsubishi Motors models as well. The *Outlander* SUV, which provides a quality, all-round driving experience, will be introduced in overseas markets and become a global model. The new *i* minicar employs a new platform based on a midship layout where a lightweight, compact engine is mounted toward the rear of the vehicle. This new design overcomes the size constraints of minicars to achieve exceptional crashworthiness and spaciousness.

In addition, in fiscal 2005, MMC will start local production of new vehicles in various locations around the world. These include the new *Triton* one-ton pickup truck in Thailand, the new *380* luxury sports sedan in Australia, and a new multipurpose vehicle in Taiwan.

### Developing Technologies That Provide the "Utmost Driving Pleasure and Safety"

In product development, a key requirement for achieving the goals of the revitalization plan is to launch attractive products, on plan in terms of quality, cost, and timeliness. By developing products that leverage the four-wheel drive and all-wheel control technologies cultivated by MMC, we aim to provide automobiles that embody the "Utmost Driving Pleasure and Safety."

**Tetsuro Aikawa**
*Managing Director*
*In Charge of Product Development & Environment Affairs Group Headquarters*

Eclipse (North American specification)
Fourth-generation model launched in North America in May 2005.

### Technologies for Offering the "Utmost Driving Pleasure and Safety"

To survive in the global automotive market, where fierce competition is the norm, MMC must incorporate the propriety technologies it has developed into all products. Through participation in motor sports such as rally events, MMC has developed state-of-the-art technological expertise in four-wheel drive and all-wheel control, as well as in the fields of weight reduction and aerodynamics. These technologies will be embodied and commercialized in the safety and durability of MMC's "SUV DNA," as represented by the *Pajero*, and by on and off-road driving performance of MMC's "Sporty DNA," as represented by the *Lancer Evolution*.

MMC has won many accolades for quality. In the U.S., the *Galant* and *Endeavor* ranked No. 2 in their respective categories in the Initial Quality Study (IQS) conducted by J.D. Power and Associates.

The recently developed 1.5-liter DOHC 16-valve 4-cylinder aluminum engine, fitted to the *Colt* and *Colt Plus* adopts the MIVEC (Mitsubishi Innovative Valve timing Electronic Control) system. This next-generation engine delivers a sporty driving performance and an environmental performance that meets ongoing market demands for low fuel consumption and low emissions.

While many automakers have concentrated their energies with regard to environmentally friendly technologies on developing hybrid vehicles, MMC has continued to independently develop electric vehicles. In May 2005, the company unveiled the MIEV (Mitsubishi In-wheel motor Electric Vehicle) concept, which involves next-generation electric vehicle technologies. The core elements are in-wheel motors, which refer to motors fitted inside the wheels, and lithium-ion batteries, which offer superior performance in terms of energy density. Development is progressing with the aim of a market launch within the next several years. MMC hopes to contribute to society by achieving mass production of electric vehicles, which have no exhaust emissions, ahead of the competition.


Outlander (Japanese specification)
An all-new SUV embodying the pursuit of driving performance and comfort based on "an innovative on-road SUV" concept. Launched in October 2005, the *Outlander* features a newly developed engine, platform and body frame.


Triton Double Cab
Produced in Thailand, a new one-ton pickup truck which went on sale in August 2005.

## Two Next-generation Platforms

MMC has adopted entirely new platforms for *Outlander* and *i*, scheduled for launch in fiscal 2005.

The platform used in the *Outlander* is MMC's new main platform. It will be used to produce approximately three million units, including other new models such as a new mono-box (van) model and a small sedan. The platform's development reflected the collective expertise of MMC's entire engineering force in crashworthiness, durability, rigidity and weight reduction. With the flexibility to accommodate 1.5- to 3-liter class engines, the platform can be broadly applied to vehicles ranging from SUVs to sedans.

The minicar platform used in *i* (MR platform) is a midship layout where the engine is mounted toward the rear of the vehicle. It is an innovative platform that reconciles many trade-offs—crashworthiness vs. spaciousness, a comfortable ride vs. responsive handling, and large tires vs. a tight radius turning—that arise due to the size constraints of minicars. Using this platform as a base, MMC will develop unique minicars.

The MR platform also has a very broad scope of application, including uses in future electric vehicles.


Lancer Evolution IX (Japanese specification)
The 12th model in a line of high-performance 4WD sedans that have become strongly connected with major motor sports events such as the FIA World Rally Championship (WRC).


Grandis Sports Gear (Japanese specification)
A new-style mini-van incorporating elements of an SUV.

Colt Plus
This new compact wagon offers excellent utility by adding the luggage space of a station wagon to the Colt.


Colt CZ3 (European specification)
A three-door model of the Colt. This lineup also includes the Colt CZT, which is equipped with a turbo engine.


Colt (European specification)
This compact car has received a number of awards, including the 2004 Golden Steering Wheel Award in Germany.

**Awards for Mitsubishi Motors Vehicles (Fiscal 2004)**

| Model | Country | Award | Category |
|---|---|---|---|
| Colt | Germany | Das Goldene Lenkrad (Golden Steering Wheel) | Compact car |
| | Denmark | Car of the Year in Denmark 2005 | All categories |
| | The Netherlands | Compact Car of the Year 2004 | Compact car |
| | The Netherlands | The 2004-2005 Right Size Award | – |
| | Romania | Car of the Year in Romania 2005 | All categories |
| | Poland | Best Cars 2005 | Compact car |
| Lancer | Russia | Car of the Year in Russia 2005 | C segment |
| Lancer Evolution | U.K. | Scottish Sports Car of the Year | Sports car |
| | France | Sportive de l'annee (Sports Car of the Year) | Sports car |
| | Poland | Playboy Sports Car 2004 | Sports car |
| | Greece | Best New Production Car Under Euro 60,000 | – |
| | U.S. | Sport Compact Car of the Year 2005 | Compact sports car |
| | U.S. | 2005 All-Star | Sports sedan |
| | Australia | Bang for your Bucks | All categories |
| Lancer Wagon | Poland | SUPERPRODUKT 2004 | All categories |
| Grandis | U.K. | Scottish MPV of the Year | MPV |
| | Thailand | Best MPV | MPV |
| Outlander (Airtrek in Japan) | Romania | Best SUV in Romania 2004 | SUV |
| Pajero | Australia | Best Medium 4WD Diesel | SUV |
| Strada | Thailand | Best Export Pick-up Truck | Pickup truck |

i (Japanese specification)
Developed with "an innovative, new-age mini-car" concept, the i is the first Mitsubishi vehicle to employ a rear mid-ship layout, which offers both the highest safety and comfort for a mini-car. Scheduled to go on sale in January 2006.

Raider (North American specification)
MMC's first model to be launched in North America's large pickup truck market. Rolled out in October 2005.

## Basic R&D Policies

MMC is pursuing R&D activities with the view to realizing the aspirations of the new corporate philosophy formulated in conjunction with the announcement of the Mitsubishi Motors Revitalization Plan in January 2005. In essence, this means that the most significant mission of R&D at MMC is to continue to deliver without comprise the "Utmost Driving Pleasure" and "Safety" for "Valued Customers and Our Community." More specifically, MMC is striving to achieve this goal based on the following three key themes:

**"For Valued Customers and Our Community"**
Develop automobiles with improved fuel efficiency and low emissions, low-pollution vehicles, and easily recyclable vehicles with no hazardous substances with the aim of protecting the environment.

**"The Utmost Driving Pleasure"**
Develop high-performance powertrains and four-wheel control technologies, as well as technologies for lowering the center of gravity and reducing the weight of vehicles.

**"Safety"**
Develop body frame structures and safety features that protect passengers, and interior materials that achieve more comfortable cabin spaces.

**<Concrete Initiatives>**
Based on the above basic policies, approximately 4,000 R&D staff members across the MMC Group are working to develop a variety of new technologies.

New 2.4 liter, 4-cylinder MIVEC engine fitted on the *Outlander*

- MMC is enhancing its lineup of high-performance, low fuel consumption, powertrain systems. This lineup includes a recently developed MIVEC aluminum cylinder block engine, CVT (Continuously Variable Transmission) and AMT (Automated Manual Transmission). These efforts are being made to respond to new fuel economy standards that will come into force in Japan in 2010 as well as a new certification system for low-emission vehicles. In parallel, MMC is working to meet overseas regulatory developments such as the tightening of CAFE standards in the U.S., the launch of the ZEV program in California, and voluntary targets for reducing $CO_2$ emissions in Europe.
- As part of initiatives to create propriety environmental technologies, MMC is pursuing the development of next-generation electric vehicles. These vehicles are based on two core technologies: in-wheel motors, which enable the drive system to be housed compactly, and lithium-ion batteries, which offer superior energy density. Collectively, these technologies and vehicles are referred to as the MIEV (Mitsubishi In-wheel motor Electric Vehicle) concept. MMC is pressing ahead with technological development with the view to pursuing the exciting new possibilities of electric vehicles while also applying these technologies to hybrid and fuel cell vehicles in the future. Through these initiatives, the company is setting its sights on manufacturing cars befitting the current Century of the Environment.
- In the field of safety, MMC is developing technologies in areas such as passenger and pedestrian protection, and compatibility, as well as advancing R&D in the safety of structural frameworks during collisions. Active safety measures include the development of electronics designed to anticipate and prevent accidents and driving support technologies such as parking assistance systems, in addition to the improvement of fundamental aspects of driving performance such as braking and steering.
- Technologies are also being developed to make cabin environments more comfortable. These include low-VOC interior materials (VOCs: volatile organic compounds responsible for "sick-house" syndrome.), the removal of odors, pollen and other allergens, and UV and infrared blocking technologies.


# MIEV (Mitsubishi In-wheel motor Electric Vehicle)

In May 2005, MMC announced the MIEV concept, which collectively refers to the test vehicles and technologies associated with a program to develop proprietary electric vehicle technology.

MIEV incorporates two core technologies: the in-wheel motor, which makes the drivetrain more compact; and a lithium-ion battery, which boasts outstanding energy density and other properties. Development is under way with the aim of commercializing the first MIEV in the next several years. At the same time, MMC aims to create technologies that can be applied in hybrid and fuel cell vehicles.

## <MIEV Features>

### 1. In-wheel Motors

In-wheel motors represent an innovative technology that powers vehicles using only high-performance, compact motors that fit inside the wheels, eliminating the need for transmissions, driveshafts and other complicated drive systems.

The *Colt EV*, the first MIEV test car, has two in-wheel motors installed in its rear wheels. The *Lancer Evolution MIEV*, the second test car, is equipped with new-type in-wheel motors, which deliver even more power, in all four wheels.

#### (I) Free Layouts

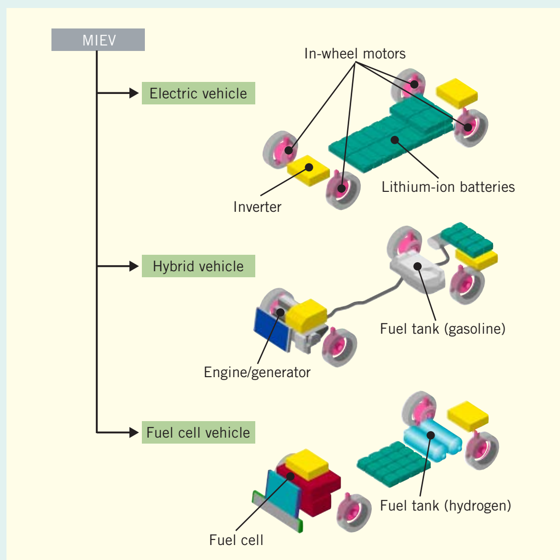
Putting the drivetrain system in a compact form inside the wheels makes a dramatic difference in terms of freeing up the layout of the vehicle. This further increases the potential of electric vehicles, including the possibility to improve passive safety and driving performance, enabling the creation of innovative exterior designs and creating spacious cabin environments. At the same time, this also makes the in-wheel motor a promising technology for use in hybrid vehicles, as well as in fuel cell vehicles where considerable space is needed to accommodate the fuel cell stack and hydrogen tanks.

#### (II) Progress in All-wheel Control Technology

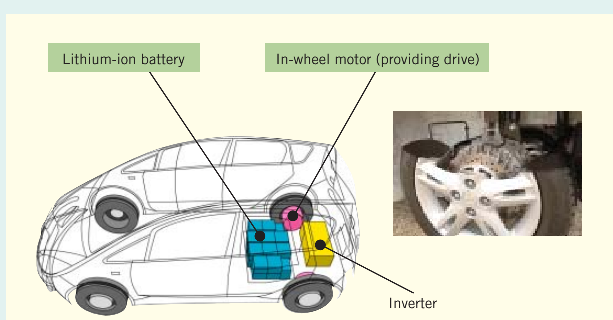
Installing in-wheel motors in all four wheels realizes advanced control of driving and braking force independently for each wheel, contributing to high levels of driving performance. These components therefore offer the possibility of wider application and enhancement of the company's all-wheel control technology currently used in the *Lancer Evolution*, *Pajero* and other models.

### 2. Lithium-ion Batteries

Lithium-ion batteries offer better energy density and life expectancy than conventional lead-acid or Ni-MH batteries. MMC has been developing EVs using this type of battery for many years, including the *Mitsubishi HEV* (1996), the *FTO-FV* (1998) and the *Eclipse EV* (2000). Public road trials and other testing have demonstrated the practicality of such batteries as an EV power source. One of the major obstacles to the uptake of EVs in the past has been their limited range. However, with the operating range on a single charge now up to 150km, there are high hopes for the commercialization of these vehicles in the years ahead. The economics of electric vehicles are also compelling, with electricity for a single recharge costing roughly 75% less than gasoline during the day and 90% less at night.




Electric vehicle technologies centered on in-wheel motors and lithium-ion batteries can also be applied to hybrid and fuel cell vehicles.




Schematic of *Colt EV*, the first MIEV test car. Two in-wheel motors are installed in the rear wheels. Driving tests are currently being conducted to identify and surmount the technical issues posed by in-wheel motors.

# Quality

## Regaining Trust

Regaining Trust. For the revitalization of Mitsubishi Motors, no issue is more critical.

By delivering appealing products and services that our customers can enjoy with confidence, the entire company is firmly committed to gaining trust in Mitsubishi Motors.

We deeply regret that MMC's involvement in the recall cover-up of 2000 caused considerable hardship for our customers and other stakeholders. Acknowledging the inadequacy of the investigation carried out at the time, MMC reopened the investigation of past recall issues in 2004. We completed the process of identifying all quality problems and notifying the authorities of these issues where necessary. In the process, we recognized that two factors were to blame—the lack of an organizational structure to ensure quality production at every level, and a corporate culture in which a compliance mindset had yet to fully penetrate.

Following an exhaustive investigation of the facts, root causes and background of the series of recall issues over the past 25 years, in March 2005, MMC submitted to Japan's Ministry of Land, Infrastructure and Transport (MLIT) its final report in response to a written warning issued by MLIT. The final report details the findings of the investigation and outlines measures to prevent any future recurrence.

In parallel, MMC sought to clarify management accountability by bringing legal claims against certain former members of management in charge when these incidents took place. With this step, we made a clean break with the old corporate structure that was at the root of the problem and reaffirmed our determination to mold a new Mitsubishi Motors trusted by our customers and society at large.

**Mitsuo Hashimoto**
*Senior Executive Officer*
*Corporate General Manager of Quality Affairs Office*

## First Step—Organizational Reforms

In June 2004, quality-related tasks previously performed separately at the planning and development, purchasing, production, sales and other stages were concentrated in the newly established Quality Affairs Office. This step unified all decision-making on quality issues. The office's mission is to assume ultimate responsibility for the quality and safety of all Mitsubishi-brand vehicles worldwide. To this end, it has devised systems to enhance product development and manufacturing quality, and expedite quality improvements in the marketplace, all from the customer's perspective.

While the Quality Affairs Office is involved in all processes of quality assurance, the CSR Promotion Office's Quality Audit Department conducts audits to determine the appropriateness of the Quality Affairs Office's activities.

## Quality Assurance Initiatives

Quality assurance consists of two types of initiatives: producing vehicles free of problems, and preventing the recurrence of problems that have occurred. At MMC, quality assurance is illustrated by the following actions:

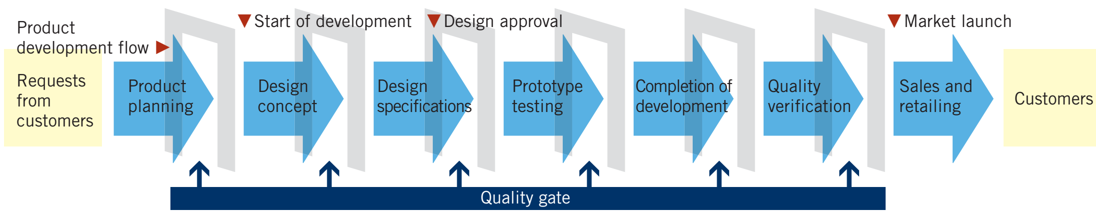
### ■ Quality Management System: ISO 9001:2000

In 2003, Mitsubishi Motors obtained ISO 9001:2000 edition certification company-wide. In the following year, MMC was granted approval by certification agencies in Japan (JAB) and the U.K. (UKAS) to maintain its certification after passing a follow-up inspection conducted by a third-party examiner. ISO 9001 is an international standard that enables third parties to objectively evaluate manufacturers' initiatives to improve customer satisfaction by implementing continuous improvements in their quality management systems. MMC has obtained ISO 9001 certification in the fields of design, development, purchasing, manufacturing and service.

### ■ Development and Production Quality Enhancements

Beginning with the *eK WAGON* launched in 2001, MMC introduced MMDS (Mitsubishi Motors Development System), a management system for assuring and improving the quality of all manufacturing processes. This system, which employs the "Quality Gate" concept, defines standards that must be met by all products and processes at every stage leading up to market launch. Using this system, MMC conducts comprehensive

MMDS (Mitsubishi Motors Development System)




reviews and evaluations to ensure that these standards are met. As checklist items and their requirements are reviewed and upgraded continuously to meet changing conditions, the thoroughness of the MMDS system is building up definite quality.

**■ Response to Quality Problems**

Information regarding quality problems, from development and production through to after-sales service, encompassing not only domestic but overseas information, is now centrally managed. Sharing this data throughout the company will enable us to handle problems and prevent recurrences faster.

MMC also has a network of ten technical centers across Japan equipped with advanced repair and maintenance technology under the direct authority of the Quality Affairs Office. These centers offer backup support to dealers for rapid and accurate response to quality problems. Furthermore, MMC will be increasing its workforce in 2005 and beyond, with the aim of enhancing its customer and dealer support systems.

## Preventing Recurrences of Quality Issues

In light of the findings of investigations into past recall issues, MMC is implementing additional improvement measures, starting with the following, to prevent the recurrence of quality issues. At the same time, we are taking steps to speed up our service systems for quality assurance.

**■ Improving the Management System for Product Quality Information**

Information concerning quality problems in products already on the market, including issues in which a recall is deemed unnecessary, is discussed at quality meetings and at managing directors meetings. It is then reported to the Board of Directors.

**■ Forming a Team of Technical Experts**

To improve quality on the market faster and more accurately, MMC formed a Preliminary Assessment Team comprising technical experts in product development and production. The team examines initial problem-related information received from dealers to identify high-risk cases so that the company can immediately begin appropriate investigations.

**■ Expediting the Recall Decision Process and Ensuring Transparency**

To shorten the period from the occurrence of problems to the implementation of countermeasures and procedures, MMC increased the frequency of quality countermeasures meetings and recall assessment meetings from once to twice monthly. In addition, to heighten the transparency of these meetings, members from the customer relations department and marketing division participate in these meetings.

Other participants include observers from the Business Ethics Committee as an additional external check.

**■ Raising Employee Awareness of Quality Issues**

All employees receive training on laws and regulations pertaining to recalls, and career paths include an assignment in a quality-related department.

**■ Partial Revisions to Employee Regulations**

With a view to raising awareness of the recall process and to preventing any recurrence of past recall-related issues, MMC revised the disciplinary provisions in its employee regulations to clarify responsibilities of individual employees with regard to product quality and customer safety.

At Mitsubishi Motors, we are pursuing the origins of car engineering as we strive to regain trust by continuously implementing thorough measures to improve quality. In doing so, we hope to contribute to people's lives and to society. We are committed to providing customers with the utmost satisfaction and driving pleasure through the vehicles we manufacture.

# Production

### Enhance Plant Utilization

MMC is making ceaseless efforts to improve production efficiency, a key requirement for achieving the goals of its revitalization plan.

In Japan, a substantial drop in domestic sales volume in fiscal 2004 triggered a major decline in capacity utilization at the Mizushima and Okazaki plants, and at Pajero Manufacturing Co., Ltd. (PMC).

From fiscal 2005, however, an increase in plant utilization is planned due to increased volumes from the launch of *Outlander* and *i*, and due to strategic business alliances with Nissan Motors Co., Ltd. and PSA Peugeot Citroën of France for OEM supply of vehicles such as minicars and SUVs.

### Quality Improvement Is Essential for Productivity Improvement

At Mitsubishi Motors, we believe that to improve quality it is absolutely essential to improve productivity. Improved quality in each development and production process leads to smoother production line flow and higher production output. Based on this belief, MMC is currently implementing the ISQC (In Stage Quality Creation) program. This program involves far-reaching quality management initiatives targeting each and every process on the production line aimed at enhancing productivity by preventing inefficiencies and mistakes at the production site. As part of these efforts, MMC is working to improve the FTC (first time capability) rate, which has been positioned as a key benchmark. This rate is the percentage of finished vehicles assembled without being removed from production lines due to defects, and improves in step with quality enhancements. When this rate is sufficiently high, just-in-time component procurement based on detailed production plans becomes possible, making planned-sequential-production, which can achieve the best combination of production and logistics, a reality.

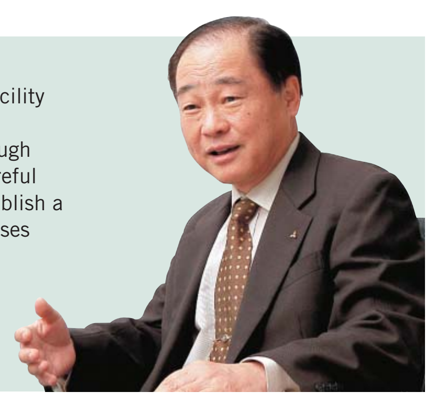
Giving quality enhancements of this kind the highest priority, MMC decided to temporarily postpone the transfer of production of models from the Okazaki plant to the Mizushima and PMC plants, which had been announced as part of the Business Revitalization Plan in May 2004. With the Mizushima Plant poised to enter peak production as the assembly of new models begins in the second half of 2005, we determined that rather than transferring production duties at this time, the best course of action is to avoid placing an undue burden on the site.

Even at production sites, the greatest emphasis is on delivering high-quality products to our customers, and enacting measures to enhance productivity.

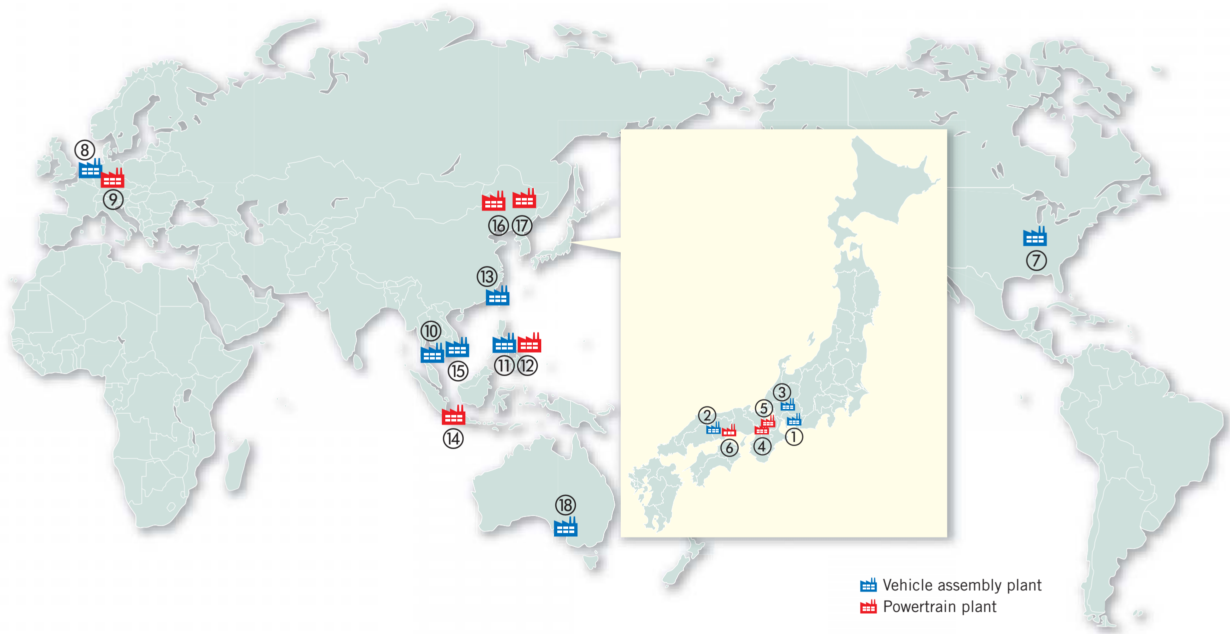
### Establishing a Unique Production System

MMC is working to raise production efficiency by restructuring production facility capacity, reviewing logistics procedures, and through OEM supply based on business alliances. But most important by far is enhancing productivity through enhanced quality. Improvements in the FTC rate are being made through careful quality management beginning in the development stage. The goal is to establish a unique production system with quality and production efficiency that surpasses that of peer companies.

**Makoto Maeda**
*Managing Director*
*In Charge of the Production Group Headquarters*



**Principal Plants**




| Country/Region | Name | Major Products |
|---|---|---|
| Japan | ① Nagoya Plant - Okazaki | Colt, Colt Plus, and Grandis |
| | ② Mizushima Plant | Outlander, Lancer, eK WAGON and Minicab |
| | ③ Pajero Manufacturing Co., Ltd. | Pajero |
| | ④ Powertrain Plant - Kyoto | Engines |
| | ⑤ Powertrain Plant - Shiga | Engines |
| | ⑥ Powertrain Plant - Mizushima | Engines and transmissions |
| U.S.A. | ⑦ Mitsubishi Motors North America, Inc. (MMNA) | Eclipse, Galant, and Endeavor |
| Netherlands | ⑧ Netherlands Car B.V. (NedCar) | Colt (European model) |
| Germany | ⑨ MDC Power GmbH (MDC-P) | Engines |
| Thailand | ⑩ Mitsubishi Motors (Thailand) Co., Ltd. (MMTh) | Triton and Strada (one-ton pickup trucks) |
| The Philippines | ⑪ Mitsubishi Motors Philippines Corp. (MMPC) | Adventure and Delica |
| | ⑫ Asian Transmission Corp. (ATC) | Transmissions |
| Taiwan | ⑬ China Motor Corporation (CMC) | Lancer, Savrin (Chariot Grandis) |
| Indonesia | ⑭ P.T. Mitsubishi Krama Yudha Motors & Manufacturing (MKM) | Manufacture of automotive parts |
| Vietnam | ⑮ Vina Star Motors Corp. (VSM) | Pajero, Lancer, Joly (Asian car) and Grandis |
| China | ⑯ Shenyang Aerospace Mitsubishi Motors Engine Manufacturing, Ltd. (SAME) | Engines |
| | ⑰ Harbin Dongan Automotive Engine Manufacturing, Ltd. (HDMC) | Engines and transmissions |
| Australia | ⑱ Mitsubishi Motors Australia, Ltd. (MMAL) | 380 |

# Procurement

### Role of the Procurement Division in the New Administrative System

An organizational revision made in April 2005 saw the procurement division, which had previously belonged to the Product Operations Group Headquarters, become the independent Global Procurement Group Headquarters with a direct reporting line to the president. This change shows how significant the role of purchasing is for the revitalization of Mitsubishi Motors. Under this new organization, we are targeting a 15% reduction of material costs for the three-year period from fiscal 2004 to fiscal 2006. MMC currently faces extremely severe procurement conditions, such as rising prices of steel and other raw materials. However, we see this as an opportunity to be innovative in our approach to reducing materials costs, and to enhance competitiveness by improving the performance of suppliers. We are committed to achieving these goals by undertaking whatever challenges are required.

### Change From Volume-based Purchasing to Quality-based Purchasing

Volume-based purchasing has generally been the method for reducing material costs, and this method was the normal business practice in MMC as well. For example, reducing material costs can be achieved by promoting volume bundling on a global basis. But when our sales volume suddenly declined and the expected purchasing volume also decreased, negotiations with suppliers became problematic, forcing us to change suppliers to those that could offer the lowest price. However, taking this approach meant that we sometimes ruined long-lasting relationships with suppliers, and it also affected the quality of parts. Therefore, we are shifting from volume-based cost reduction to quality-based cost reduction, which improves the overall quality of suppliers.

Specifically, we will keep in close communication with suppliers, starting from the product design phase and the development phase. We aim to continually pursue optimal costs and quality by enhancing our cooperative relationships with suppliers to improve suppliers' overall performance in every aspect, particularly the parts manufacturing processes (including line layout and personnel positioning), material procurement methods and cost control methods.

In June 2005, MMC established a new Suppliers Council consisting of 159 suppliers. Through mutual study and practical activities directed toward the future, we will further strengthen our cooperative relationships with suppliers.

Moreover, as clarified in the MMC revitalization plan, the enhanced relationships between MMC, Mitsubishi Corporation and Mitsubishi Heavy Industries offer significant advantages to suppliers. For example, we can establish "win-win" relationships with suppliers by utilizing the marketing expertise of Mitsubishi Corporation and the leading-edge technology of Mitsubishi Heavy Industries to generate and expand business opportunities.

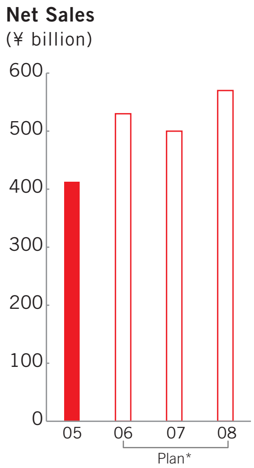
### From Volume to Quality

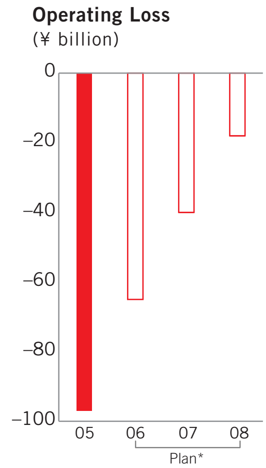
The former procurement division is now playing a more vital role in the revitalization of MMC as it has became the Global Procurement Group Headquarters with a direct reporting line to the president, from April 2005. We are shifting from volume-based purchasing to quality-based purchasing, whereby we work closely together with suppliers to enhance cost competitiveness and parts quality. We are meeting the challenge of pursuing optimal costs through the improvement of suppliers' overall quality in every aspect, and see today's tough procurement environment as a chance to renew and further reinforce our relationships of trust with suppliers.

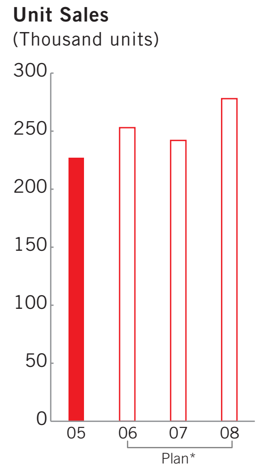
**Norio Aoki**
*Managing Director*
*In Charge of Global Procurement Group Headquarters*

## Region

### «Domestic Operations»




* MMC revised its targets for fiscal 2005 when it released its fiscal 2004 full-year financial results on May 23, 2005. Targets for fiscal 2006 onwards are those announced in the Mitsubishi Motors Revitalization Plan on January 28, 2005.

Under the revitalization plan, MMC's commitment is to first increase domestic sales volume to 253,000 units in fiscal 2005. Next, MMC aims to expand sales volume further and achieve a return to profitability in domestic operations earlier than planned. In fiscal 2004, domestic net sales represented slightly less than 20% of total net sales after a sharp decrease in sales volume last year. However, restoring confidence in the domestic market remains a top priority for staging a true comeback on the global stage.

#### Returning to the Basics of Putting the Customer First After a Sharp Fall in Sales

The past recall issue had a major impact on domestic sales, resulting in severe falls in domestic sales volumes in the first half of fiscal 2004; there were some months in which sales volume was less than half the previous year's level. These declines, compounded by voluntary restraints on advertising and sales promotions due to recall-related issues, made it difficult for MMC to implement its domestic sales strategies.

#### "Our Bond With the Customer" Is a Key Asset

In 2004, MMC suffered sharp falls in sales volume due to a loss of trust caused by the past recall issue. In this climate, we returned to the basics of putting the customer first. We offered a free inspection program for all MMC vehicle owners. Building on the relationships with 3.4 million customers reestablished through this inspection program, we will continue to restore customer confidence and maximize the after-sales business. Positioning fiscal 2005 as the inaugural year of a drive to promote after-sales services, MMC is committed to these services. Efforts will also be made to improve earnings by actively launching long-awaited new models.

**Fujio Cho**
*Managing Director*
*In Charge of Domestic Operations Group Headquarters*

Under these trying circumstances, in fiscal 2004, MMC achieved sales of 227,000 units, 7,000 units higher than the target announced on January 28, 2005. This was due largely to the tremendous efforts of staff at MMC dealers.

Meanwhile, MMC invited all owners of MMC vehicles to bring their cars to dealerships for free inspections through direct mail campaigns by dealers, newspaper advertisements and other means. In addition to ensuring vehicle safety, the free inspection program was aimed at achieving one of MMC's highest priorities: engaging in a dialogue with each and every customer to help win back their trust and build stronger relationships. Thanks to the dedication of dealers nationwide, MMC was able to carry out free inspections on 3.4 million vehicles.

### Strengthening Customer Relationships Through High Quality After-sales Services

MMC views the customer relationships rebuilt through the free inspection program as the foundation of future marketing initiatives. With this in mind, the company will reinforce links between sales and services at dealers to further deepen customer relationships. Going forward, MMC will bolster the entire after-sales value chain, beginning from the purchase of new cars to end-of-life disposal. With fiscal 2005 as the inaugural year of an after-sales service drive, MMC will provide the "Five Point Reassurance Program" and enhance all services for customers through dealers, with the view to building even stronger relationships. MMC will continue to strive to restore customer confidence through these initiatives.

Also, in terms of customer response, we will encourage our customers to personally bring in their vehicles to dealerships for repairs so that advisors can directly confirm repair details with them. These visits will also provide opportunities for customers to view new models, and for other services to be provided to them as well. In this manner, MMC aims to establish a framework where after-sales services and sales complement one another.

Lancer Evolution Wagon
The first station wagon in the Lancer Evolution series, the Lancer Evolution Wagon achieves unparalleled driving performance for its class.

**"Five Point Reassurance Program"**

| Program | Details | Launch Period |
|---|---|---|
| Mitsubishi Reassurance Support | "Mitsubishi Assist 24" 24-hour roadside assistance for new vehicle purchasers | January 2005 |
| Engine Oil Change Campaign | Discounted oil changes for customers who bring their vehicles to dealers for servicing | May 2005 |
| Car Inspection with Extended Warrantees | Extended 2-year warrantees offered at discounts during dealer inspections and a package combining package combining inspections with "Mitsubishi Assist 24" | October 2005 |
| Two-year Warranty Program for Certified Used Mitsubishi Cars | Two-year quality guarantee for certified used Mitsubishi vehicles | September 2004 |
| Mitsubishi Reassurance Insurance | Customers who purchase automobile insurance from Tokio Marine & Nichido Fire Insurance Co., Ltd. at Mitsubishi dealers receive "Mitsubishi Assist 24" | January 2005 |

i

Outlander

### Launch of New Vehicles

MMC plans to launch two long-awaited new vehicles in the second half of fiscal 2005: *Outlander* and *i*. *Outlander* is an all-new SUV powered by a new 2.4-liter aluminum block engine. While *Outlander* offers SUV-grade durability, it also presents unparalleled on-road driving performance, sporty looks and flexible utility not found in traditional SUVs. This new model promises to attract not only existing SUV drivers, but also sedan and minivan drivers seeking to replace their vehicles. On the other hand, *i*, an innovative, new-age minicar, is the first Mitsubishi Motors model to employ a midship engine layout. With this new model, MMC is targeting not only minicar users, but replacement demand from compact car owners as well. In addition, MMC is counting on the attractive *i* model to play an instrumental role in appealing to female customers, who reacted most acutely to the recent spate of quality issues.

### Building an Optimal Sales and Service Structure to Put Customers First

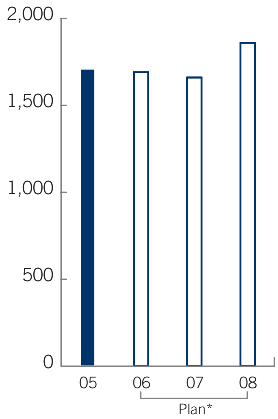
To stabilize and improve operating profitability, MMC will reestablish an optimal sales network. As of July 1, 2005, the company's sales network consisted of 164 dealer companies and 861 locations. Based on longstanding relationships of trust, MMC seeks to maintain relationships and spur on the development of successful independent sales companies. Meanwhile, MMC will realign its network of consolidated (company-owned) sales companies by closing and integrating dealerships to broaden their coverage areas, while making every effort to shed costs and expand sales. MMC is also seeking to consolidate and broaden the coverage of its network of domestic auto-parts sales companies, which currently consists of 13 companies in 63 locations.

However, MMC will still require at least 800 dealerships to provide adequate after-sales services to owners of Mitsubishi vehicles. Decisions will be made carefully, while keeping a close eye on future trends in sales volume.

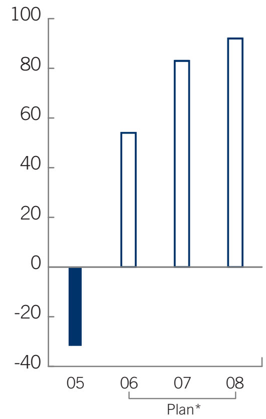

Dealerships are being renovated and redesigned based on a corporate identity design to create a favorable impression.

## «Overseas Operations»

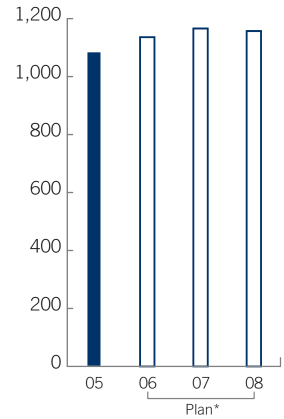
**Net Sales**
(¥ billion)




**Operating Profit (Loss)**
(¥ billion)




**Unit Sales**
(Thousand units)




* MMC revised its targets for fiscal 2005 when it released its fiscal 2004 full-year financial results on May 23, 2005. Targets for fiscal 2006 onwards are those announced in the Mitsubishi Motors Revitalization Plan on January 28, 2005.

### Strengths and Issues in Overseas Markets

Overseas operations will have a significant bearing on the outcome of the Mitsubishi Motors Revitalization Plan as this segment represents approximately 80% of consolidated net sales. MMC has a long history in the ASEAN region and other Asian markets, in particular. For example, in Indonesia, the history of Mitsubishi Motors, centered on commercial vehicles, dates back some thirty years. In these regions, the Mitsubishi Motors image of durability and reliability has thoroughly penetrated the markets, enabling MMC to consistently generate high earnings, especially in the ASEAN region.

However, looking at overseas markets on the whole, MMC has struggled to generate sufficient sales volumes to recoup investments made as part of past efforts to actively expand local production.

### Rebuilding Operations in Unprofitable Regions and Building on MMC's Strengths

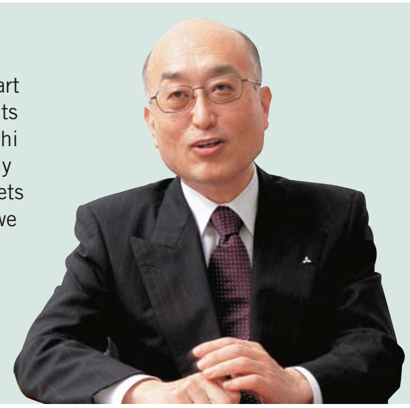
As part of the revitalization plan, MMC will rebuild operations in regions where it has fallen into the red, while launching attractive new models in all markets. At the same time, efforts are being made to enhance models and operations in regions where MMC can exert its strengths. Specifically, MMC has already booked substantial impairment losses, reduced headcount and taken other actions in North America and Australia, where overcapacity was an issue. With these steps, MMC has achieved a sharp reduction in fixed costs and a lower breakeven point.

The key themes in each region are as follows: establish a profitable operating structure in North America, achieve commercial viability and growth in Europe, actively leverage the strong Mitsubishi brand in China, and further reinforce sales capabilities in the ASEAN region. Looking ahead, MMC will implement various initiatives to achieve these goals.

### Keys to Revitalization: Reestablish MMC in the North American Market and Achieve Steady Growth in All Markets

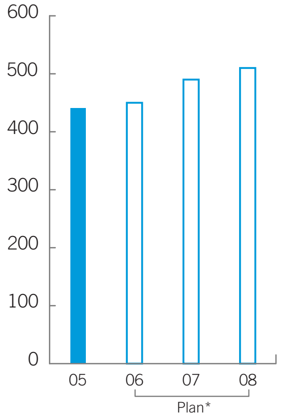
In overseas operations, a key requirement for revitalizing MMC is to jump-start operations in the North American market, where MMC has struggled due to its previous over-ambitious sales growth strategies. On the other hand, Mitsubishi vehicles continue to enjoy an image of durability and reliability and are firmly trusted by customers in many regions worldwide. While preserving these assets and further enhancing quality under an optimal global production network, we will leverage our strengths and focus on markets where we are competitive. I believe this will ultimately pave the way for long-term growth.

**Hiroshi Harunari**
*Managing Director*
*In Charge of Overseas Operations Group Headquarters*

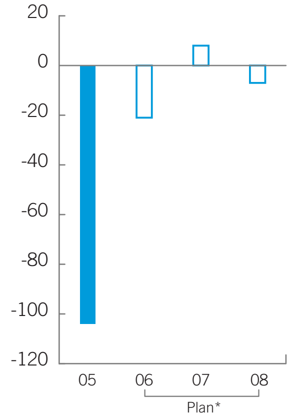


## North America

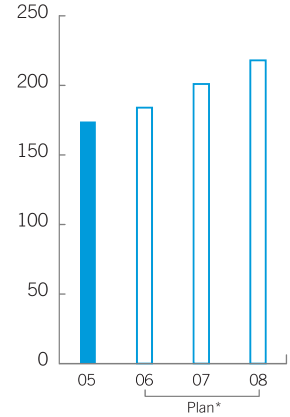
Net Sales
(¥ billion)




Operating Profit (Loss)
(¥ billion)




Unit Sales
(Thousand units)




### Putting an End to a Vicious Cycle

Our previous policy of over-ambitious sales growth saw excessive reliance on fleet sales and incentives, and sales financing products insufficiently analyzed for their risk. This over-expansion had the effect of driving down used car prices, which hurt new car sales and damaged the image of the Mitsubishi Motors brand. This vicious cycle was a primary reason for the downturn in North American operations.

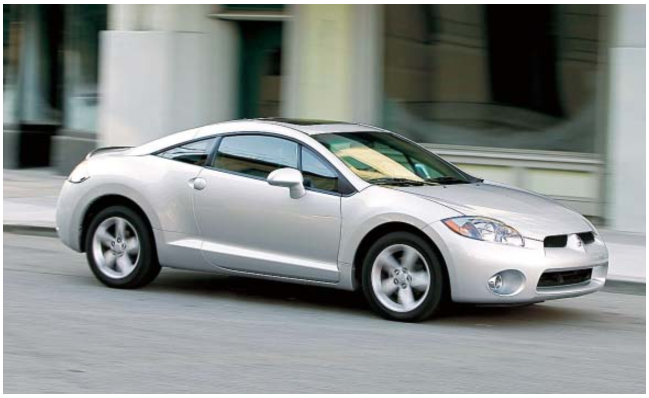
However, MMC has not changed, and will not change, its stance on the importance of the North American market.

In fiscal 2004, North American operations posted a large operating loss, although losses narrowed from the previous fiscal year. This mainly reflected a temporary fall in sales volume due to measures initiated in 2004 to normalize sales activities and end the above-mentioned vicious cycle. Selling expenses associated with clearing excess inventories of older models was also responsible.

Measures to normalize sales activities are steadily delivering results. By actively launching new models in fiscal 2005 and beyond, MMC expects North American operations to return to operating profitability on a consolidated basis in fiscal 2006. MMC is making every effort to put in place a structure that will deliver profits.

### Rebuilding Brand Image and Shifting to a Stronger Earnings Structure

North American operations have been realigned in a structure which unifies production, sales and finance under a new management team. Rich Gilligan, former head of production, has been appointed CEO of Mitsubishi Motors North America, Inc. (MMNA), and new heads of each major business function, including a new executive vice president in charge of sales and marketing, have been appointed. In fiscal 2004, MMNA reduced fleet sales to 23% of total sales, from more than 30% in fiscal 2003. In fiscal 2005, plans call for further lowering fleet sales to around 10% of total sales to improve prices of used Mitsubishi vehicles. Inventory clearing is also bringing down sales incentive expenses. These measures are helping to steadily rebuild the Mitsubishi Motors brand in North America.



Eclipse

Business Strategies

In fiscal 2005, MMC aims to increase sales volume by 6% year on year to 184,000 units through the launch of attractive new models. Our first new model in fiscal 2005 was *Eclipse*, which went on sale in May 2005 after a full model change. With a design that evokes the sporty image of Mitsubishi vehicles, *Eclipse* has made a strong start, driven by growing popularity mainly among affluent young adults. October 2005 will see the launch of *Raider*, a mid-sized pickup truck which will be supplied on an OEM basis by DaimlerChrysler. This will spearhead a major drive to expand sales in the mid-sized pickup truck market, a vast segment in North America. The launch of these appealing models is expected to increase dealer traffic and to help boost sales of existing models such as *Galant* and *Endeavor*.

MMC has created a new sales-finance system through the establishment of a joint venture with Merrill Lynch & Co., Inc. at the end of March 2005. The new venture began operations in July 2005. This will enable MMC to provide competitive financial products to customers, while reducing risks associated with the sales finance business and lowering operating costs.

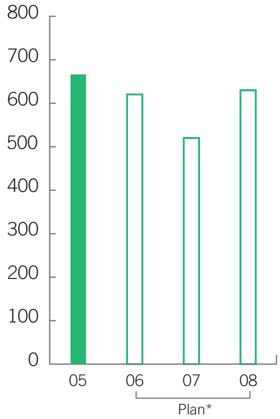
Galant
Boasting the largest dimensions in the North American mid-size sedan segment, Galant features leisurely interior space and a design with presence.

In production, restructuring to rationalize capacity and facilities has included the already completed change to a single production shift, along with a headcount reduction of 1,200 people. Also, MMC has booked impairment charges to lessen the burden of future restructuring. From midway through 2006, MMC plans to begin exporting vehicles from North America to the Middle East and Russia to enhance plant utilization.

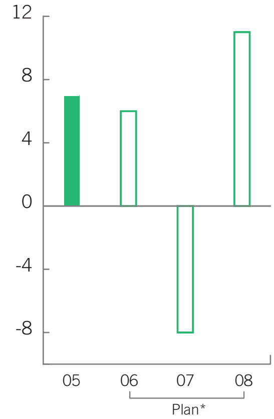
Endeavor
A cross-over SUV targeting the American mid-size SUV market.

## Europe

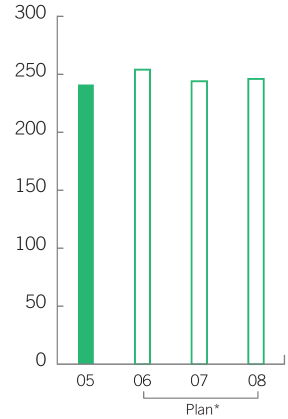
**Net Sales**
(¥ billion)




**Operating Profit (Loss)**
(¥ billion)




**Unit Sales**
(Thousand units)




* MMC revised its targets for fiscal 2005 when it released its fiscal 2004 full-year financial results on May 23, 2005. Targets for fiscal 2006 onwards are those announced in the Mitsubishi Motors Revitalization Plan on January 28, 2005.

### Steady Earnings and a Strong Brand Image

MMC aims to consistently generate earnings in Europe. The performance and attractiveness of Mitsubishi vehicles has won MMC high marks in European markets. These qualities have been refined over many years, such as in the FIA World Rally Championships (WRC) series, where MMC has had numerous triumphs, and in the Dakar Rally, where MMC was the first team to win 5 consecutive events and to claim 10 overall victories. As evidence of MMC's support in Europe, the *Colt*, launched in 2004, received the Golden Steering Wheel Award in Germany and five additional awards in five other European countries. In Russia, *Lancer* received the Car of the Year Award for 2005. Looking ahead, MMC will continue to enhance its brand image in Europe, supported by this track record of excellence.

### Actively Launching Attractive Products and Reinforcing Sales Networks

MMC is targeting sales of 254,000 units in Europe in fiscal 2005, an increase of 5% year on year. In addition to contributions from a full year of sales of the *Colt* launched in May 2004, MMC launched three-door, diesel, and turbo-engine versions on the *Colt* this spring. Plans call for launching other variations, including a coupe-cabriolet model. The launch of a diesel version of the *Grandis* and a new one-ton pickup truck will also be crucial to achieving our sales volume target.

DaimlerChrysler's announcement of its withdrawal of financial support for MMC in 2004 had the most significant impact on sales in Germany. However, sales in this country have already recovered. Germany is positioned as a key Western European market alongside the U.K., where sales are strong.

In Eastern Europe, a fast-growing region in recent years, MMC was No. 1 in terms of imported vehicle sales in Russia in the first quarter of 2005 and likewise No. 1 in the Ukraine in 2004. In Russia, in particular, MMC strengthened its partnership with a prominent local automobile distributor to expand sales centering on *Lancer.*

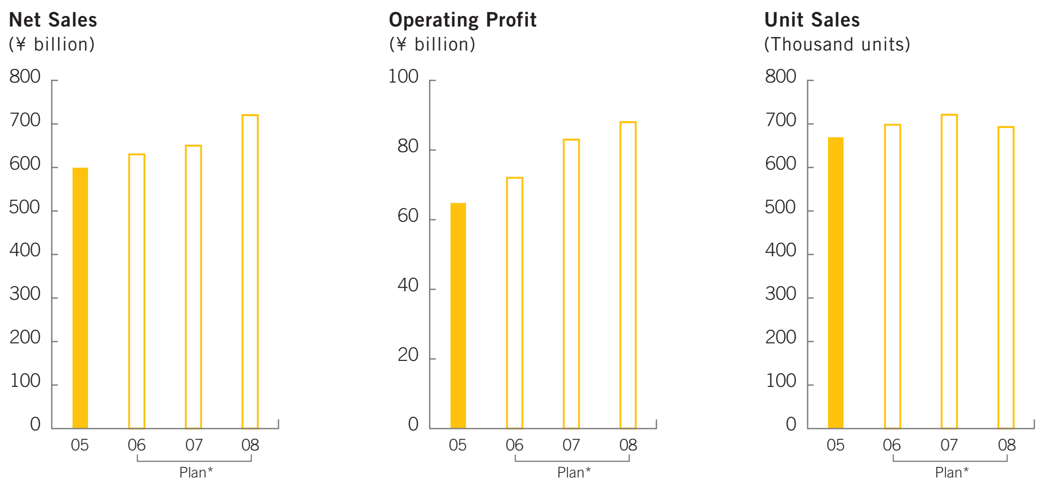
Management has been reinforced through the appointment of new presidents at Mitsubishi Motors Europe B.V. (MME), and a sales company in Germany. In Southern Europe, MMC is working with Mitsubishi Corporation to build stronger sales networks. These actions again have been taken with the view to achieving sales targets.

Regarding production, consolidated subsidiary Netherlands Car B.V. (NedCar) remains a key production base in Europe. As a consolidated subsidiary, NedCar will continue to produce the *Colt* and also *Smart* models for DaimlerChrysler.

Colt CZC (Coupe Cabriolet model)
Derived from the three-door Colt CZ3, this cabriolet model is equipped with an automatic retractable roof. Produced in Europe, it is the third in a series of body frame variations following the Colt five and three-door models. Scheduled for roll out in 2006.

Business Strategies

## Asia, ASEAN and Other Regions

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### North Asia (China and Taiwan)

#### Expanding Operating Bases in Growth Markets

The North Asia region, particularly China, remains an attractive market, despite a slower pace of growth in motorization. MMC conducts business in this region with local partners (See page 32).

In China, despite large sales of local-brand vehicles manufactured by local partners, the brand image of Mitsubishi vehicles is extremely favorable. This reflects strong public support for the Mitsubishi Motors image of durability and reliability, in addition to the strong local presence of Mitsubishi group companies. MMC will leverage the strength of the Mitsubishi brand in China to further expand its operating base in the country.


Pajero
Production and sales as a Mitsubishi brand began in China in December 2004.

#### Building Stronger Alliances With Local Partners to Promote the Mitsubishi Brand

In North Asia, MMC is targeting sales of 231,000 units in fiscal 2005, an increase of 14% year on year.

Positioning South East (Fujian) Motor Co., Ltd. (SEM) and Hunan Changfeng Motor Co., Ltd. (CFA) as key production bases in China, MMC will continue to enhance relationships with these two companies. MMC plans to take an equity stake of up to 25% in SEM, and allow the company to begin production and sales of Mitsubishi-brand vehicles. In particular, SEM will focus on expanding its presence in the passenger car segment, which will account for a significant share of the Chinese market going forward. In December 2004, CFA began production of the Mitsubishi-brand *Pajero* model. Moreover, MMC plans to establish a new venture with CFA to establish a production base for SUVs centered on the *Pajero*, which enjoys high market visibility. MMC will also examine the possibility of reinforcing its two local engine-manufacturing ventures with the aim of expanding their roles as key production facilities in Asia.

In the course of implementing the above measures, to unify the Mitsubishi brand, MMC plans to establish a local subsidiary in mid-2006 to oversee all sales operations. With this move, MMC will further build and expand its sales network. Furthermore, the company will establish a local R&D center to enhance quality and build a framework for incorporating market needs in products in a timely manner.

## ■ ASEAN

### A Strong Presence in the ASEAN Region

Over the years, MMC has expanded business in the ASEAN region while contributing to the region's industrial development by actively pursuing local production in addition to finished vehicle sales. Against this background, the Mitsubishi brand enjoys a strong reputation in the region. For instance, our Thailand plant serves as a production and export base for the supply of one-ton pickup trucks not only to the domestic market but also to the rest of the world. The plant is a significant source of earnings for MMC.

Preserving MMC's strong presence and reinforcing operations in the ASEAN region are key initiatives of the revitalization plan.

### Efforts to Cultivate New Markets Gain Momentum

In fiscal 2005, MMC is targeting sales of 227,000 units in the ASEAN region.

In Thailand, the company is working to bolster sales units and partnerships with local sales companies following the appointment of a new local management team in 2004. In light of strong operations at the Thailand plant, where cumulative exports reached 700,000 units in February 2005, MMC is ramping up production capacity together with the full model change of the one-ton pickup truck in August. With this step, MMC has put in place a framework for the plant to serve as a core production facility.

To expand sales of Mitsubishi-brand vehicles in Malaysia, MMC has established a new sales company in collaboration with Mitsubishi Corporation. Operations at the company have already begun.

MMC has also built a strong presence in Indonesia, Vietnam and other countries through local production. The company will work to retain its solid stature in these countries.

## ■ Other Regions

In fiscal 2005, MMC is targeting sales of 221,000 units in other regions.

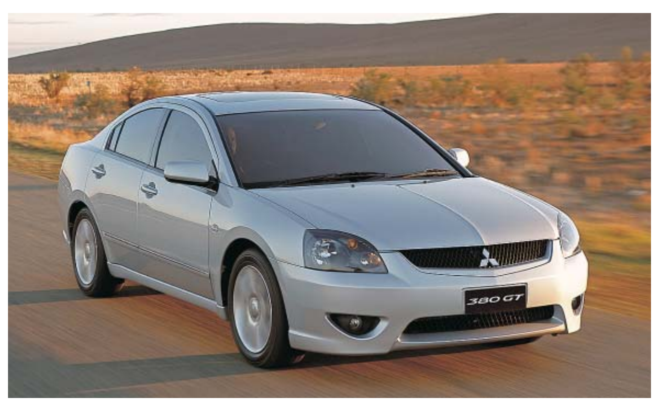
In Australia, where overcapacity was an issue, MMC restructured production facilities and capacity to a proper scale by reducing the workforce by approximately 1,310 employees, and closing an engine plant in fiscal 2004.

Triton Mega Cab
A new one-ton pickup truck produced in Thailand (two-door model).

The company also booked substantial impairment losses. In fiscal 2005, the company will launch the *380*, a new local production model, with the aim of expanding sales and maintaining earnings.

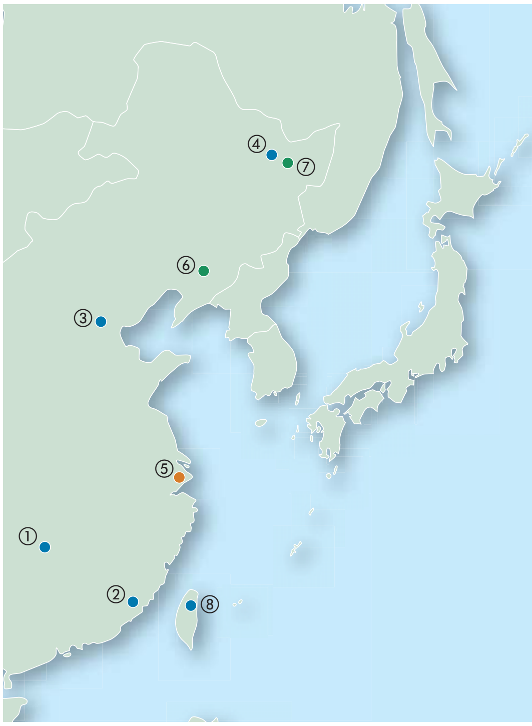
MMC also views Latin America, the Middle East and Africa as an important source of earnings. The company is conducting close-knit marketing tailored to these markets utilizing leading local companies and trading companies.

MMC's goal is to expand sales by gaining access to strong markets as well as new markets. It is raising its presence to build a sound base for growth in the future. In specific terms, MMC will promote local production of KD (knock-down) units of SUVs and other mainstay vehicle models in Brazil, utilize new sales companies in Pakistan and elsewhere, work to win large orders in African markets and take other actions to expand business and achieve its goals.




380
Launched in October 2005, a new luxury sports sedan produced in Australia.

### Operations in North Asia




### Main Operations in ASEAN Region


- Local production (vehicles)
- Local production (engines)
- Import and sales of finished vehicles (regional sales company)

### Operations in North Asia

| Name | MMC's Equity Interest (%) | Major Products and Models | Brand |
|---|---|---|---|
| ① Hunan Changfeng Motor Co., Ltd. (CFA) | 16.07% | Liebao (old Pajero), Liebao Feiteng (Pajero iO) | Local brands |
| | | Pajero (new Pajero) | Mitsubishi brands |
| ② South East (Fujian) Motor Corporation, Ltd. (SEM) | 0.00% | Delica, Freeca, Lioncel (Lancer), Soveran (Chariot Grandis) | Local brands |
| ③ BeijingBenz-DaimlerChrysler Automotive Ltd. (BBDC) | 0.00% | Pajero Sport (Challenger), Outlander (Airtrek) | Mitsubishi brands |
| ④ Hafei Motor Co.,Ltd. (HHMC) | 0.00% | Sigma (Dingo) | Local brands |
| ⑤ Mitsubishi Corporation (Shanghai) Co., Ltd. (SSL) | 0.00% | Grandis | Mitsubishi brands |
| ⑥ Shenyang Aerospace Mitsubishi Motors Engine Manufacturing, Ltd. (SAME) | 25.00% | 2.0- and 2.4-liter engines and transmissions | |
| ⑦ Harbin Dongan Automotive Engine Manufacturing, Ltd. (HDMC) | 15.30% | 1.3- and 2.0-liter engines and transmissions | |
| ⑧ China Motor Corporation (CMC) | 13.97% | Lancer, Galant, Freeca, Savrin (Chariot Grandis) | Mitsubishi brands |
| | | Veryca | Local brands |

■ Local production (vehicles) ■ Local production (engines) ■ Import and sales of finished vehicles (regional sales company)

### Main Operations in ASEAN Region

| Country/Region | Name | MMC's Equity Interest (%) | Major Products and Models |
|---|---|---|---|
| Thailand | ⑨ Mitsubishi Motors (Thailand) Co.,Ltd. (MMTh) | 99.80% | Triton, Lancer and others |
| The Philippines | ⑩ Mitsubishi Motors Philippines Corp. (MMPC) | 51.00% | Adventure and Delica |
| | ⑪ Asian Transmission Corp. (ATC) | 5.00% | Transmissions |
| Indonesia | ⑫ P.T. Krama Yudha Tiga Berlian Motors (KTB) | 0.00% | Colt T120SS and Colt L300 |
| | ⑬ P.T. Mitsubishi Krama Yudha Motors and Manufacturing (MKM) | 32.30% | Engines and transmissions |
| Malaysia | ⑭ Mitsubishi Motors Malaysia Sdn Bhd (MMM) | 0.00% | Lancer and L200 (one-ton pickup truck) |
| Vietnam | ⑮ Vina Star Motors Corporation (VSM) | 25.00% | Grandis, Lancer and Pajero |
| Singapore | ⑯ Cycle & Carriage Automotive Pte Ltd. (CCA) | 0.00% | Lancer, L300 (Delica) and Grandis |
| Brunei | ⑰ GHK Motors Sdn Bhd (GHK) | 0.00% | Pajero and Lancer |

■ Local production (vehicles) ■ Local production (engines) ■ Import and sales of finished vehicles (regional sales company)

# MOTOR SPORTS

For more than 30 years, Mitsubishi Motors has consistently risen to the challenge of international rally events and other motor sports events. Building on the lessons learned in each event, MMC has made steady progress every year and chalked up a sparkling list of victories.

For MMC, motorsports is an activity that embodies the Mitsubishi brand image of "powerful, sporty and dynamic." Participation in events such as the FIA World Rally Championship (WRC) and the Dakar Rally has given MMC opportunities to push its cars to the limit. The skills and technology developed in these activities have become integrated into all production vehicles MMC sells. Furthermore, MMC is working to produce vehicles that offer not only on and off-road performance but are safe and durable.

Going forward, through continued involvement in motorsports, MMC is determined to display its technical excellence, teamwork, and unwavering passion to strive for high goals.

## Dakar Rally 2005: A Historic Fifth Consecutive Win and Tenth Overall Title

MMC first entered the Dakar Rally in 1983. The 2005 event marked the 23rd consecutive year of MMC's participation. The winner was Frenchman Stéphane Peterhansel, driving a Mitsubishi *Pajero Evolution*. For Mitsubishi Motors, his win marked a historic fifth consecutive win and our tenth victory overall.

Dakar 2005 featured a 17-day rally staged over a course stretching approximately 9,000km from Barcelona, Spain, to the traditional finish in Dakar, Senegal. The event was a severe test, with ferocious sandstorms and marathon stages forcing competitors to drop out one after another. Peterhansel won the rally for the second year running. In second place was Luc Alphand, another Frenchman, in a Mitsubishi *Pajero Evolution*. Once again, the race showed the overwhelming power of the Mitsubishi team.

## World Rally Championship (WRC)

From its inception in 1973 until 2002, Mitsubishi Motors, achieved a total of 34 victories in WRC events. Driving a Mitsubishi *Lancer Evolution*, Tommi Makkinen of Finland became the first to win four drivers' titles in succession in 1996–1999, a period that also included MMC winning the prestigious manufacturers' title in 1998. MMC took a break from the sport in 2003 to focus on intensive vehicle development, but returned in 2004 with a new three-year strategy for the WRC. In 2005, three drivers (Harri Rovanperä of Finland, Gilles Panizzi of France and Gianluigi 'Gigi' Galli of Italy) are competing to return to the podium.

In the related Production World Rally Championship (PWRC), in which few vehicle modifications from standard commercial specifications are allowed, the *Lancer Evolution* won six out of seven stages in the 2004 event, a feat that testifies to the fundamental capabilities of MMC's production vehicles.



***Dakar Rally Victories (Top Ten Placements, Cars)***

| | |
|---|---|
| 2001 | 1. Jutta Kleinschmidt 2. Hiroshi Masuoka 5. Carlos Sousa 6. Jean-Pierre Fontenay |
| 2002 | 1. Hiroshi Masuoka 2. Jutta Kleinschmidt 3. Kenjiro Shinozuka 4. Jean-Pierre Fontenay 5. Carlos Sousa 6. Saeed Al Hajri 7. Luc Alphand 8. Klever Kolberg 10. Nicolas Misslin |
| 2003 | 1. Hiroshi Masuoka 2. Jean-Pierre Fontenay 3. Stéphane Peterhansel 4. Carlos Sousa 10. Jose-Luis Monterde |
| 2004 | 1. Stéphane Peterhansel 2. Hiroshi Masuoka 5. Andrea Mayer 10. Nasser-Saleh Al-Attiyah |
| 2005 | 1. Stéphane Peterhansel 2. Luc Alphand 6. Joan 'Nani' Roma |


WRC 2005 (Mexico)

WRC 2005 (Monte Carlo)

Dakar Rally 2005 (14th stage [Mali–Senegal])

Dakar Rally 2005 victory celebrations.

# Environmental Activities

**As a 21st century corporation, MMC believes that environmental activities are just as crucial a part of operations as economic and social activities. Based on this belief, MMC will use its full capabilities in environmental activities and other societal pursuits while at the same time ensuring the success of its revitalization plan.**

## Environmental Policy

MMC formulated an Environmental Policy in 1999 that clarifies measures for protecting the environment within the context of management of the company.

**Mitsubishi Motors Corporation Environmental Policy**

Mitsubishi Motors recognizes that protection of the global environment is a priority for humanity and as such makes the following pledges:

1. Taking a global perspective, we are committed to harnessing all our resources to achieve continuous reductions in the environmental impact of all our corporate activities, spanning development, procurement, production, sales, and after-sale servicing of vehicles.
2. As a good corporate citizen, we are committed to take actions that protect the environment at the level of local communities and of society as a whole.

**Behavioral Standards**

1. We will endeavor to protect the environment by forecasting and assessing the environmental impact of our products at all stages in their life cycle. Priority is given to the following areas:
   - Prevention of global warming by reducing emissions of greenhouse gases
   - Prevention of pollution by restricting emissions of substances harmful to the environment
   - Reduction of waste and maximizing efficient use of resources by promoting conservation of resources and recycling
2. We will endeavor to improve our environment management practices as part of ongoing efforts to ameliorate the impact on the environment.
3. We will comply with environmental regulations and agreements, and will work to protect the environment by establishing voluntary management targets.
4. We will encourage our affiliates and suppliers, both in Japan and abroad, to cooperate in working to protect the environment.
5. We will actively disclose environment-related information and will seek the understanding of local communities and of society at large.

## Environmental Sustainability Plan

MMC formulated the Environmental Sustainability Plan as a medium-term program of action for environmental protection activities to ensure that the environmental policy would not be a mere verbal philosophy. The plan lays out goals for a five-year period that began in 2002 and contains a variety of measures aimed at promoting environmental conservation. It sets specific performance objectives in four main categories: environmental management, recycling, prevention of global warming and prevention of environmental pollution. Progress against the plan is continuously monitored in all these areas.

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.

### ■ Environmental Management

MMC is promoting DfE (Design for Environment), a system designed to ensure that a reduced environmental impact is built into new products at the earliest concept stages. This includes efforts to increase recyclability and reduce weight. The goal is to minimize the environmental impact of products over the entire life cycle so that the MMC development process generates eco-conscious vehicles.

MMC initiated a green procurement program as part of its environmental protection activities in November 2000. As part of this program, MMC requires that all its materials and parts suppliers obtain ISO 14001 certification for their environmental management systems. As of March 31, 2005, the certification rate of suppliers was 93.3%.

MMC also stresses communication. In addition to publishing an annual social and environmental report, MMC communicates its environmental activities by issuing a pamphlet titled *The Environment and Manufacturing Automobiles*. Other means of communication include providing support for environmental education by dispatching teachers to schools, a web site created specifically for schoolchildren, and an automobile information consulting service.

### ■ Recycling

January 2005 saw the End-of-Life Vehicle Recycling Law come into full force in Japan. MMC has worked vigorously to comply with these regulations by developing a system, publishing recycling fees and developing a processing system for collected items. In Europe, MMC is promoting the construction of an effective system for end-of-life automobile (ELV) collection in conformity with European recycling legislation. MMC is now working to conduct a preliminary investigation of the details and costs of collection and recycling methods for ELVs in Europe.

Waste generated during the production stage is reduced, reused, and recycled whenever possible. As a result, MMC has maintained a zero-emission status at its domestic plants since fiscal 2001 with regard to the disposal of waste sent to landfills.

### ■ Prevention of Global Warming

MMC is increasing production of vehicles complying with 2010 domestic fuel efficiency standards ahead of schedule in 2007. MMC's efforts are focused mainly on the *Colt*, *Lancer* and *eK* series.

MMC is working in production and logistics to prevent global warming, too. To restrict emissions of carbon dioxide ($CO_2$) generated from the consumption of energy, MMC makes energy use more efficient through various means. These include the introduction of co-generation systems in production (generating electricity with gas turbines and through other means and reusing the resulting heat as a heating source for air conditioning and water heating), and the promotion of modal shift in transportation (optimizing transportation by combining several modes of transportation, such as trucks, ships and trains).

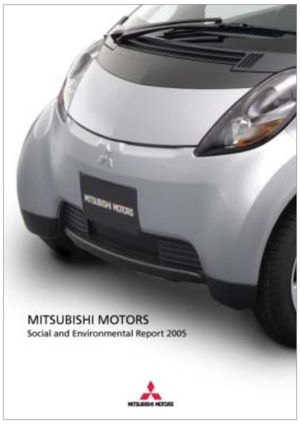
### ■ Prevention of Environmental Pollution

Japan introduced tighter regulations on exhaust emissions in 2000. The Japanese government has also introduced a low emission vehicle (LEV) certification scheme that aims to make automobiles with emissions that are lower than the revised standards the norm.

MMC began submitting vehicles for LEV certification in fiscal 2000. The new *Colt Plus*, launched in 2004, as well as the *Lancer Series* and *eK Series* were given SULEV certifications, meaning that exhaust emissions are 75% less than 2005 Japanese standards. More than 96% of all gasoline-engine vehicles sold by MMC in Japan in fiscal 2004 were LEV certified.

Moreover, aiming to bring to market electric vehicles (EVs) in the next few years, MMC is working on developing a high-performance motor and battery system.

In production processes, MMC is reducing emissions of VOCs (volatile organic compounds) such as toluene and xylene in the body and component painting process. MMC has constructed a new auto body painting plant and is promoting the introduction of low-solvent paint technologies, such as water-based paints and powder paints.




**Mitsubishi Motors Corporation**
**Social and Environmental Report 2005**
For more details, please refer to the Social and Environmental Report 2005.
http://www.mitsubishi-motors.com/corporate/environment/report/e/index.html

Environmental Activities

# Corporate Governance

The new motto of the Mitsubishi Motors corporate philosophy states: "We are committed to providing the utmost driving pleasure and safety for our valued customers and our community. On these commitments we will never compromise. This is the Mitsubishi Motors way."

Based on this philosophy, MMC aims to build better relationships with shareholders and other investors, customers, suppliers, employees and all other stakeholders. To make this corporate philosophy a reality, MMC is initiating a number of measures to raise standards of corporate governance.

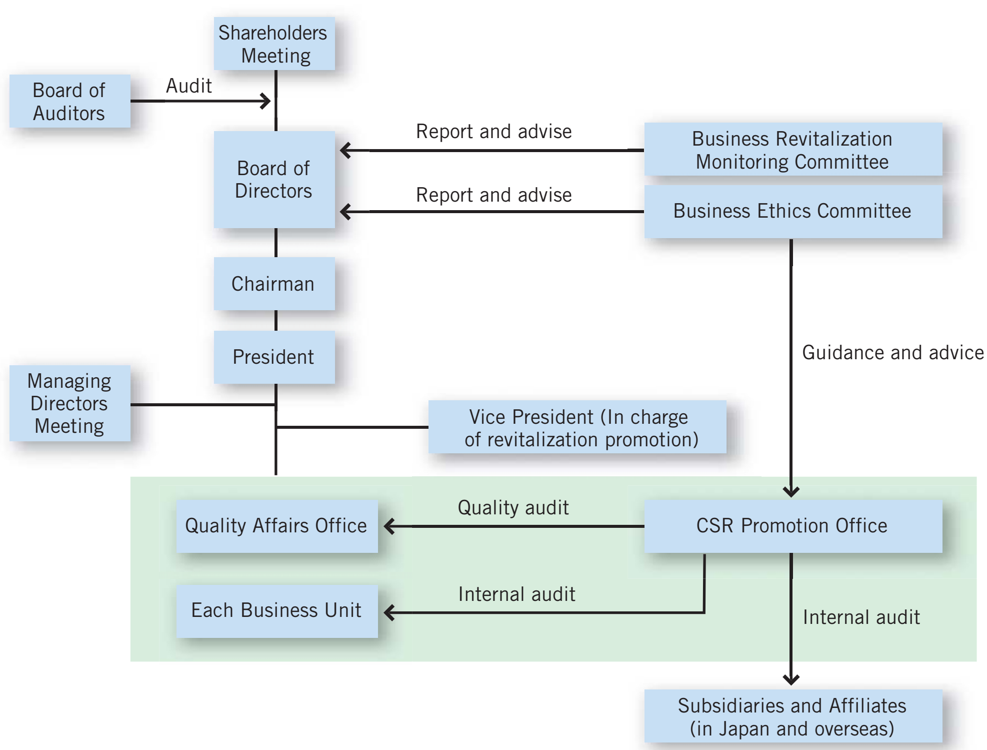
## 1. Corporate Governance Framework

MMC employs the Corporate Auditor System laid down in the Japanese Commercial Code. In addition to mandatory organizations and governance systems, we are improving and strengthening our corporate governance in various ways. These include appointing outside directors, introducing an executive officer system and setting up advisory committees.

MMC's Board of Directors has 12 members, three of whom are outside directors. The Board is responsible for making decisions concerning important management issues and overseeing business execution. In addition, the adoption of the executive officer system clarified the separation of the roles and responsibilities of directors and executive officers. The Board of Statutory Auditors has 4 members, including 2 outside auditors. Furthermore, managing directors meetings, attended by 15 members, are held every two weeks to expedite decision-making within the company.

Advisory committees that report to the Board of Directors supplement the internal governance structures. In June 2004, MMC established the Business Ethics Committee, which is made up of six outside experts in various fields. As part of efforts to foster a more strongly compliance-oriented mindset within the company, this committee provides MMC with directions and advice on ethics-related matters from an external perspective.

**MMC's Corporate Governance Framework**



The Business Revitalization Monitoring Committee is also an important advisor to the Board, which is charged with monitoring the progress made in achieving the aims of the Mitsubishi Motors Revitalization Plan. Established in April 2005, this six-member committee is composed of outside experts and representatives of major shareholders.

### 2. Functions of Internal Audit and Statutory Auditors' Audit

Members of the Board of Statutory Auditors attend meetings of the Board of Directors and other important meetings. They audit the operations of MMC and its subsidiaries, based on business reports received from directors, reviews of key internal business documents and interviews with the internal auditing groups, subsidiaries and independent auditors.

Separate from the Statutory Auditors' audit, MMC has also established two departments within the CSR Promotion Office—the Quality Audit Department and Internal Audit Department—independent from other business functions, to conduct internal audits from an objective perspective.

The Quality Audit Department (4 staff members as of March 31, 2005), newly established in August 2004 as part of general efforts to assure road safety, and reaffirm corporate social responsibilities, monitors all processes related to recalls and quality improvement programs carried out within the Quality Affairs Office. As well as the audit results, the top management receives reports from the Customer-relations Department within the CSR Promotion Office, on issues related to customer complaints and proposals and other quality-related matters.

The Internal Audit Department (15 staff members as of March 31, 2005), conducts regular audits company-wide, including subsidiaries and affiliates in Japan and overseas to check the appropriateness of business processes. These audits aim to verify the appropriateness and effectiveness of all internal control systems, including compliance and risk management. The results of internal audits are reported to the top management at MMC and its subsidiaries and affiliates.

In addition, the Statutory Auditors, Internal Audit Department, Quality Audit Department and independent auditors work to strengthen cooperation by regularly exchanging information.

### 3. Outside Directors and Auditors

MMC has appointed 3 outside directors. Rudiger Grube is a member of the management board of DaimlerChrysler AG, which has a master alliance agreement with MMC. Mikio Sasaki is the chairman of Mitsubishi Corporation, a principal shareholder of MMC. Hidetoshi Yajima is the chairman of Shimadzu Corporation, which has a business partner relationship with MMC.

MMC has appointed 2 outside statutory auditors. Shigemitsu Miki is the chairman of The Bank of Tokyo-Mitsubishi, Ltd., a major shareholder of MMC. Hiroshi Kan is a managing director of Mitsubishi Heavy Industries, Ltd., also a major shareholder of MMC.

No conflicts of interest exist between MMC and any of the outside directors and statutory auditors.

# Compliance

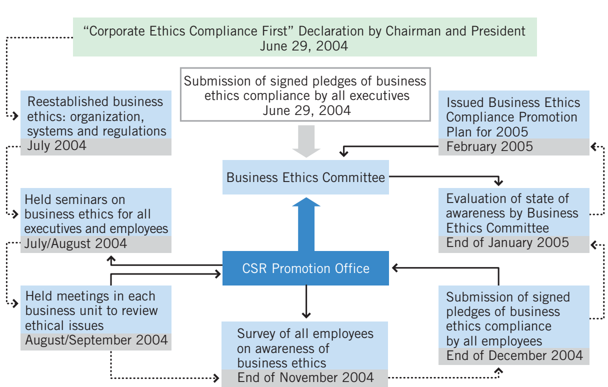
MMC believes that fostering a corporate culture in which compliance is paramount is vital to regaining the trust of the public and achieving its revitalization as a trustworthy company.

In addition to complying with laws and ordinances, international conventions and internal regulations, all employees are expected to act with due consideration to social norms. This is enshrined in the business ethics of MMC. To ensure these business ethics become ingrained in the mindset of employees, MMC launched the CSR Promotion Office in June 2004 and also initiated an action program for "Compliance First". (See diagram below)

The status of progress with this action program is reported to the Business Ethics Committee (established in June 2004), an advisory body to the Board of Directors, which is made up of outside experts. The Board of Directors receives reports and advice from members of this committee. (See page 39)

Taking the initiatives of fiscal 2004 a step further, in fiscal 2005 our actions are being guided by the theme of "turning awareness into action."

**Action Program for "Compliance First" (Fiscal 2004)**




## Details of the Action Program

**"Corporate Ethics Compliance First" Declaration**

In June 2004, former chairman and chief executive officer Yoichiro Okazaki and former president and chief operating officer Hideyasu Tagaya made the "Corporate Ethics Compliance First" Declaration. At the time of this declaration, all executives signed written pledges promising to obey business ethics. Top management also pledged their commitment to take the lead in instilling a compliance mindset in the company. Osamu Masuko, who was appointed president of MMC in January 2005, reaffirmed this compliance-first declaration on March 18, 2005 upon his appointment as Chief Business Ethics Officer (CBEO).

**Reestablishing Business Ethics: Organization and Systems**

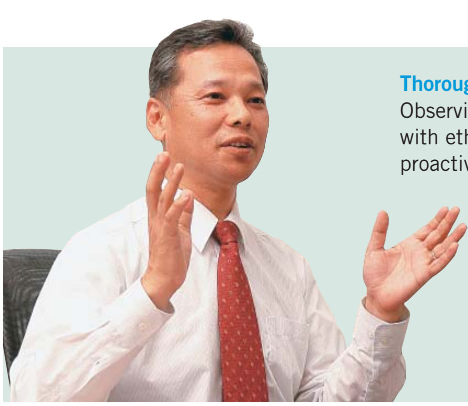
In August 2004, 18 compliance officers were appointed with the task of instilling the importance of observing business ethics in each operational unit under the direction of the CBEO. In a related move, each department manager was appointed as a "code leader" under the compliance officers, strengthening the organizational framework for ensuring the message hit home to all employees.

**Business Ethics Seminars**

Seminars were held for all executives concerning CSR and corporate compliance. In addition, 14 seminars on business ethics aimed at all employees were given to 13,000 employees in 5 regions in Japan by the head of the CSR Promotion Office.

**Meetings to Review Ethical Issues in Each Workplace**

Meetings were held in each workplace to study specific examples of ethical problems so as to deepen understanding of the Business Ethics of MMC and ensure that staff can act on them. Led predominantly by code leaders, a



### Thoroughness of Compliance is Key to Restoring Trust in MMC

Observing business ethics is the first step in regaining the trust of customers. Starting with ethics education and written pledges from all employees, MMC is taking ongoing proactive steps in instilling the "Compliance First" mindset.

MMC is also committed to the thoroughness of monitoring functions and external and internal communications so as to create a framework that constantly reflects the views of society, provides internal feedback, and enhances the speed and transparency of disclosure.

**Yoshikazu Nakamura**
*Executive Officer*
*Corporate General Manager of CSR Promotion Office*

total of 800 meetings were held. These meetings were also used to identify ethical issues at workplaces and discuss solutions.

**Surveys on Awareness of Business Ethics**

Surveys were conducted to gauge employees' level of understanding of the business ethics of MMC after conducting the aforementioned seminars and meetings. The surveys also determined whether employees were actually following the business ethics in the course of their work. Findings pointed to the need to improve the practicality of MMC's business ethics in order to foster greater awareness among employees.

Based on these findings, 50 case studies of issues identified during the course of meetings at workplaces were compiled into a booklet to help employees understand how to approach and solve ethical issues better.

**Written Pledge From All Employees**

Employees who fully understood the business ethics of MMC and their importance, having gone through this action program, submitted written pledges. As of April 30, 2005, 98% of all employees had signed such documents.

## Other Initiatives

**Help Lines to Promote Self-government**

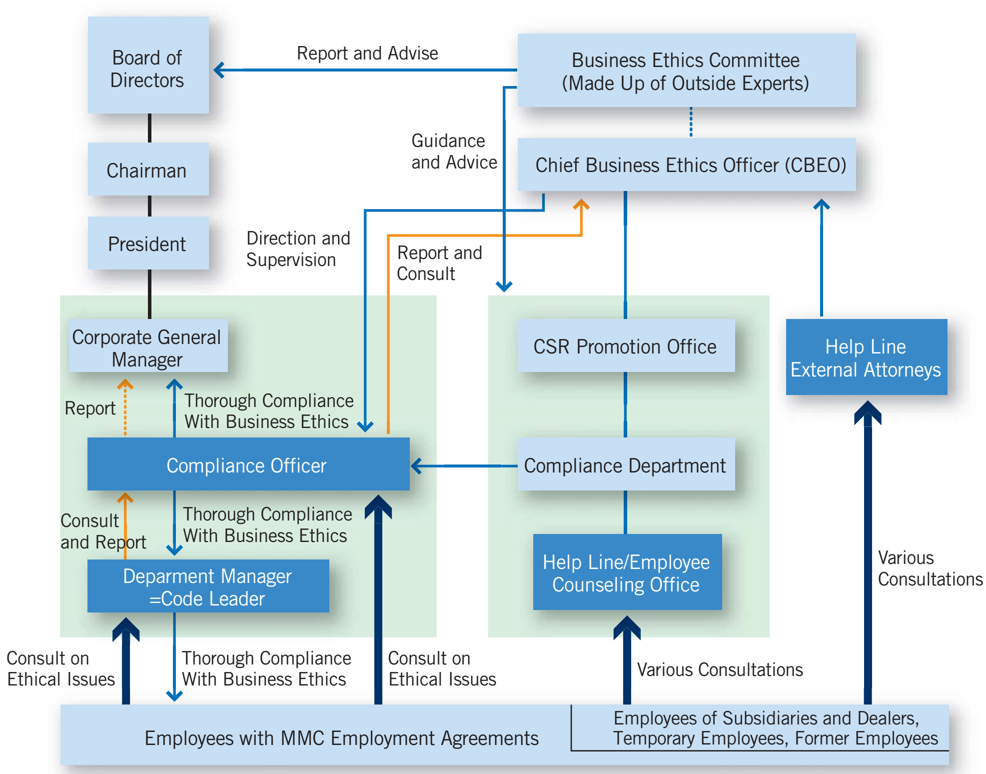
In addition to the internal Employee Counseling Office established in 2000, in fiscal 2004 a system whereby employees can consult directly with an attorney without going through the company was organized. Furthermore, standards were formulated as part of company regulations to protect internal whistle-blowers.

**Measures to Safeguard Personal Information**

Recognizing the importance of personal information handled in the course of business activities, MMC has formulated a policy concerning the protection of personal information and is implementing appropriate measures in this regard.

In accordance with this policy, MMC has appointed a person responsible for management of personal information and created a management system, in addition to establishing internal regulations and rules governing the safeguarding of personal information. Through seminars and e-learning, MMC educates staff on the subject. Another initiative is to promote security measures such as encrypting laptop computers. Starting in fiscal 2005, MMC will be conducting internal audits as a voluntary check on the status of its various measures.

**Organizational Framework for Promoting Business Ethics**




Compliance

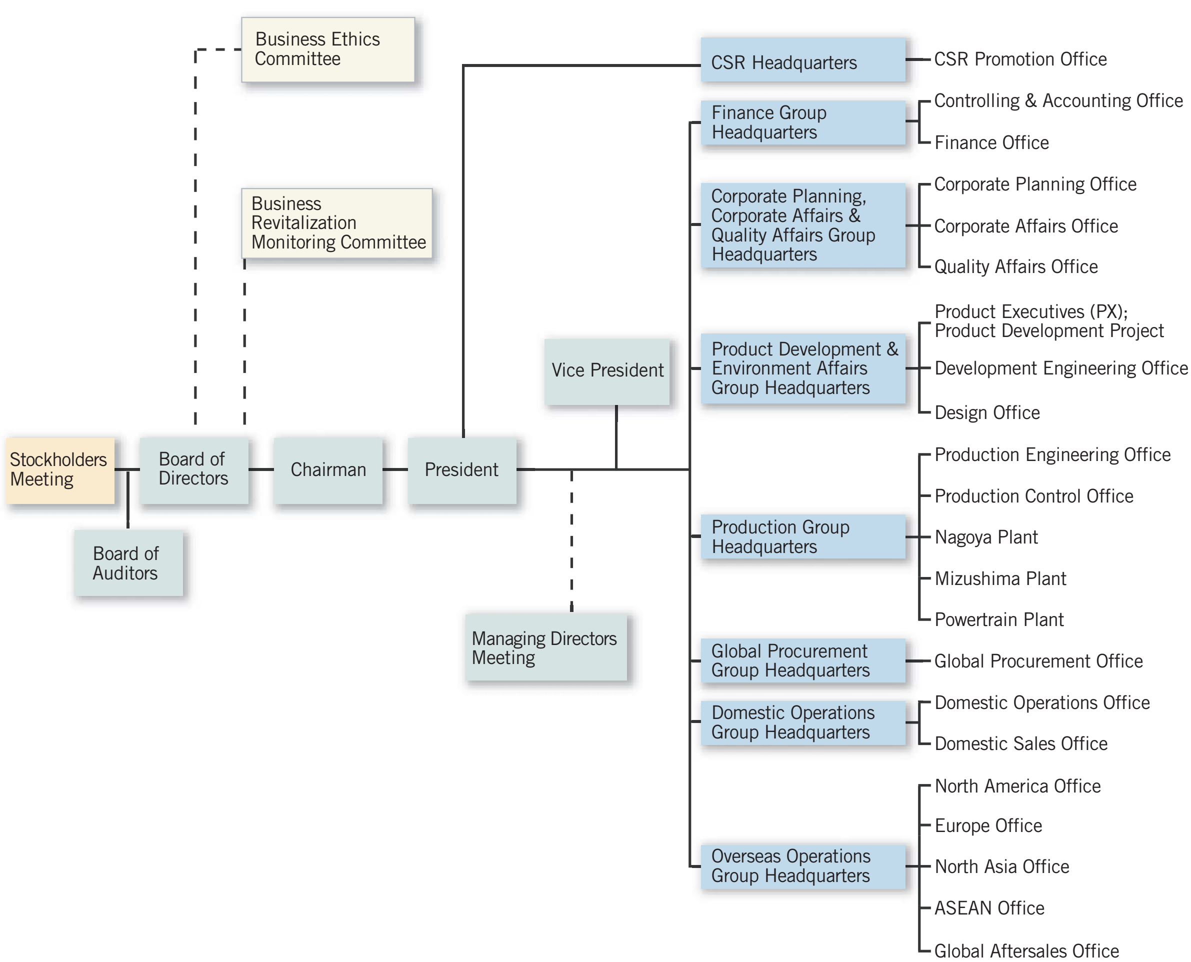
# New Organization

MMC announced a new organizational structure on March 31, 2005 to ensure the success of the Mitsubishi Motors Revitalization Plan. The reporting lines of chairman, president and each function were unified in the new organizational structure to expedite decision-making and to enhance internal communication. In addition, organizational units were consolidated and streamlined into eight divisions, or headquarters, in a move to clarify areas of accountability.

In addition, a new post of executive vice president was created to maintain and strengthen the follow-up structure needed to execute the revitalization plan. The executive vice president plays the key strategic role of ensuring that the plan is successfully accomplished. A new Revitalization Promotion Department was also created within the Corporate Planning Office, which is led by the executive vice president, to function as a control tower for all aspects of corporate strategy related to the plan. Its core role is to promote cross-functional cooperation in achieving the plan's targets.

Furthermore, to reinforce systems for implementing the revitalization plan, various functions and work processes under the previous organization were restructured and transferred to the units best qualified to execute and carry them out. The aim of this move was to expedite decision-making and to raise the efficiency of organizational management and work processes. More specifically, marketing functions in different parts of the organization were consolidated and transferred to the Corporate Planning Office. Moreover, to ensure efficiency in model development and strengthen cross-functionality in technology development, a new design matrix structure, by model and function, was placed under the Product Development Group Headquarters. Also to increase accountability and transparency, Production Engineering, Production Control, Controlling & Accounting, and Finance offices were created.

**New Organization**
(As of August 15, 2005)



# Executives

(As of August 15, 2005)

## MEMBERS OF THE BOARD

Takashi Nishioka*
Chairman of the Board

Osamu Masuko*
President
Chief Business Ethics Officer

Heki Kasugai*
Executive Vice President
Revitalization Promotion Officer
In Charge of Corporate Planning, Corporate Affairs & Quality Affairs Group Headquarters

Hiizu Ichikawa*
Managing Director
In Charge of Finance Group Headquarters

Fujio Cho
Managing Director
In Charge of Domestic Operations Group Headquarters

Makoto Maeda
Managing Director
In Charge of the Production Group Headquarters

Norio Aoki
Managing Director
In Charge of Global Procurement Group Headquarters
Corporate General Manager of Global Procurement Office

Hiroshi Harunari
Managing Director
In Charge of Overseas Operations Group Headquarters

Tetsuro Aikawa
Managing Director
In Charge of Product Development & Environment Affairs Group Headquarters

Rudiger Grube
Member of the Board
(Outside Director)

Mikio Sasaki
Member of the Board
(Outside Director)

Hidetoshi Yajima
Member of the Board
(Outside Director)

*Representative Director

## STATUTORY AUDITORS

Norihide Ujita
Statutory Auditor

Kenji Egawa
Statutory Auditor

Shigemitsu Miki
Statutory Auditor (Outside)

Hiroshi Kan
Statutory Auditor (Outside)

## EXECUTIVE OFFICERS

Shuichi Aoto
Senior Executive Officer
Corporate General Manager of Controlling & Accounting Office

Mitsuo Hashimoto
Senior Executive Officer
Corporate General Manager of Quality Affairs Office

Yoshikazu Nakamura
Executive Officer
Corporate General Manager of CSR Promotion Office

Akira Kameo
Executive Officer
Corporate General Manager of Finance Office

Shuma Uchino
Executive Officer
Corporate General Manager of Corporate Planning Office

Yoichi Yokozawa
Executive Officer
Vice Corporate General Manager of Corporate Planning Office and Vice Corporate General Manager of Controlling & Accounting Office

Keizo Fuchita
Executive Officer
Corporate General Manager of Corporate Affairs Office
Chief Information Security Officer

Seiichi Ota
Executive Officer
Corporate General Manager of Development Engineering Office

Masaru Masuda
Executive Officer
Plant General Manager of Nagoya Plant

Osamu Matsumoto
Executive Officer
Plant General Manager of Mizushima Plant

Michio Mori
Executive Officer
Corporate General Manager of Domestic Sales Office

Jiro Imura
Executive Officer
Assistant Managing Director

Kazuyuki Kikuchi
Executive Officer
Corporate General Manager of North America Office

Toshifumi Sudo
Executive Officer
Corporate General Manager of Europe Office

Kenichi Miki
Executive Officer
Corporate General Manager of Domestic Operations Office

Makoto Ochi
Executive Officer
Chairman and CEO, Netherlands Car B.V.

# FINANCIAL SECTION

# MESSAGE FROM THE HEAD OF THE FINANCE GROUP

On January 28, 2005, we announced the Mitsubishi Motors Revitalization Plan. This plan aims to restore profitability in fiscal 2006 and maintain profitability in fiscal 2007 and beyond. To achieve these targets, the plan outlines product strategies, alliance strategies, regional strategies, and cost reductions. We have been steadily implementing the initiatives laid out in the plan since the start of fiscal 2005. In this context, the Finance Group Headquarters has two major roles to play.

First, it is our job to steer the company along the straightest road toward complete recovery. This involves carefully monitoring quantitative financial data on MMC's performance to analyze progress with various initiatives, and results being achieved in all aspects of the plan. By ascertaining quickly the financial status of MMC's entire operations and keeping a close eye on current and future earnings prospects, we aim to prevent the company from straying off the path to restoring profitability that is set out in the revitalization plan. Also, we submit regular reports on financial progress to the Business Revitalization Monitoring Committee (BRMC). The BRMC provides strict external checks and also gives us valuable advice to steer management in the right direction.

Second, we are focused on the vital task of securing the funds required for the revitalization process, principally the capital needed to develop the new models that promise to be the main driver of restored profitability. The revitalization plan calls for ¥490 billion in additional funding. In fiscal 2004, we raised ¥250 billion, just over half this sum, through third-party share allocations and long-term borrowings. For the remaining ¥240 billion, in addition to keeping a close eye on capital spending and R&D budgets, we continue to seek the ideal timing and methods to raise capital through closer communication with various investors and financial institutions.

| **Progress on Fund Procurement Plan Announced on January 28, 2005 (¥490 billion)** | | | |
|---|---|---|---|
| Funds procured in fiscal 2004 | | Funds to be procured in fiscal 2005 and beyond | |
| • Capital increases (excluding debt-equity swaps): | ¥220 billion | • Capital increases or commercial asset divestitures: | ¥ 30 billion |
| • Long-term borrowings: | ¥ 30 billion | • Borrowings and other sources: | ¥210 billion |
| Total: | ¥250 billion | Total: | ¥240 billion |

The three-year period covered by the revitalization plan is a vital period for MMC to recover its strength, restore profitability and prepare for the next stage of growth. We are approaching this difficult task in small stages, one step at a time, with the emphasis firmly on staying the course. I remain confident that our efforts will result in steady growth in shareholder value, and that we will succeed in meeting the expectations of all stakeholders.

**Hiizu Ichikawa**
*Managing Director*
*In Charge of Finance Group Headquarters*

# FINANCIAL RESULTS AND DISCUSSION

## Operational Overview

In fiscal 2004, the years ended March 31, 2005, the global economy faced rising prices for crude oil and key raw materials, and concerns over supply shortages, against the backdrop of persistent geopolitical risks, including continued instability in the Middle East. However, U.S. interest rate hikes and China's policies to restrain capital investment had only a negligible impact on the global economy. In this climate, global economic conditions remained generally favorable, despite slower economic growth. Meanwhile, the Japanese economy saw a correction but did not fall into recession. This mainly reflected a continuation of inventory rundowns in IT-related sectors, in addition to a slowdown in overseas demand, particularly from the U.S. and China.

Overall vehicle demand in the Japanese automotive industry in fiscal 2004 remained largely on par with the previous year at 5.82 million units, a decline of 1% year on year. Vehicle demand was largely unchanged in North America but rose in Asia, Europe and the rest of the world.

In this market environment, on May 21, 2004, the MMC Group announced the Business Revitalization Plan, a roadmap for achieving self-revitalization and restoring credibility with all stakeholders. Guided by this plan, the company raised capital and steadily implemented various measures to achieve the plan's targets. The plan was prompted by the loss of reputation caused by the failure to cope properly with recall-related problems involving products at Mitsubishi Fuso Truck & Bus Corp. and the resulting loss of trust, as well as setbacks in the North American sales finance business. However, shortly after the Business Revitalization Plan was unveiled, the company's handling of past recalls led to the occurrence of a loss of trust from customers and society occurring. This triggered sharper-than-expected falls in sales volumes in Japan and overseas. In North America, sales were significantly affected by damage to the Mitsubishi Motors brand caused by the company's previously over-aggressive use of financial products to push volume on a short-term basis. Concerns over the viability of North American operations also weighed heavily on North American sales. In response, the company initiated several measures to normalize operations, including initiatives to rebuild the brand. However, sales volume in the North American market fell sharply as fleet sales were reduced. These developments led to concerns over possible delays in the turnaround of the MMC Group's operations and about its financial soundness, making it difficult for MMC to procure funds.

To surmount these obstacles and revitalize the MMC Group, continued efforts were made to restore trust. However, additional measures were deemed necessary to shore up the company's financial position and procure funds to fuel the revitalization as well as to ensure an improvement in earnings. After due consideration, MMC announced a new plan, the Mitsubishi Motors Revitalization Plan, on January 28, 2005.

## Results of Operations

In the fiscal year under review, consolidated net sales were ¥2,122.6 billion, a 15.8% decline from the previous fiscal year. MMC recorded an operating loss of ¥128.5 billion, a deterioration of ¥31.7 billion from the previous fiscal year.

The decline in operating profit was mainly due to a ¥129.0 billion negative impact from lower unit sales and an increase of ¥18.4 billion in warranty claim expenses. On the positive side, cutbacks in promotion expenses via lower sales incentives in North America and curbs on advertising through voluntary restraints in Japan contributed ¥53.4 billion. Another positive factor was a ¥31.3 billion contribution related to finance receivables in the U.S. sales finance business.

Regarding other income (loss), the company recorded a loss of ¥84.4 billion for asset impairment and a loss of ¥16.2 billion on the sale and disposal of fixed assets, in addition to normal levels of net interest expenses. In addition, MMC booked a charge of ¥74.7 billion for loss compensation based on a stock transfer contract related to Mitsubishi Fuso Truck & Bus Corp. shares; a provision of ¥29.5 billion for losses on restructuring; severance payments of ¥16.3 billion for early retirement; expenses of ¥25.2 billion for extraordinary measures (free vehicle inspection campaign in Japan); and stock issue costs of ¥12.9 billion for a capital increase. The company also recorded ¥13.0 billion in losses for equity-method qualifying affiliates.

As a result of the above, MMC recorded a net loss of ¥474.8 billion, a deterioration of ¥259.4 billion from the previous fiscal year.

## Segment Analysis

### < Business Segment Information >

MMC and its consolidated subsidiaries divide operations into two business segments: Automobiles and Financial Services.

#### ■Automobiles

In the fiscal year under review, sales in the automobile business declined 14.6% year on year to ¥2,086.1 billion. MMC recorded an operating loss on automobile operations of ¥104.3 billion, a deterioration of ¥53.4 billion. Retail sales declined by 214,000 units from the previous fiscal year to 1,313,000 units, reflecting a sharp decline in sales in Japan and North America.

#### ■Financial services

Revenues from financial services fell 44.7% year on year to ¥40.2 billion. In financial services operations, MMC reported an operating loss of ¥21.1 billion, an improvement of ¥28.8 billion from the previous fiscal year. This improvement was mainly due to the non-recurrence of a one-time charge for credit losses.

**< Geographical Segment Information >**

The geographical segment analysis provided in this section is based on results aggregated by the region of the end user. Accordingly, figures differ from the 'Geographic Segment Information' section provided in the Note 19-(b) to Consolidated Financial Statements, which is aggregated by the region of the MMC-related company chiefly involved in the transaction. Figures in this section correspond to the sales figures reported in the 'Overseas Sales' section in the Note 19-(c) to the Consolidated Financial Statements.

**■ Japan**

In Japan, sales decreased by ¥208.4 billion, or 33.5%, to ¥412.9 billon compared with the previous fiscal year due to a decline in sales centered on registered vehicles. The operating loss widened to ¥97.0 billion, reflecting a deterioration of ¥61.7 billion. In Japan, retail sales decreased 132,000 units year on year to 227,000 units.

**■ North America**

Sales in North America declined ¥159.3 billion, or 26.5% year on year, to ¥441.4 billion. This was primarily due to lower fleet sales. The operating loss significantly narrowed to ¥103.8 billion, an improvement of ¥43.6 billion from the previous year, reflecting sharply lower losses in the financial services unit. Retail sales fell substantially to 174,000 units, a decline of 99,000 units compared with the previous fiscal year.

**■ Europe**

Sales in Europe increased ¥5.8 billion, or 0.9% year on year, to ¥667.8 billion. This was largely due to the launch of the new *Colt*, and brisk sales particularly in the U.K., Russia and the Ukraine. Operating profit totaled ¥7.2 billion, a decline of ¥16.3 billion year on year. In Europe, retail sales climbed 27,000 units over the previous year's total to 241,000 units.

**■ Asia, ASEAN and Other Regions**

Overall sales in Asia, ASEAN, and other regions declined ¥34.9 billion, or 5.5% year on year, to ¥600.5 billion. Although unit sales were largely unchanged, the high ratio of relatively low-priced production parts and components in total sales drove down sales. Operating profit increased ¥2.8 billion to ¥65.1 billion. Overall retail sales in Asia and the rest of the world declined 10,000 units year on year to 671,000 units.

## Financial Position

**< Assets >**

Total assets as of the end of fiscal 2004 stood at ¥1,589.3 billion, down ¥439.7 billion from the end of the previous fiscal year.

Current assets fell ¥47.5 billion to ¥821.9 billion. This was mainly due to declines in trade notes and accounts receivable, and in inventories in line with lower sales, in addition to a decrease in finance receivables associated with the restructuring of U.S. sales finance operations and sale of certain finance receivables. These declines were partly offset by an increase in cash and cash equivalents of ¥113.0 billion due mainly to capital increases.

Tangible fixed assets decreased ¥176.8 billion to ¥530.9 billion as of the fiscal year-end, due mainly to impairment losses on production facilities.

Investments and other assets declined ¥217.9 billion from the previous fiscal year-end to ¥204.3 billion. In addition to a ¥103.5 billion decline in long-term finance receivables, the company recorded a decrease of ¥66.1 billion in investment securities.

**< Liabilities >**

Total liabilities as of March 31, 2005 stood at ¥1,254.3 billion, a decrease of ¥729.0 billion from the previous fiscal year-end.

Current liabilities declined ¥709.8 billion to ¥857.3 billion, reflecting a ¥51.4 billion decrease in trade notes and accounts payable in line with lower sales, in addition to a decrease of ¥424.3 billion in short-term borrowings.

Long-term debt as of the fiscal year-end had declined ¥40.8 billion to ¥198.0 billion.

**< Stockholders' Equity >**

At the end of the fiscal year, total stockholders' equity amounted to ¥324.8 billion, an increase of ¥294.8 billion. Despite a ¥474.8 billion net loss, stockholders' equity increased due to a ¥780.2 billion increase in common stock and capital surplus through capital increases in June and July 2004 and March 2005.

As a result, the equity ratio rose to 20.4%, a substantial increase from the 1.5% recorded at the end of the previous fiscal year.

## Cash Flows

Net cash provided by operating activities totaled ¥13.7 billion, a ¥15.1 billion increase in net cash flow from the previous fiscal year. This cash was mainly provided by proceeds from the sale of finance receivables.

Net cash used in investing activities amounted to ¥34.2 billion, ¥81.0 billion more than in the previous fiscal year, as payments for purchases of tangible fixed assets exceeded proceeds from sales of these assets.

Net cash provided by financing activities totaled ¥133.6 billion, ¥76.9 billion more than in the previous fiscal year. This was mainly due to proceeds from common and preferred stock issued and the issuance of long-term debt. These proceeds were partly used to repay commercial paper as well as short-term borrowings and long-term debt.

As a result, the year-end balance of cash and cash equivalents amounted to ¥294.9 billion, an increase of ¥113.0 billion from the beginning of the fiscal year.

# CONSOLIDATED BALANCE SHEETS

Mitsubishi Motors Corporation and Consolidated Subsidiaries
As of March 31, 2005 and 2004

| Assets | In millions of yen 2005 | In millions of yen 2004 | In thousands of U.S. dollars (Note 3) 2005 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents (Note 14) | ¥ 294,903 | ¥ 181,911 | $ 2,746,094 |
| Trade notes and accounts receivable (Notes 4 and 9) | 150,951 | 187,093 | 1,405,636 |
| Finance receivables (Notes 4 and 9) | 24,476 | 44,451 | 227,917 |
| Inventories (Notes 5 and 9) | 233,353 | 275,460 | 2,172,951 |
| Short-term loans receivable | 2,386 | 4,719 | 22,222 |
| Deferred tax assets (Note 18) | 1,799 | 4,979 | 16,761 |
| Prepaid expenses and other current assets (Note 9) | 128,244 | 175,045 | 1,194,192 |
| Allowance for doubtful accounts | (14,176) | (4,268) | (132,013) |
| Total current assets | 821,937 | 869,393 | 7,653,763 |
| Property, plant and equipment, net (Notes 6 and 9) | 530,903 | 707,717 | 4,943,692 |
| Intangible assets | 32,107 | 29,719 | 298,983 |
| Investments and other assets: | | | |
| Investments (Notes 7 and 9) | 80,115 | 146,165 | 746,021 |
| Long-term finance receivables (Notes 4 and 9) | 2,072 | 105,612 | 19,297 |
| Long-term loans receivable | 11,747 | 9,944 | 109,389 |
| Deferred tax assets (Note 18) | 6,730 | 19,721 | 62,676 |
| Residual interest in securitized assets and other | 178,615 | 234,506 | 1,663,243 |
| Allowance for doubtful accounts | (74,943) | (93,746) | (697,866) |
| Investments and other assets, net | 204,337 | 422,205 | 1,902,762 |
| Total assets | ¥1,589,286 | ¥2,029,035 | $14,799,202 |

| Liabilities, minority interests and stockholders' equity | In millions of yen 2005 | 2004 | In thousands of U.S. dollars (Note 3) 2005 |
|---|---|---|---|
| Current liabilities: | | | |
| Trade notes and accounts payable | ¥ 293,853 | ¥ 345,212 | $ 2,736,318 |
| Short-term borrowings (Note 9) | 236,151 | 660,430 | 2,199,011 |
| Current portion of long-term debt (Note 9) | 41,800 | 187,889 | 389,242 |
| Accrued expenses, Accounts payables and deferred income (Note 8) | 253,893 | 305,144 | 2,364,221 |
| Accrued income taxes (Note 18) | 3,157 | 1,771 | 29,403 |
| Other current liabilities (Note 18) | 28,481 | 66,648 | 265,218 |
| Total current liabilities | 857,338 | 1,567,096 | 7,983,413 |
| Long-term debt (Note 9) | 198,020 | 238,862 | 1,843,936 |
| Deferred tax liabilities (Note 18) | 17,357 | 24,751 | 161,633 |
| Accrued retirement benefits (Note 17) | 99,295 | 111,121 | 924,624 |
| Other non-current liabilities | 82,262 | 41,459 | 766,012 |
| Total liabilities | 1,254,274 | 1,983,291 | 11,679,619 |
| Minority interests | 10,229 | 15,771 | 95,254 |
| Stockholders' equity (Notes 10 and 21): | | | |
| Preferred stock: | | | |
| Authorized: 3,425,000 shares | | | |
| Issued — 526,193 shares in 2005 | 263,096 | — | 2,449,916 |
| Common stock: | | | |
| Authorized: 9,958,285,000 shares | | | |
| Issued — 1,483,438,934 shares in 2004<br>4,253,995,212 shares in 2005 | 379,204 | 252,201 | 3,531,096 |
| Capital surplus | 417,612 | 27,513 | 3,888,749 |
| Accumulated deficit | (656,068) | (183,410) | (6,109,217) |
| Unrealized holding gain on securities | 9,208 | 19,917 | 85,750 |
| Translation adjustments | (88,262) | (86,245) | (821,885) |
| Treasury stock — 11,718 shares at March 31, 2004<br>54,250 shares at March 31, 2005 | (8) | (3) | (79) |
| Total stockholders' equity | 324,782 | 29,972 | 3,024,328 |
| Contingent liabilities (Note 11) | | | |
| Total liabilities, minority interests and stockholders' equity | ¥1,589,286 | ¥2,029,035 | $14,799,202 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

| | In millions of yen | | In thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Net sales | ¥2,122,626 | ¥2,519,449 | $19,765,586 |
| Cost of sales (Note 4) | 1,808,110 | 2,160,612 | 16,836,859 |
| Reversal of deferred profit on installment sales, net | 16 | 50 | 149 |
| Gross profit | 314,532 | 358,887 | 2,928,876 |
| Selling, general and administrative expenses (Note 12) | 443,076 | 455,739 | 4,125,859 |
| Operating loss | (128,544) | (96,852) | (1,196,983) |
| Interest and dividend income | 7,920 | 13,021 | 73,752 |
| Interest expense | 25,601 | 29,335 | 238,401 |
| Loss (income) from affiliated companies | (13,002) | 9,573 | (121,076) |
| Other loss (income), net (Notes 7 and 13) | (301,678) | 26,419 | (2,809,184) |
| Loss before income taxes and minority interests | (460,906) | (77,173) | (4,291,892) |
| Income taxes (Note 18): | | | |
| Current | 4,016 | 4,272 | 37,402 |
| Deferred | 15,745 | 133,573 | 146,616 |
| | (19,761) | (137,846) | (184,018) |
| Minority interests | (5,882) | 403 | (54,775) |
| Net loss (Note 21) | ¥ (474,785) | ¥ (215,424) | $ (4,421,136) |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Mitsubishi Motors Corporation and Consolidated Subsidiaries
As of March 31, 2005 and 2004

| | In millions of yen | | In thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| **Preferred stock:** | | | |
| Balance at beginning of year | **¥ —** | ¥ — | **$ —** |
| Preferred stock issued | **263,096** | — | **2,449,916** |
| Balance at end of year | **263,096** | — | **2,449,916** |
| **Common stock:** | | | |
| Balance at beginning of year | **252,201** | 252,201 | **2,348,460** |
| Common stock issued | **127,003** | — | **1,182,636** |
| Balance at end of year | **379,204** | 252,201 | **3,531,096** |
| **Capital surplus:** | | | |
| Balance at beginning of year | **27,513** | 224,481 | **256,197** |
| Transferred to accumulated deficit | **—** | (197,179) | **—** |
| Issuance of common and preferred stocks | **390,099** | — | **3,632,551** |
| Change due to exclusion from consolidation | **—** | 210 | **—** |
| Balance at end of year | **417,612** | 27,513 | **3,888,749** |
| **Accumulated deficit:** | | | |
| Balance at beginning of year | **(183,410)** | (155,847) | **(1,707,893)** |
| Net loss | **(474,785)** | (215,424) | **(4,421,136)** |
| Effect of affiliates to which equity method newly applied | **2,127** | — | **19,812** |
| Change due to merger of non-consolidated subsidiaries with consolidated subsidiaries | **—** | 127 | **—** |
| Transferred from capital surplus (Note 10) | **—** | 197,179 | **—** |
| Change due to inclusion in consolidation | **—** | (3,396) | **—** |
| Change due to exclusion from consolidation | **—** | (6,049) | **—** |
| Balance at end of year | **(656,068)** | (183,410) | **(6,109,217)** |
| **Unrealized holding gain on securities:** | | | |
| Balance at beginning of year | **19,917** | 33,854 | **185,472** |
| Net change | **(10,709)** | (13,936) | **(99,722)** |
| Balance at end of year | **9,208** | 19,917 | **85,750** |
| **Translation adjustments:** | | | |
| Balance at beginning of year | **(86,245)** | (74,394) | **(803,106)** |
| Net change | **(2,016)** | (11,851) | **(18,779)** |
| Balance at end of year | **(88,262)** | (86,245) | **(821,885)** |
| **Treasury stock:** | | | |
| Balance at beginning of year | **(3)** | (1) | **(29)** |
| Net change | **(5)** | (1) | **(50)** |
| Balance at end of year | **(8)** | (3) | **(79)** |
| **Total stockholders' equity** | **¥ 324,782** | ¥ 29,972 | **$ 3,024,328** |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

| | In millions of yen | | In thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Operating activities:** | | | |
| Net loss | ¥(474,785) | ¥(215,424) | $(4,421,136) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 96,043 | 137,911 | 894,339 |
| Allowance for doubtful receivables, net of reversal | (9,125) | 34,043 | (84,972) |
| Accrued retirement benefits, net of reversal | (11,722) | (6,878) | (109,156) |
| Income from affiliates accounted for by the equity method | 13,002 | (9,573) | 121,076 |
| Deferred income taxes | 15,745 | 133,573 | 146,616 |
| Minority interests | (5,882) | 403 | (54,775) |
| Loss on sales and disposal of property, plant and equipment, net | 16,189 | 4,022 | 150,755 |
| Impairment of assets | 84,376 | — | 785,699 |
| Gain on sales of investment in securities, net | (1,331) | (40,010) | (12,401) |
| Loss on impairment of investment in securities | 446 | 527 | 4,161 |
| Loss compensation based on stocks transfer contract | 74,736 | — | 695,935 |
| Stock issue costs | 12,854 | — | 119,703 |
| Change in trade notes and accounts receivable | 39,597 | 19,162 | 368,724 |
| Change in inventories | 53,402 | 3,330 | 497,279 |
| Change in finance receivables (Note 14) | 126,116 | (46,164) | 1,174,381 |
| Change in retained interests in transferred receivables | 49,660 | 33,529 | 462,432 |
| Change in trade notes and accounts payable | (57,396) | (61,669) | (534,464) |
| Other | (8,274) | 11,768 | (77,054) |
| Net cash provided by (used in) operating activities | 13,654 | (1,449) | 127,145 |
| **Investing activities:** | | | |
| Increase in investments in term deposits | (18,920) | (1,248) | (176,189) |
| Purchase of property, plant and equipment (Note 14) | (140,760) | (134,785) | (1,310,736) |
| Proceeds from sales of property, plant and equipment (Note 14) | 111,788 | 83,080 | 1,040,960 |
| Decrease in investment in securities | 7,301 | 102,059 | 67,990 |
| Decrease in short-term loans receivable | 5,009 | — | 46,644 |
| Loans made | (444) | (6,674) | (4,135) |
| Collection of loans receivable | 1,616 | 7,106 | 15,050 |
| Other | 203 | (1,087) | 1,892 |
| Net cash used in (provided by) investing activities | (34,206) | 46,828 | (318,522) |
| **Financing activities:** | | | |
| Increase in short-term borrowings | (425,649) | 55,151 | (3,963,585) |
| Proceeds from issuance of long-term debt | 119,974 | 274,489 | 1,117,187 |
| Repayment or redemption of long-term debt | (328,067) | (272,834) | (3,054,917) |
| Common and preferred stock issued | 767,344 | — | 7,145,399 |
| Dividend paid to minority — common stock | (40) | (130) | (378) |
| Other | (5) | (1) | (50) |
| Net cash provided by financing activities | 133,556 | 56,674 | 1,243,655 |
| **Effect of exchange rate changes on cash and cash equivalents** | (12) | (2,242) | (114) |
| **Net change in cash and cash equivalents** | 113,004 | 99,809 | 1,052,278 |
| **Cash and cash equivalents at beginning of year** | 181,911 | 84,544 | 1,693,930 |
| **Change in cash and cash equivalents due to inclusion and exclusion of subsidiaries in consolidation** | — | (2,443) | — |
| **Cash and cash equivalents at end of year** (Note 14) | ¥ 294,903 | ¥ 181,911 | $ 2,746,094 |

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Motors Corporation and Consolidated Subsidiaries

## 1. GOING CONCERN

In the previous fiscal year, Mitsubishi Motors Corporation (MMC) group had recorded a net loss of ¥215,424 million. In the current fiscal year, MMC group has also recorded a net loss of ¥474,785 million ($4,421,136 thousand).

As a result of these recurring losses, significant doubt arises as to the Company's ability to continue as a going concern.

To address this situation as well as strengthen our operating base, MMC group formulated the "Business Revitalization Plan" (from FY2004 to FY2006) in May 2004.

In June 2004, MMC group outlined additional measures to its Business Revitalization Plan announced on May 21, 2004, that focuses on three areas: all-out cost cutting, restoring customer trust, and across-the-board compliance. The new measures are in response to a potential marked slump in domestic sales that has surfaced following the recall problems at MMC and Mitsubishi Fuso Track & Bus Corporation.

After announcing its Business Revitalization Plan in May 2004, MMC group has devoted itself to implement the measures set out in the plan, designed to regain customer and public trust and improve profitability. Since the announcement of the plan, MMC has conducted extensive investigations into past recall problems. The findings of these investigations have allowed MMC to complete filings of post-market measures with the Ministry of Land, Infrastructure and Transport in September 2004, as well as to make substantial progress in its efforts to reform corporate culture.

Despite these achievements, MMC's inability to respond adequately to past recall problems has delayed the hoped-for restoration of consumer and public trust and has seriously impacted sales. This, in turn, has highlighted the problem of over-capacity that has lurked beneath the surface over recent years. In addition, the concerns have deepened about delays in the recovery of operations and about the financial health of MMC group. As a result of being forced to use funds allocated for the revitalization program in the repayment of interest-bearing debt, MMC group now finds itself short of funds.

To break out of this situation and successfully revitalize itself, MMC group, while continuing its efforts to regain customer and public trust, finds itself in a situation that requires additional measures to improve profitability. Given these circumstances, MMC group has put together the new Mitsubishi Motors Revitalization Plan in January 2005.

### (1) Corporate culture reform initiatives

Recovering customer and public trust and reforming corporate culture are absolute priority in MMC group's bid to revitalize itself. The Corporate Social Responsibility (CSR) Promotion Office has played a lead role in the implementation of a wide range of measures designed to enhance compliance. The Business Ethics Committee, made up of specialists and leaders in their fields from outside MMC group, has also given valuable advice and guidance from an external perspective in this regard. An internal seminar program has enabled each employee to acquire a deeper understanding of business ethics principles. Employees have now submitted written pledges to fully observe and practice compliance.

MMC group will also be implementing a number of initiatives and measures designed to reform the corporate culture. These include "Problem solving through cross-functional activities", "Training and promoting talented personnel to important positions", "Personnel evaluation reflecting a 'Customer First' practice", and "Promotion of personnel exchanges with sales companies and department rotations".

The current investigation by a panel of external lawyers into past recall problems had been completed by the end of the fiscal year of 2004. MMC group had determined disciplinary action and measures to prevent any recurrence on the basis of the panel's findings.

### (2) Key points in the Mitsubishi Motors Revitalization Plan

- Putting customers first/Recovering trust
  - The new plan puts customers first in all areas, from marketing through after-sales services
  - The new plan provides measures for achieving no-compromise improvements in product quality
- Business strategy
  - Sales plans reflect downside risks
  - Promotion of operational tie-ups with other automakers
  - Rationalization of production capacity and size of sales networks (U.S., Australia, Japan)
- Reinforcement of capital and funding
  - Strengthening of financial standing and securing capital for revitalization
- Boosting management's effectiveness
  - Lead from the top with a new management team
  - Set up a thorough follow-up system

### (3) Targets

- Recognition of profit in fiscal 2006 (net income of ¥8 billion ($74 million))
- Establish sustainable profitability in fiscal 2007 (net income of ¥41 billion ($381 million))

### (4) Business strategy

#### (i) Sales volume plans

Sales plans in the Mitsubishi Motors Revitalization Plan have been drawn up for each region based on current market trends to set realistic and achievable targets and eliminate all foreseeable downward risks. As a result, fiscal year volume targets in the new plan are lower than those in the Business Revitalization Plan but are set to recover to the fiscal 2003 level of 1,500,000 vehicles in fiscal 2007.

#### (ii) Product strategy

##### A. MOTORSPORT

MMC group places motorsport at the very heart of its car design and development activities. The technology and know-how built up through taking part in grueling and competitive events such as the Dakar rally and the World Rally Championship is being fed back and injected into production cars as the "Sporty DNA" and "SUV DNA" that define the MMC brand. That same technology and know-how enable MMC group to increase safety and durability as well as on and off-road driving performance, thereby raise product value in a lineup that fully embodies these qualities.

##### B. IMPROVING EFFICIENCIES IN MODEL MIX

The new plan incorporates measures under which MMC group will trim back the number of low-volume models produced for individual markets and concentrate managerial resources on highly competitive global market models. This will raise development and production efficiencies.

##### C. NEW MODEL LAUNCHES

The new plan calls for a major increase in the number of new model launches compared with the last four years. MMC group will expand earning opportunities by aggressively introducing new models in all regions.

### (iii) Business tie-up strategy

To further promote a policy of selection and concentration, MMC group will actively pursue strategic tie-up opportunities with other automakers. One example is the announcement made in January 2005 relating to the expansion of the supply of minicars on an OEM basis to Nissan Motor (36,000 units annually). In February 2005 MMC and Peugeot-Citroen Group (PSA) reached to the agreement where MMC group supply passenger cars to PSA on an OEM basis. (MMC is expected to sign the final contract in the first half of fiscal 2005.)

MMC group is looking for other tie-ups such as an expanded range of models supplying on an OEM basis, component supply partnering, joint distribution arrangements and joint procurement.

### (iv) Regional strategy

#### A. JAPAN

Driving towards a group structure that returns stable profits, MMC and its sales companies will continue to work hand in hand to regain the trust of customers with additional measures that follow on from the free inspection campaign covering 3.4 million owners. MMC group will also restructure its sales network and will drive to maximize after-sales services.

#### B. NORTH AMERICA

North America remains a vital core market for MMC group. To put its operations in that market on a profitable basis, MMC group will rebuild its brand through the introduction of a new management structure, with new model launches and by cutting back on its dependence on fleet sales. It is also going to raise capacity utilization by expanding exports of locally built cars. Further, impairment loss is recognized for the excess of plant capacity in 2004.

MMC group is currently addressing the U.S. captive financing unit that sparked the problems in MMC group's North American operations. It is currently reducing its exposure to loan default risks by selling off a portion of its financing asset holding to Merrill Lynch. MMC group also plans to establish a new joint venture company with Merrill Lynch for the purpose of creating competitive and attractive consumer financing programs.

#### C. EUROPE

To move its European operations forward from the stage of achieving profitability to the growth stage, MMC group will work to promote sales around a stronger model lineup and will push forward its efforts to strengthen its management and sales structures.

#### D. CHINA

Positioning China as a core market, MMC group is aggressively exploiting the Mitsubishi brand, which is currently strong and healthy in China, and expanding its operating base. In addition to expanding the range of Mitsubishi brand models available by boosting capital tie-ups with local companies, MMC group is also pushing forward with efforts to establish and to expand its sales network. MMC group is looking for using its engine joint ventures in the country to make China a major engine production hub in Asia, and is going to establish R&D facilities in the country to meet local market needs in its products on a timely basis.

#### E. OTHER MARKETS

MMC group is taking steps to strengthen its operational footing in ASEAN markets. These include strengthening sales in Thailand, establishing sales structures in Malaysia and reorganizing its operations in Indonesia. MMC group is also strengthening its production base by boosting capacity in Thailand, which serves as an export hub to global markets.

As for Australia, MMC group is on track to close its engine plant and downsize its assembly plant. MMC group has also recognized impairment loss for the excess of plant capacity.

### (v) Cost reduction

#### A. MANPOWER

As the result of changes to the organization, increased work process efficiencies, rationalization of work processes and natural attrition in personnel, MMC group's headcount trimming program is on track and is forecast to achieve the original targets. MMC group is also moving forward with further improvements in work process efficiencies.

#### B. MATERIAL COSTS

In views of the deterioration in the procurement market brought about by falling sales volumes and sharp rises in raw material costs, the new plan aims to reduce material costs by ¥90 billion ($838 million) on a cumulative basis by fiscal 2006 over fiscal 2003 levels. While this is a downward revision of the original target in the Business Revitalization Plan, this figure maintains the 15% reduction called for in the plan.

## (5) Corporate ideals and direction

Through a process of exhaustive analysis and discussion between cross-functional teams composed mainly of younger employees and the departments concerned, the Corporate Revitalization Committee has looked in depth at a number of issues that MMC group faces. This has allowed MMC group to formulate a new course of action; one that clarifies to its stakeholders the ideals that underpin MMC group's management as it drives forward in fulfilling its responsibilities as a corporate citizen. These ideals are crystallized in the new corporate maxim: "Mitsubishi Motors is dedicated to responsibly providing customers and society with driving pleasure and assured security."

## (6) Profit and loss targets

To reflect all the measures described above, the numerical targets set out in the Business Revitalization Plan and covering the period up to fiscal 2006-consolidated net sales, operating profit, ordinary profit, net income for the term are revised downwardly in the Mitsubishi Motors Revitalization Plan. The new plan forecasts notes that although it will be difficult for MMC group to result in profit before the end of fiscal 2005, it will do so in fiscal 2006 and in fiscal 2007 will achieve a record net income for the term of ¥41 billion ($381 million).

## (7) Support systems: Capital and funding reinforcements

### (i) Capital reinforcement

With the full-support of four Mitsubishi group companies, during the fiscal year of 2004 MMC group made a capital enhancement of ¥284.2 billion ($2,646 million) through the issue of new common and preferred stocks [Mitsubishi Heavy Industries (MHI), ¥50 billion ($465 million); Mitsubishi Corporation, ¥70 billion ($651 million); The Bank of Tokyo-Mitsubishi, ¥154 billion ($1,434 million) (of which ¥54 billion ($502 million) in a debt-for equity swap); The Mitsubishi Trust and Banking Corporation, ¥10.2 billion ($94 million) (all yen in a debt-for-equity swap)].

As stated above, in the fiscal year of 2004 MMC group has adopted asset impairment accounting principles. While this will lead to a deficiency in capital, the capital enhancement will enable the restoration of stockholders' equity to an appropriate level and assist MMC group in establishing a healthy financial status. The capital increase brought the combined holding of MHI, Mitsubishi Corporation, The Bank of Tokyo-Mitsubishi and The Mitsubishi Trust and Banking Corporation in MMC to 34% as of March 10, 2005. Because this will also bring MHI's holding up to 15%, MMC plans to become an equity method affiliate of MHI in fiscal 2005.

### (ii) Borrowing

MMC group is planning to raise a total of ¥270 billion ($2,514 million) in funding, mostly through new borrowing of ¥240 billion ($2,234 million). (¥30 billion ($279 million) had been already done in the fiscal 2004.) The remaining ¥30 billion ($279 million) will be raised either from the purchase of MMC group business assets or through a further capital increase by Mitsubishi Corporation.

### (iii) Capital expenditure for Revitalization

The capital enhancement and funding measures will give MMC group access to ¥490 billion ($4,562 million) (excluding a ¥64.2 billion ($597 million) debt-for-equity swap). MMC will allocate this funding with maximum effect to R&D and capital investment which will provide the platform vital to the successful achievement of the targets and goals set out in the Mitsubishi Motors Revitalization Plan.

MMC group is to set up a new Business Revitalization Monitoring Committee, an external body that will monitor the progress made in the implementation of the Mitsubishi Motors Revitalization Plan.

For the last year, MMC group had been shaken by a number of problems, however it has made a system that is able to change the profits structure more strongly and is sure to achieve its profit target. Now there is hope for funds. MMC group will start the new Mitsubishi Motors Revitalization Plan based on these measures. MMC group will devote itself to implementing the new measures from a different base from which the Revitalization Plan in May 2004 was formulated.

MMC group intends to materialize the new Mitsubishi Motors Revitalization Plan at any cost with the full-support of three Mitsubishi group companies.

As a result, these financial statements have been prepared based on the premise of going concern, and do not reflect the effect of any significant doubt as to going concern.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

MMC and its domestic consolidated subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries, in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company filed with the Financial Services Agency as required by the Securities and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

As permitted, amounts of less than ¥1 million have been omitted. Consequently, the totals shown in the accompanying financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

### (b) Principles of consolidation

All significant companies for which MMC has effective control are consolidated. Significant companies over which MMC has the ability to exercise significant influence have been accounted for by the equity method.

All significant intercompany transactions have been eliminated in consolidation.

The difference at the date of acquisition between the acquisition cost and the fair value of the net assets acquired are expensed when incurred or amortized over periods that do not exceed 3 years.

### (c) Cash and cash equivalents

All highly liquid and low-risk investments with maturities of three months or less when purchased are considered cash equivalents.

### (d) Inventories

Inventories of MMC and its domestic consolidated subsidiaries are principally stated at cost determined by the first-in first-out or specific identification method. Inventories of the foreign consolidated subsidiaries are principally stated at the lower of cost or market value. Cost is determined by the specific-identification method.

### (e) Investments in securities

Investments in securities that are expected to be held-to-maturity are not held in current year.

Other securities with a readily determinable market value are stated at fair value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gain and loss, is recognized in "Unrealized holding gain on securities" in the accompanying consolidated balance sheets. The cost of other securities sold is computed based on the moving average method.

Other securities without a readily determinable market value are stated at cost determined by the moving average method.

### (f) Depreciation

Depreciation of property, plant and equipment is principally calculated by the declining-balance method or the straight-line method over the estimated useful life of the respective assets. The estimated useful life of the assets at MMC and its domestic consolidated subsidiaries are as provided for in the corporate tax law.

Software intended for use by MMC and its consolidated subsidiaries are amortized by the straight-line method over the software's estimated useful life.

### (g) Allowance for doubtful accounts

The allowance for doubtful accounts has been provided based on MMC and its consolidated subsidiaries' historical experience with respect to write-offs and an estimate of the amount of specific uncollectible accounts.

### (h) Allowance for product warranty

The allowance for product warranty has been calculated based on MMC and its consolidated subsidiaries' historical experience and estimations with respect to future costs relating to after sales service.

### (i) Retirement benefits

Accrued retirement benefits for employees at March 31, 2005 and 2004 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, adjusted for unrecognized actuarial gains or losses and unrecognized prior service cost. The retirement benefit obligation is allocated to future years on a straight-line basis.

Prior service cost is being amortized by the straight-line method over periods of 10 to 21 years and 10 to 17 years for the years ended March 31, 2005 and 2004, respectively. These periods are within the estimated average remaining service years of the employees.

Actuarial gains and losses are amortized from the fiscal year following the year in which they are incurred using the straight-line method within 10 to 21. These periods are within the estimated average remaining service years of the employees.

### (j) Accrual for retirement benefits for directors and corporate auditors

Certain directors and corporate auditors of MMC and its domestic consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded severance benefit plans subject to the stockholders' approval. Provision for severance benefits for those directors and corporate auditors has been made at the estimated amount which would be paid if all directors and corporate auditors resigned as of the balance sheet dates.

### (k) Revenue recognition

Revenue is generally recognized on sales of products at the time of shipment.

Certain domestic and foreign subsidiaries recognize revenues by the installment sales method whereby gross profit on such sales is deferred and credited to income in proportion to the amount of the installment receivables which become due.

### (l) Translation of foreign currency accounts

The accounts of the consolidated foreign subsidiaries are translated into Yen as follows:

a. Asset and liability items are translated at the rate of exchange in effect on March 31;
b. Components of stockholders' equity are translated at their historical rates at acquisition or upon occurrence; and
c. Revenues, expenses and cash flow items are translated at the average rate for the financial period. Translation adjustments are included in "Stockholders' equity".

### (m) Amounts per share of common stock

The computation of basic net (loss) income per share of common stock is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common stock to be issued upon the conversion of preferred stock and stock subscription rights.

### (n) Appropriations (dispositions) of retained earnings (accumulated deficit)

Cash dividends, bonuses to directors and corporate auditors and other appropriations or dispositions of retained earnings (accumulated deficit) are recorded in the financial year in which the appropriations (dispositions) are approved at a general meeting of the stockholders.

### (o) Leases

Non-cancelable lease transactions at MMC and its domestic consolidated subsidiaries are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

Non-cancelable lease transactions at the foreign subsidiaries except for operating leases are capitalized.

### (p) Derivative financial instruments

MMC and its consolidated subsidiaries are exposed to risks arising from fluctuations in foreign currency exchange rates and interest rates. In order to manage those risks, MMC and its consolidated subsidiaries enter into various derivative agreements including forward foreign exchange contracts and interest rate swaps. Forward foreign exchange contracts are utilized to manage risks arising from forecasted export of finished goods and related foreign currency receivables. Interest rate swaps are utilized to manage interest rate risk for debts. MMC and its consolidated subsidiaries do not utilize derivatives for speculation or trading purposes.

Derivative financial instruments are recorded at fair value, excluding certain instruments described below which are recorded in accordance with the special hedge provisions of the accounting standard.

Forward foreign exchange contracts related to forecasted export of finished goods are accounted for using deferral hedge accounting. Deferral hedge accounting requires unrealized gains or losses to be deferred as liabilities or assets.

MMC and its consolidated subsidiaries have also developed a hedging policy to control various aspects of the derivative transactions including authorization levels and transaction volumes. Based on this policy, MMC and its consolidated subsidiaries hedge, within certain limits, the risks arising from the changes in foreign currency exchange rates and interest rates. Forward foreign exchange contracts are designated to hedge the exposure to variability in expected future cash flows.

Hedge effectiveness on interest rate swaps are evaluated by reviewing the gross changes in cash flows of hedging instruments and hedged items for the hedged period. Interest rate swaps which meet the criteria for special hedge accounting are evaluated by reviewing whether the conditions are met for applying the special hedge accounting instead of evaluating effectiveness, as permitted by the accounting standard.

## 3. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts in the accompanying consolidated financial statements are included, solely for convenience, at ¥107.39 = U.S.$1.00, the exchange rate prevailing on March 31, 2005. The translation should not be construed as a representation that the Yen amounts represent or have been, or could be, converted into U.S. dollars at that or any other rate.

## 4. TRADE NOTES, ACCOUNTS RECEIVABLE AND FINANCE RECEIVABLES SOLD

The outstanding balances of trade notes and accounts receivable sold to others which have been deducted from the respective accounts amounted to ¥7,913 million ($73,687 thousand) and ¥30,091 million as of March 31, 2005 and 2004, respectively. Such amounts deducted from finance receivables were ¥240,317 million ($2,237,800 thousand) and ¥464,253 million as of March 31, 2005 and 2004, respectively.

Following weakness in the North American economy, a higher probability was assigned to the higher end of the range of future credit losses relating to securitized finance receivables estimated in the finance company, Mitsubishi Motors Credit of America, Inc. An allowance for doubtful accounts of ¥39,956 million, including an one time unusual amount to bring the valuation to a more conservative estimate of value as compared to prior estimates, was recorded in cost of sales during the period ended March 31, 2004.

## 5. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Finished products | **¥163,187** | ¥171,528 | **$1,519,582** |
| Raw materials | **25,468** | 19,980 | **237,162** |
| Work in process | **44,696** | 83,952 | **416,206** |
| | **¥233,353** | ¥275,460 | **$2,172,951** |

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2005 and 2004 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Land | ¥ 127,449 | ¥ 178,611 | $ 1,186,793 |
| Buildings and structures | 332,613 | 334,049 | 3,097,249 |
| Machinery and equipment | 1,350,483 | 1,426,772 | 12,575,502 |
| Construction in progress | 34,964 | 38,919 | 325,585 |
| | 1,845,511 | 1,978,354 | 17,185,131 |
| Accumulated depreciation | (1,314,608) | (1,270,636) | (12,241,439) |
| Property, plant and equipment, net | ¥ 530,903 | ¥ 707,717 | $ 4,943,692 |

Impairment of assets is recorded by Australian subsidiaries and U.S. subsidiaries on basis of each Australian and U.S. accounting principle, respectively. Included in the above as at March 31, 2005 are impairment loss of machinery and equipment, construction in progress and other assets with book values of ¥41,196 million ($383,611 thousand), ¥22,911 million ($213,343 thousand) and ¥20,268 million ($188,732 thousand), respectively. Included in the above as at March 31, 2005 are idle assets of land, and buildings and structures with book values of ¥2,049 million ($19,088 thousand) and ¥439 million ($4,095 thousand), respectively.

## 7. INVESTMENTS

Other securities at March 31, 2005 and 2004 were as follows:

| | In millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | | | | 2004 | | | |
| | Acquisition cost | Carrying amount | Unrealized gains | Unrealized (losses) | Acquisition cost | Carrying amount | Unrealized gains | Unrealized (losses) |
| Other securities: | | | | | | | | |
| Securities with market value | ¥ 9,890 | ¥25,622 | ¥15,759 | ¥(27) | ¥17,744 | ¥49,989 | ¥32,245 | ¥(109) |
| Securities without market value | 23,178 | 23,178 | — | — | 29,722 | 29,722 | — | — |
| Total other securities | ¥33,068 | ¥48,800 | ¥15,759 | ¥(27) | ¥47,466 | ¥79,712 | ¥32,245 | ¥(109) |

| | In thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Acquisition cost | Carrying amount | Unrealized gains | Unrealized (losses) |
| Other securities: | | | | |
| Securities with market value | $ 92,096 | $238,589 | $146,751 | $(257) |
| Securities without market value | 215,831 | 215,831 | — | — |
| Total other securities | $307,927 | $454,421 | $146,751 | $(257) |

Financial Section

Proceeds from sales of other securities and the corresponding gross gains and losses, which are included in other income (loss), net in the accompanying consolidated statements of operations for the years ended March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Proceeds | **¥9,477** | ¥58,655 | **$88,255** |
| Gross gains | **1,609** | 39,488 | **14,988** |
| Gross losses | **277** | 56 | **2,587** |

Significant declines in the value of securities with market value are recognized as impairment losses if the decline is not considered to be recoverable. After the write-down of the impaired amount, a new book acquisition cost is established. Losses recognized on the impairment of securities with market value totaled ¥2 million ($25 thousand) and ¥36 million for the years ended March 31, 2005 and 2004, respectively.

Significant declines in the value of securities without market value are recognized as impairment losses. Losses recognized on the impairment of securities without market value totaled ¥38 million ($356 thousand) and ¥65 million for the years ended March 31, 2005 and 2004, respectively.

Investment in unconsolidated subsidiaries and affiliated companies, and investment in securities at March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Investment in unconsolidated subsidiaries and affiliated companies | **¥35,535** | ¥ 77,010 | **$330,897** |
| Investment in securities | **44,580** | 69,154 | **415,124** |
| | **¥80,115** | ¥146,165 | **$746,021** |

## 8. ACCRUED EXPENSES, OTHER PAYABLES AND DEFERRED INCOME

Accrued expenses, accounts payables and deferred income at March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Accrued expenses and accounts payables | **¥175,734** | ¥148,755 | **$1,636,409** |
| Allowance for product warranty | **49,859** | 38,403 | **464,285** |
| Deferred income | **22,783** | 110,390 | **212,156** |
| Accrued bonuses | **5,516** | 7,594 | **51,370** |
| | **¥253,893** | ¥305,144 | **$2,364,221** |

## 9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2005 and 2004 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Loans, principally from banks | **¥236,151** | ¥553,616 | **$2,199,011** |
| Commercial paper | **—** | 106,813 | **—** |
| | **¥236,151** | ¥660,430 | **$2,199,011** |

Long-term debt at March 31, 2005 and 2004 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Loans, principally from banks and insurance companies, due through 2023 at rates averaged 4.0% in 2005 and 3.2% in 2004: | | | |
| Secured | ¥173,270 | ¥ 94,855 | $1,613,470 |
| Unsecured | 24,007 | 220,104 | 223,553 |
| 2.7% bonds due 2004 | — | 20,000 | — |
| 3.1% bonds due 2007 | 8,700 | 8,700 | 81,013 |
| 3.3% bonds due 2009 | 25,600 | 25,600 | 238,383 |
| Euro medium-term notes due through 2005 at rates ranging from 0.8% to 1.7% | — | 15,375 | — |
| Euro medium-term notes due through 2006 at rates ranging from 4.1% to 4.7% | 4,243 | 7,660 | 39,511 |
| Euro medium-term notes due through 2008 at rates 2.5% | 4,000 | 9,900 | 37,247 |
| Non-interest bearing long-term debt | — | 24,555 | — |
| | 239,821 | 426,751 | 2,233,179 |
| Less current portion | (41,800) | (187,889) | (389,242) |
| | ¥198,020 | ¥ 238,862 | $1,843,936 |

The maturities of long-term debt were as follows:

| Year ending March 31, | In millions of yen | In thousands of U.S. dollars |
|---|---|---|
| 2006 | ¥ 41,800 | $ 389,242 |
| 2007 | 44,981 | 418,860 |
| 2008 | 61,501 | 572,690 |
| 2009 | 43,048 | 400,859 |
| 2010 | 45,262 | 421,477 |
| Thereafter | 3,226 | 30,047 |
| Total | ¥239,821 | $2,233,179 |

Assets pledged as collateral for short-term borrowings, long-term debt and guarantees at March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Trade notes and accounts receivable | ¥ 15,711 | ¥ 1,618 | $ 146,299 |
| Inventories | 52,712 | 14,465 | 490,849 |
| Finance receivables | 21,018 | 85,586 | 195,720 |
| Investments | 500 | 274 | 4,664 |
| Property, plant and equipment, net | 211,908 | 174,591 | 1,973,262 |
| Other | 79,840 | 702 | 743,458 |
| | ¥381,691 | ¥277,238 | $3,554,255 |

The following groups of assets of the Okazaki plant were pledged as collateral for unused credit limits of ¥1 million under a collateral agreement with The Bank of Tokyo-Mitsubishi at March 31, 2004. No debt was outstanding under the credit limit at March 31, 2005 and 2004, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Buildings and structures | ¥11,871 | ¥12,805 | $110,541 |
| Machinery and equipment | 8,884 | 10,674 | 82,731 |
| Land | 985 | 985 | 9,180 |
| | ¥21,741 | ¥24,465 | $202,453 |

The following groups of assets of the Mizushima plant were pledged as collateral for the debt from The Japan Bank for International Cooperation to EQUUS Leasing B.V., a counterparty of Netherland Car B.V., a consolidated subsidiary, at March 31, 2005 and 2004, respectively. The debt amount that EQUUS was guaranteed was ¥14,353 million ($133,662 thousand) and ¥15,600 million at March 31, 2005 and 2004, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Buildings and structures | ¥ 5,003 | ¥ 4,958 | $ 46,588 |
| Machinery and equipment | 22,066 | 23,962 | 205,480 |
| Land | 2,008 | 2,008 | 18,705 |
| | ¥29,078 | ¥30,929 | $270,775 |

The following groups of assets of the Kyoto plant were pledged as collateral at March 31, 2005.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Buildings and structures | ¥ 7,250 | — | $ 67,511 |
| Machinery and equipment | 15,222 | — | 141,752 |
| Land | 2,137 | — | 19,905 |
| | ¥24,610 | — | $229,168 |

The following groups of assets at the Shiga plant were pledged as collateral at March 31, 2005.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Buildings and structures | ¥ 3,426 | — | $ 31,908 |
| Machinery and equipment | 11,940 | — | 111,186 |
| Land | 3,859 | — | 35,939 |
| | ¥19,226 | — | $179,033 |

The following groups of assets at the Pajero plant were pledged as collateral for the debt from The Development Bank of Japan and others to Pajero Manufacturing Corporation, a consolidated subsidiary, at March 31, 2005 and 2004, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Buildings and structures | **¥3,424** | ¥3,038 | **$31,884** |
| Machinery and equipment | **2,585** | 2,478 | **24,073** |
| Land | **1,540** | 1,542 | **14,340** |
| | **¥7,549** | ¥7,060 | **$70,298** |

The following groups of assets at the Suiryo Plastics plant were pledged as collateral for the debt from The Hyakujushi Bank, Ltd. and others to Suiryo Plastics Co., Ltd., a consolidated subsidiary, at March 31, 2005 and 2004, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Buildings and structures | **¥1,123** | ¥1,199 | **$10,457** |
| Machinery and equipment | **944** | 1,189 | **8,793** |
| Land | **194** | 194 | **1,811** |
| | **¥2,261** | ¥2,583 | **$21,062** |

The obligations secured by such collateral at March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Short-term borrowings and long-term debt | **¥383,281** | ¥231,613 | **$3,569,062** |

## 10. STOCKHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings should be appropriated to the legal reserve until the sum of the legal reserve and capital surplus equals at least 25% of the common stock account. The Code also stipulates that, to the extent that the sum of capital surplus account and the legal reserve exceed 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the stockholders. MMC and its domestic subsidiaries have provided these amounts in accordance with the Code.

Unrealized holding gain on securities and derivative financial instruments is not available for dividends.

At the stockholders' meeting held on June 25, 2003, the disposition of the non-consolidated accumulated deficit of MMC of ¥197,179 million ($1,865,637 thousand) by offset against capital surplus was approved, as permitted by the Code. As a result, the capital surplus decreased by the same amount.

MMC is authorized to issue 3,425,000 shares of convertible preferred stock that are classified as Series A, B and G (3 times in each series), and has originally issued 682,000 shares (526,193 shares are issued at March 31, 2005).

The holders of each series convertible preferred stock are not entitled voting right, but the holders of Series A and G (except for Series B) are entitled to the dividend of preferred stock will be paid 50,000 yen per share to the holders each year after 2009.

MMC also distributes residual claims to the holders of each series convertible preferred stock by solely payment of one million yen per share of preferred stock in order of payment.

MMC has the rights to retain parts or entire of preferred stocks and retire parts or entire of them.

## 11. CONTINGENT LIABILITIES

Trade notes endorsed in the ordinary course of business amounted to ¥12 million at March 31, 2004.

Loans guaranteed given in the ordinary course of business amounted to ¥6,008 million ($55,947 thousand) and ¥6,721 million at March 31, 2005 and 2004, respectively. Agreements similar to guarantees given in the ordinary course of business amounted to ¥3,449 million ($32,125 thousand) and ¥4,518 million at March 31, 2005 and 2004, respectively.

## 12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Sales promotion and advertising | ¥132,727 | ¥167,925 | $1,235,937 |
| Freight | 19,757 | 30,109 | 183,975 |
| Bad debts expense | 4,602 | 2,907 | 42,860 |
| Salaries and wages | 86,906 | 80,921 | 809,259 |
| Pension expenses | 4,348 | 9,864 | 40,488 |
| Severance payments to directors and corporate auditors | 796 | 738 | 7,420 |
| Depreciation | 14,150 | 12,148 | 131,765 |
| Research and development | 68,775 | 68,874 | 640,429 |
| Others | 111,011 | 82,249 | 1,033,721 |
| Total | ¥443,076 | ¥455,739 | $4,125,859 |

## 13. OTHER INCOME (LOSS), NET

Other income (loss), net for the years ended March 31, 2005 and 2004 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Gain on sales of investments in securities | ¥ 1,331 | ¥39,431 | $ 12,401 |
| Loss on sales and disposal of property, plant and equipment and intangible assets | (16,189) | (4,022) | (150,755) |
| Loss on impairment of fixed assets | (84,376) | (527) | (785,699) |
| Severance payments for early retirement | (16,283) | (3,190) | (151,629) |
| Amortization of consolidation goodwill | 1,441 | 1,560 | 13,421 |
| Provision for loss on restructuring | (29,530) | — | (274,983) |
| Inventory valuation loss | (28,043) | — | (261,136) |
| Extraordinary measure expenses | (25,247) | | (235,103) |
| Stock issue costs | (12,854) | — | (119,703) |
| Loss compensation based on stocks transfer contract | (74,736) | — | (695,935) |
| Other | (17,188) | (6,832) | (160,060) |
| | ¥(301,678) | ¥26,419 | $(2,809,184) |

## 14. CASH FLOW INFORMATION

Cash and cash equivalents at March 31, 2005 and 2004 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Cash and bank deposits | **¥307,474** | ¥173,514 | **$2,863,160** |
| Time deposits with maturities of three months or more | **(16,791)** | (2,161) | **(156,363)** |
| Short-term investments maturing within three months from the acquisition dates | **4,220** | 10,558 | **39,297** |
| Cash and cash equivalents | **¥294,903** | ¥181,911 | **$2,746,094** |

Interest paid less interest received and dividends received for the years ended March 31, 2005 and 2004 amounted to a net expense of ¥15,927 million ($148,314 thousand) and ¥15,232 million, respectively. Income taxes paid for the years ended March 31, 2005 and 2004 amounted to ¥4,675 million ($43,535 thousand) and ¥5,260 million, respectively.

Purchase of property, plant and equipment within investing activities in the consolidated statements of cash flows for the years ended March 31, 2005 and 2004 includes payments for the acquisition of lease vehicles of ¥16,061 million ($149,558 thousand) and ¥45,059 million, respectively.

Proceeds from sales of property, plant and equipment within investing activities in the consolidated statements of cash flows for the years ended March 31, 2005 and 2004 includes proceeds from sales of lease vehicles of ¥36,276 million ($337,797 thousand) and ¥64,998 million, respectively.

Changes in finance receivables within operating activities in the consolidated statements of cash flows for the years ended March 31, 2005 and 2004 is the net of payments amounting to ¥95,011 million ($884,730 thousand) and ¥257,773 million, respectively, and proceeds from collections amounting to ¥223,580 million ($2,081,953 thousand) and ¥211,608 million, respectively.

## 15. LEASES

### As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2005, which would have been reflected in the consolidated balances sheet if finance lease accounting had been applied to the finance leases transactions excluding lease arrangements which stipulate the transfer of title of the assets to the lessee, which are accounted for as operating leases:

(a) Notional equivalent acquisition cost, accumulated depreciation, and related net book value of such finance lease assets:

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | | 2004 | | |
| | Notional equivalent acquisition cost | Notional equivalent accumulated depreciation | Notional equivalent net book value | Notional equivalent acquisition cost | Notional equivalent accumulated depreciation | Notional equivalent net book value |
| Tools and equipment | **¥31,275** | **¥23,033** | **¥ 8,242** | ¥40,392 | ¥26,322 | ¥14,070 |
| Others | **5,372** | **2,432** | **2,940** | 5,256 | 2,693 | 2,563 |
| Total | **¥36,648** | **¥25,466** | **¥11,182** | ¥45,649 | ¥29,015 | ¥16,634 |

| | In thousand of U.S. dollars | | |
|---|---|---|---|
| | 2005 | | |
| | Notional equivalent acquisition cost | Notional equivalent accumulated depreciation | Notional equivalent net book value |
| Tools and equipment | **$291,235** | **$214,483** | **$ 76,751** |
| Others | **50,030** | **22,652** | **27,378** |
| Total | **$341,266** | **$237,136** | **$104,129** |

### (b) Future minimum lease payments of such finance leases:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Due within 1 year | **¥ 7,350** | ¥ 9,542 | **$ 68,447** |
| Due after 1 year | **9,933** | 14,121 | **92,498** |
| Total | **¥17,283** | ¥23,663 | **$160,945** |

### (c) Lease payment expense, notional depreciation expense and notional interest expense of such finance leases:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Lease payment expense | **¥10,156** | ¥12,861 | **$94,578** |
| Notional depreciation expense | **8,483** | 13,075 | **78,994** |
| Notional interest expense | **522** | 608 | **4,868** |

### (d) Notional finance lease depreciation method

Notional depreciation of such finance leases is principally calculated and depreciated with no residual value by the declining-balance method over the lease term.

### (e) Calculation of notional interest expense of finance leases

The notional interest expense of such finance leases is principally regarded as the difference between total minimum lease payments and acquisition cost, and is allocated to each period using the interest method.

Future minimum lease payments required under operating lease transactions entered into by MMC and its consolidated subsidiaries at March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Due within 1 year | **¥15,456** | ¥11,260 | **$143,924** |
| Due after 1 year | **46,697** | 36,964 | **434,839** |
| Total | **¥62,153** | ¥48,224 | **$578,763** |

### As lessor

Future minimum lease revenues from operating lease transactions entered into by MMC and its consolidated subsidiaries as lessor at March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Due within 1 year | **¥20,741** | ¥27,063 | **$193,137** |
| Due after 1 year | **22,215** | 35,714 | **206,866** |
| Total | **¥42,956** | ¥62,778 | **$400,003** |

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

### (a) Nature of and policy for derivative transactions

MMC and consolidated subsidiaries utilize derivative financial instruments, including forward foreign exchange contracts, currency options, currency swaps, interest rate swaps and cross currency swaps to manage their exposure to fluctuations in foreign currencies and interest rates. MMC and consolidated subsidiaries do not utilize derivatives for speculation or trading purposes.

### (b) Risk

MMC and consolidated subsidiaries are exposed to the risk of credit loss in the event of nonperformance by the counterparties to the derivatives, but any such loss would not be expected to be material because MMC enters into derivative transactions only with financial institutions with high credit ratings. The notional amounts of the derivative financial instruments do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of MMC's risk exposure in connection with derivatives.

All the transactions related to derivative financial instruments are for the purpose of hedging, however, certain interest rate swaps which are receive-fixed/pay-floating are exposed to risk of future interest rate fluctuations. MMC and consolidated subsidiaries do not enter into derivative contracts for which significant volatility would have any significant influence on its operations.

### (c) Control

MMC does not enter into derivative contracts for trading purposes or on the anticipation of gains from short-term market movements. Derivative transactions are appropriately pre-approved by Managing Directors in charge of Finance Group Head Quarters. MMC approves derivative transactions of consolidated subsidiaries as appropriate, and in accordance with policies established for each subsidiary which require the appropriate approval of Managing Directors in charge of Finance Group Head Quarters.

Summarized below are the notional amounts and the estimated fair values of the derivative positions, except for those accounted for under the special hedge provision, outstanding at March 31, 2005 and 2004:

[Forward foreign exchange contracts]

| | | | | | | In millions of yen |
|---|---|---|---|---|---|---|
| | | | 2005 | | | 2004 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | | | |
| Sell: | | | | | | |
| U.S. $ | ¥14,033 | ¥13,867 | ¥ 166 | ¥ 7,042 | ¥ 6,825 | ¥ 216 |
| Euro | 18,328 | 18,690 | (362) | 7,897 | 7,721 | 175 |
| £ stg | 2,284 | 2,351 | (66) | 12,478 | 12,604 | (126) |
| Canadian $ | 967 | 1,034 | (66) | 5,705 | 5,677 | 28 |
| Australian $ | 2,920 | 3,172 | (251) | — | — | — |
| Japanese ¥ | 13,444 | 13,199 | 245 | 10,105 | 10,104 | 0 |
| Buy: | | | | | | |
| Japanese ¥ | 10,950 | 10,900 | (49) | 2,474 | 2,491 | 17 |
| Total | | | ¥(385) | | | ¥ 311 |

| | | | In thousands of U.S. dollars |
|---|---|---|---|
| | | | 2005 |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | |
| Sell: | | | |
| U.S. $ | $130,677 | $129,129 | $ 1,547 |
| Euro | 170,670 | 174,044 | (3,373) |
| £ stg | 21,273 | 21,895 | (621) |
| Canadian $ | 9,009 | 9,633 | (623) |
| Australian $ | 27,197 | 29,537 | (2,339) |
| Japanese ¥ | 125,195 | 122,912 | 2,283 |
| Buy: | | | |
| Japanese ¥ | 101,966 | 101,504 | (462) |
| Total | | | $(3,590) |

[Currency options]

| | | | | | | In millions of yen |
|---|---|---|---|---|---|---|
| | | | 2005 | | | 2004 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Currency options: | | | | | | |
| Sell: | | | | | | |
| U.S. $ call | — | | | ¥46,234 | | |
| | — | — | — | (457) | ¥584 | ¥(127) |
| Buy: | | | | | | |
| U.S. $ put | — | | | 46,234 | | |
| | — | — | — | (457) | 380 | (77) |
| Total | | | — | | | ¥(204) |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2005 |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Currency options: | | | |
| Sell: | | | |
| U.S. $ call | — | | |
| | — | — | — |
| Buy: | — | | |
| U.S. $ put | — | — | — |
| | — | | |
| Total | | | — |

[Cross currency swaps]

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2005 | | | 2004 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Cross currency swaps: | | | | | | |
| Pay-JPY receive — U.S. $ | ¥2,166 | ¥(16) | ¥(16) | ¥3,595 | ¥(387) | ¥(387) |
| Pay-THB receive — U.S. $ | 3,157 | 1 | 1 | 5,547 | (128) | (128) |
| Total | | | ¥(15) | | | ¥(516) |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2005 |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Cross currency swaps: | | | |
| Pay-JPY receive — U.S. $ | $20,177 | $(151) | $(151) |
| Pay-THB receive — U.S. $ | 29,404 | 11 | 11 |
| Total | | | $(140) |

All cross currency swaps have maturities over one year.

[Interest rate swaps]

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2005 | | | 2004 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Interest rate swaps: | | | | | | |
| Pay-fixed, receive-floating | ¥129,869 | ¥113 | ¥113 | ¥150,608 | ¥(1,215) | ¥(1,215) |
| Pay-floating, receive-fixed | 61,428 | 139 | 139 | 14,241 | 531 | 531 |
| Total | | | ¥252 | | | ¥ (683) |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | 2005 | | |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Interest rate swaps: | | | |
| Pay-fixed, receive-floating | $1,209,325 | $1,053 | $1,053 |
| Pay-floating, receive-fixed | 572,012 | 1,295 | 1,295 |
| Total | | | $2,348 |

Included in interest rate swaps above, are contracts with maturities over one year with notional amounts of ¥103,008 million ($959,202 thousand) and ¥45,446 million as at March 31, 2005 and 2004, respectively.

## 17. RETIREMENT BENEFITS

MMC and its consolidated subsidiaries have defined benefit pension plans for their employees. The plans include contributory plans in accordance with the Welfare Pension Institute Law of Japan, tax-qualified plans and non-contributory severance plans. Additional early retirement benefits are paid in certain cases upon employee's retirement. Certain foreign consolidated subsidiaries have defined contribution pension plans. At March 31, 2005, MMC and its consolidated subsidiaries have 4 funds for contributory plans in accordance with the Welfare Pension Insurance Law, and 46 funds for tax-qualified plans. MMC and 43 of its consolidated subsidiaries have non-contributory severance plans.

The discount rate used to determine the retirement benefit obligation was 1.5%–2.5% for MMC and its domestic consolidated subsidiaries, 6.0%–6.3% for its foreign consolidated subsidiaries, and 2.0%–2.5% for MMC and its domestic consolidated subsidiaries, 6.25%–7.0% for its foreign consolidated subsidiaries at March 31, 2005 and 2004, respectively. The rate of return on plan assets assumed was 0.8%–4.0% for MMC and its domestic consolidated subsidiaries, 8.0%–8.5% for its foreign consolidated subsidiaries, and 1.5%–4.0% for MMC and its domestic consolidated subsidiaries, 8.0%–8.5% for its foreign consolidated subsidiaries for the year ended March 31, 2005 and 2004, respectively.

The retirement benefit obligation for MMC's and its consolidated subsidiaries' employees' defined benefit plans at March 31, 2005 and 2004 is summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Retirement benefit obligation | ¥(173,805) | ¥(186,990) | $(1,618,451) |
| Pension plan assets at fair value | 45,628 | 54,460 | 424,882 |
| Unfunded status | (128,177) | (132,529) | (1,193,569) |
| Unrecognized actuarial losses | 20,362 | 19,668 | 189,610 |
| Unrecognized prior service cost | 11,449 | 6,605 | 106,618 |
| Net recognized retirement benefit obligation | (96,365) | (106,255) | (897,340) |
| Prepaid pension premiums | 2,929 | 4,866 | 27,283 |
| Accrued retirement benefits | ¥ (99,295) | ¥(111,121) | $ (924,624) |

Plan assets relating to multi-employer pension plans are not included in the above pension plan assets, as the amount of such assets representing the consolidated subsidiaries' share can not be reasonably established. The amount of such assets calculated mainly on the basis of contribution ratio was ¥3,708 million ($34,536 thousand) and ¥3,627 million at March 31, 2005 and 2004, respectively.

Pension expenses for MMC's and its consolidated subsidiaries' employees' retirement defined benefit plans for the years ended March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Service cost | ¥ 9,086 | ¥11,718 | $ 84,613 |
| Interest cost | 4,803 | 5,175 | 44,731 |
| Expected return on plan assets | (2,158) | (2,549) | (20,101) |
| Amortization of actuarial loss | 781 | 2,673 | 7,281 |
| Amortization of prior service cost | 708 | 347 | 6,599 |
| Other | 428 | 5,363 | 3,987 |
| Pension expenses | ¥13,650 | ¥22,729 | $127,113 |

In addition to the above pension expenses, additional early retirement benefits of ¥16,283 million ($151,629 thousand) and ¥3,190 million were paid and recorded as other income (loss) during the year ended March 31, 2005 and 2004, respectively.

## 18. INCOME TAXES

MMC and its domestic consolidated subsidiaries are subject to corporation, resident's and enterprise taxes based on taxable income, which, in the aggregate, resulted in a statutory tax rate of approximately 40.3% and 41.6% for the years ended March 31, 2005 and 2004, respectively. Income taxes of the foreign consolidated subsidiaries are calculated based generally on the tax rates applicable in their countries of incorporation. Consolidated tax payment is applied at March 3, 2005 and 2004.

The effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2005 and 2004 differ from the statutory tax rate for the following reasons:

| | % | |
|---|---|---|
| | 2005 | 2004 |
| Statutory income tax rate for MMC | 40.3 | 41.6 |
| Increase in valuation allowance, effect of use of loss carry forwards and similar | (42.4) | (211.3) |
| Income from affiliates accounted for by the equity method | 1.1 | 8.9 |
| Amortization of consolidation goodwill | (0.1) | 0.8 |
| Increase (decrease) by tax effect of subsidiaries in North America | 1.1 | (8.3) |
| Expenses not deductible for income taxes purposes | (0.1) | (2.1) |
| Income (loss) on sales of affiliates | 0.1 | (2.1) |
| Other | 4.3 | (6.1) |
| Income taxes as a percentage of (loss) gain before income taxes and minority interests | 4.3 | (178.6) |

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Deferred tax assets: | | | |
| Net operating loss carry forward | ¥ 308,079 | ¥ 162,820 | $ 2,868,790 |
| Accrued retirement benefits | 41,411 | 41,663 | 385,622 |
| Allowance for doubtful accounts | 31,270 | 32,635 | 291,182 |
| Allowance for product warranty | 19,468 | 17,865 | 181,283 |
| Accounts payable — warranty | 13,339 | 15,279 | 124,213 |
| Other | 116,985 | 95,251 | 1,089,352 |
| Less valuation allowance | (483,085) | (285,943) | (4,498,421) |
| Total deferred tax assets | 47,468 | 79,573 | 442,023 |
| Deferred tax liabilities: | | | |
| Reserves under the Special Taxation Measures Law | (1,486) | (12,693) | (13,843) |
| Unrealized holding gain on securities | (6,145) | (3,291) | (57,228) |
| Fair value adjustment relating to land in consolidated subsidiaries | (5,921) | (6,338) | (55,142) |
| Accelerated depreciation of overseas consolidated subsidiaries | (30,448) | (42,029) | (283,535) |
| Other | (12,393) | (15,543) | (115,406) |
| Total deferred tax liabilities | (56,396) | (79,896) | (525,156) |
| Net deferred tax assets | ¥ (8,927) | ¥ (323) | $ (83,132) |

Deferred tax assets and liabilities at March 31, 2005 and 2004 are included in the accompanying consolidated balance sheets as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Current assets | ¥ 1,799 | ¥ 4,979 | $ 16,761 |
| Investments and other assets | 6,730 | 19,721 | 62,676 |
| Other current liabilities | (100) | (273) | (936) |
| Non-current liabilities | (17,357) | (24,751) | (161,633) |
| Net deferred tax assets | ¥ (8,927) | ¥ (323) | $ (83,132) |

## 19. SEGMENT INFORMATION

### (a) Business segments

The business segment information for MMC and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Net sales: | | | |
| Automobiles | **¥2,086,053** | ¥2,443,342 | **$19,425,023** |
| Financial services | **40,193** | 72,626 | **374,271** |
| Total | **2,126,246** | 2,515,968 | **19,799,294** |
| Intersegment | **(3,619)** | 3,481 | **(33,708)** |
| Consolidated | **¥2,122,626** | ¥2,519,449 | **$19,765,586** |
| Operating loss: | | | |
| Automobiles | **¥ (104,305)** | ¥ (50,864) | **$ (971,278)** |
| Financial services | **(21,066)** | (49,880) | **(196,165)** |
| Total | **(125,371)** | (100,745) | **(1,167,444)** |
| Intersegment | **(3,172)** | 3,892 | **(29,539)** |
| Consolidated | **¥ (128,544)** | ¥ (96,852) | **$ (1,196,983)** |
| Total assets: | | | |
| Automobiles | **¥1,601,183** | ¥1,784,453 | **$14,909,985** |
| Financial services | **273,412** | 485,540 | **2,545,973** |
| Total | **1,874,595** | 2,269,994 | **17,455,958** |
| Corporate and eliminations | **(285,309)** | (240,958) | **(2,656,756)** |
| Consolidated | **¥1,589,286** | ¥2,029,035 | **$14,799,202** |
| Depreciation: | | | |
| Automobiles | **¥ 75,258** | ¥ 108,051 | **$ 700,792** |
| Financial services | **22,226** | 31,419 | **206,967** |
| Consolidated | **¥ 97,484** | ¥ 139,471 | **$ 907,760** |
| Capital expenditures: | | | |
| Automobiles | **¥ 128,592** | ¥ 113,907 | **$ 1,197,430** |
| Financial services | **16,061** | 37,015 | **149,558** |
| Consolidated | **¥ 144,653** | ¥ 150,923 | **$ 1,346,988** |

## (b) Geographical segments

The geographical segment information for MMC and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Net sales: | | | |
| Japan | **¥1,258,275** | ¥1,564,860 | **$11,716,876** |
| North America | **435,311** | 599,675 | **4,053,559** |
| Europe | **670,218** | 656,241 | **6,240,976** |
| Asia | **198,554** | 183,767 | **1,848,909** |
| Other areas | **160,677** | 181,958 | **1,496,204** |
| Total | **2,723,037** | 3,186,503 | **25,356,526** |
| Interarea | **(600,411)** | (667,054) | **(5,590,939)** |
| Consolidated | **¥2,122,626** | ¥2,519,449 | **$19,765,586** |
| Operating (loss) profit: | | | |
| Japan | **¥ (73,561)** | ¥ 19,933 | **$ (684,996)** |
| North America | **(74,256)** | (125,970) | **(691,465)** |
| Europe | **(192)** | 14,105 | **(1,794)** |
| Asia | **21,602** | 12,415 | **201,157** |
| Other areas | **(11,448)** | (16,732) | **(106,611)** |
| Total | **(137,857)** | (96,248) | **(1,283,709)** |
| Interarea | **9,313** | (604) | **86,726** |
| Consolidated | **¥ (128,544)** | ¥ (96,852) | **$ (1,196,983)** |
| Total assets: | | | |
| Japan | **¥1,188,913** | ¥1,197,472 | **$11,070,991** |
| North America | **309,933** | 676,349 | **2,886,053** |
| Europe | **194,170** | 257,556 | **1,808,089** |
| Asia | **101,681** | 86,514 | **946,847** |
| Other areas | **74,898** | 82,830 | **697,446** |
| Total | **1,869,598** | 2,300,723 | **17,409,428** |
| Interarea | **(280,312)** | (271,687) | **(2,610,226)** |
| Consolidated | **¥1,589,286** | ¥2,029,035 | **$14,799,202** |

### (c) Overseas sales

Overseas sales, which include export sales of MMC and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries for the years ended March 31, 2005 and 2004 are summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Overseas sales: | | | |
| North America | **¥ 441,441** | ¥ 600,770 | **$ 4,110,641** |
| Europe | **667,778** | 661,967 | **6,218,257** |
| Asia | **258,331** | 304,429 | **2,405,549** |
| Other areas | **342,184** | 330,974 | **3,186,371** |
| Total | **1,709,736** | 1,898,141 | **15,920,818** |
| Consolidated sales | **¥2,122,626** | ¥2,519,449 | **$19,765,586** |

| | | |
|---|---|---|
| Overseas sales as a percentage of consolidated sales: | | |
| North America | **20.8%** | 23.8% |
| Europe | **31.4** | 26.3 |
| Asia | **12.2** | 12.1 |
| Other areas | **16.1** | 13.1 |
| Total | **80.5** | 75.3 |

## 20. RELATED PARTY TRANSACTIONS

MMC entered into the following transactions with related parties during the years ended March 31, 2005 and 2004:

| | **2005** |
|---|---|
| Party type: | Main stockholder |
| Party name: | DaimlerChrysler AG |
| Address: | Stuttgart, Germany |
| Capital: | Euro 2,633 million |
| Business: | Manufacturing and sales of passenger cars and other transportation equipment |
| % of voting stock held: | Direct 12.9 |
| Concurrent board appointment: | 1 person |
| Business relationship: | International alliances for research, development, production, sales and similar for passenger cars |
| Detail of transaction: | Loss supplementation based on Mitsubishi Fuso stock transfer contract |
| Transaction amount: | ¥64,212 million |
| Account title: | Accounts payable and accrued expense |
| Balance at year end: | ¥23, 249 million (see (i) below) |

| | 2004 | |
|---|---|---|
| | (a) | (b) |
| Party type: | Other related company | Affiliated company |
| Party name: | DaimlerChrysler AG | Mitsubishi Fuso Truck and Bus Corporation |
| Address: | Stuttgart, Germany | Tokyo, Japan |
| Capital: | Euro 2,633 million | ¥20,000 million |
| Business: | Manufacturing and sales of passenger cars and other transportation equipment | Development, design, manufacture, assembly and sales of trucks and buses, and related parts and accessories |
| % of voting stock held: | Direct 33.7, Indirect 3.2 | 20.0 |
| Concurrent board appointment: | 1 person | 1 person |
| Business relationship: | International alliances for research, development, production, sales and similar for passenger cars | Sales of engine and transmission parts |
| Detail of transaction: | Sale of shares in MFTBC | Deposit held |
| Transaction amount: | Sale amount ¥52,360 million<br>Gain on sale ¥499 million | Deposit amount ¥275,000 million<br>Interest expenses ¥125 million |
| Account title: | — | Other current liabilities |
| Balance at year end: | — | — |
| | (see (i) below) | (see (ii) below) |

(i) The terms and conditions of the above transactions were decided by negotiation based on Mitsubishi Fuso subject to the transaction's net assets.

(ii) The highest amount of the deposit held during the year was ¥60,000 million.

## 21. LOSS AND EQUITY PER SHARE

Net loss and equity per share of common stock for the years ended March 31, 2005 and 2004 are summarized as follows:

| | In yen | | In U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Net loss per share of common stock | | | |
| Basic | **¥(194.36)** | ¥(145.22) | **$(1.81)** |
| Diluted | **—** | — | **—** |
| Stockholders' equity per share of common stock | **(47.34)** | 20.20 | **(0.44)** |

Diluted amounts per share of common stock are not included for the years ended March 31, 2005 and 2004 due to the net loss recorded.

The computations of net loss per share of common stock for the years ended March 31, 2005 and 2004 are as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Numerator for basic net income per share of common stock: | | | |
| Net loss | **¥(474,785)** | ¥(215,424) | **$(4,421,136)** |
| Income not available to common stockholders | **—** | — | **—** |
| Income available to common stockholders | **¥(474,785)** | ¥(215,424) | **$(4,421,136)** |
| Denominator for net income per share of common stock: | | | |
| Weighted average number of shares (in thousands) | **2,442,864** | 1,483,429 | **2,442,864** |

# REPORT OF INDEPENDENT AUDITORS

ERNST & YOUNG SHINNIHON

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## Report of Independent Auditors

The Board of Directors
Mitsubishi Motors Corporation

We have audited the accompanying consolidated balance sheets of Mitsubishi Motors Corporation (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

*Further Information*

As described in Note 1, Going Concern, the Company recorded a large net consolidated loss of ¥474,785 million and ¥215,424 million for the year ended March 31, 2005 and 2004, respectively. As a result, significant doubt arises as to the Company's ability to continue as a going concern. Management's plans and other measures to rectify this situation are described in Note 1. The consolidated financial statements have been prepared on the basis of going concern and the effect of any significant doubt as to going concern is not reflected.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

Tokyo, Japan
June 23, 2005

Financial Section

# CONSOLIDATED SUBSIDIARIES AND AFFILIATES

(AS OF MARCH 31, 2005)

## CONSOLIDATED SUBSIDIARIES IN JAPAN

| Company | Capitalization (In millions of yen) | Business Lines | MMC Share of Voting Rights (%)* |
|---|---|---|---|
| Hokkaido Mitsubishi Motors Sales Co., Ltd. | 1,750 | Automobile sales | 100.0 |
| Sapporo Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Iwamizawa Mitsubishi Motors Sales Co., Ltd. | 60 | Automobile sales | 100.0 |
| Sorachi Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Asahikawa Mitsubishi Motors Sales Co., Ltd. | 90 | Automobile sales | 100.0 |
| Iwate Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Sendai Mitsubishi Motors Sales Co., Ltd. | 120 | Automobile sales | 100.0 |
| Fukushima Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Koriyama Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Gunma Chuo Mitsubishi Motors Sales Co., Ltd. | 80 | Automobile sales | 100.0 |
| Tochigi Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Minami Ibaraki Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Saitama Mitsubishi Motors Sales Co., Ltd. | 500 | Automobile sales | 100.0 |
| Saitama Chuo Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Tokyo Mitsubishi Motors Sales Co., Ltd. | 3,263 | Automobile sales | 100.0 |
| Kanagawa Mitsubishi Motors Sales Co., Ltd. | 1,025 | Automobile sales | 100.0 |
| Kawasaki Mitsubishi Motors Sales Co., Ltd. | 882 | Automobile sales | 100.0 |
| Yamanashi Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Matsumoto Mitsubishi Motors Sales Co., Ltd. | 160 | Automobile sales | 100.0 |
| Aichi Chuo Mitsubishi Motors Sales Co., Ltd. | 50 | Automobile sales | 99.1 |
| Gifu Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 82.5 |
| Ishikawa Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Kinki Mitsubishi Motors Sales Co., Ltd. | 1,083 | Automobile sales | 100.0 |
| Konan Mitsubishi Motors Sales Co., Ltd. | 180 | Automobile sales | 100.0 |
| Nishi Tottori Mitsubishi Motors Sales Co., Ltd. | 40 | Automobile sales | 100.0 (15.4) |
| Okayama Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 65.0 |
| Hiroshima Chuo Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 97.8 |
| Shimane Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 97.2 |
| Shin Yamaguchi Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Matsuyama Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Oita Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Miyazaki Chuo Mitsubishi Motors Sales Co., Ltd. | 40 | Automobile sales | 90.7 |
| Nagasaki Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 100.0 |
| Kagoshima Chuo Mitsubishi Motors Sales Co., Ltd. | 90 | Automobile sales | 99.3 |
| Hokkaido Mitsubishi Motors Parts Sales Co., Ltd. | 150 | Automobile parts sales | 90.0 (45.0) |
| Tohoku Mitsubishi Motors Parts Sales Co., Ltd. | 200 | Automobile parts sales | 62.0 (15.0) |
| Michinoku Mitsubishi Motors Parts Sales Co., Ltd. | 100 | Automobile parts sales | 71.0 (21.0) |
| Kita Kanto Mitsubishi Motors Parts Sales Co., Ltd. | 100 | Automobile parts sales | 75.0 (25.0) |
| Saitama Mitsubishi Motors Parts Sales Co., Ltd. | 60 | Automobile parts sales | 90.4 (32.7) |
| Tokyo Mitsubishi Motors Parts Sales Co., Ltd. | 100 | Automobile parts sales | 100.0 (30.0) |
| Higashi Kanto Mitsubishi Motors Parts Sales Co., Ltd. | 100 | Automobile parts sales | 56.0 (10.0) |
| Kanagawa Mitsubishi Motors Parts Sales Co., Ltd. | 100 | Automobile parts sales | 100.0 (44.4) |
| Shinetsu Mitsubishi Motors Parts Sales Co., Ltd.** | 200 | Automobile parts sales | 50.0 (15.0) |
| Hokuriku Mitsubishi Motors Parts Sales Co., Ltd. | 150 | Automobile parts sales | 65.8 (21.5) |
| Higashi Chugoku Mitsubishi Motors Parts Sales Co., Ltd. | 150 | Automobile parts sales | 83.0 (43.0) |
| Nishi Chugoku Mitsubishi Motors Parts Sales Co., Ltd. | 150 | Automobile parts sales | 55.0 (5.0) |
| Shikoku Mitsubishi Motors Parts Sales Co., Ltd.** | 100 | Automobile parts sales | 50.0 |
| Pajero Manufacturing Co., Ltd. | 610 | Automobile and parts manufacture, sales | 100.0 |
| Ryoji Yohin Sales Co., Ltd. | 20 | Sales of automobile accessories, air conditioners | 100.0 |
| Mitsubishi Automotive Techno-Service Co., Ltd. | 400 | Automobile servicing | 100.0 |
| Mitsubishi Automotive Logistics Co., Ltd. | 300 | Vehicle transportation contractor | 75.0 |
| Mitsubishi Automotive Engineering Co., Ltd. | 350 | Design and testing of automobiles and parts | 100.0 |
| Suiryo Plastics Co., Ltd. | 100 | Manufacture, sales of automobile parts | 100.0 |

## MAJOR CONSOLIDATED SUBSIDIARIES OUTSIDE JAPAN

| Company | Incorporated in | Capitalization (In millions) | Business Lines | MMC Share of Voting Rights (%)* |
|---|---|---|---|---|
| Netherlands Car B.V. (NedCar) | Netherlands | EUR 250.0 | Manufacture, sales of automobiles and parts | 100.0 (15.0) |
| Mitsubishi Motors Europe B.V. (MME) | Netherlands | EUR 1,282.9 | Holding company<br>Imports, sales of automobiles and parts | 100.0 |
| Mitsubishi Motor R&D of Europe GmbH (MRDE) | Germany | EUR 0.8 | Product development, design, testing, certification | 100.0 (100.0) |
| Mitsubishi Motor Sales Netherlands B.V. | Netherlands | EUR 6.8 | Automobile importing, sales | 100.0 (100.0) |
| Mitsubishi Motors Deutschland GmbH | Germany | EUR 30.0 | Automobile importing, sales | 100.0 (100.0) |
| Mitsubishi Motor Sales Sweden AB (MMSS) | Sweden | EUR 5.5 | Automobile importing, sales | 100.0 (100.0) |
| Mitsubishi Motor Sales Denmark AS (MMSD) | Denmark | EUR 33.1 | Automobile importing, sales | 100.0 (100.0) |
| MMC Automoviles Espana S.A. | Spain | EUR 1.2 | Automobile importing, sales | 75.0 (75.0) |
| Mitsubishi Motors France S.A.S | France | EUR 22.7 | Automobile importing, sales | 100.0 (100.0) |
| Mitsubishi Motors Belgium nv | Belgium | EUR 3.0 | Automobile importing, sales | 100.0 (100.0) |
| Mitsubishi Motors R&D of America, Inc. (MRDA) | U.S.A. | USD 2.0 | Product development, design, testing, certification | 100.0 (100.0) |
| Mitsubishi Motors North America, Inc. (MMNA) | U.S.A. | USD 398.8 | Automobile importing, manufacture, sales | 100.0 |
| Mitsubishi Motors Credit of America, Inc. (MMCA) | U.S.A. | USD 1,220.0 | Automobile financing, leasing | 100.0 (100.0) |
| Mitsubishi Motor Sales of Canada, Inc. (MMSCAN) | Canada | USD 1.3 | Automobile importing, sales | 100.0 (100.0) |
| Mitsubishi Motor Sales of Caribbean, Inc. (MMSC) | Puerto Rico | USD 47.5 | Automobile importing, sales | 100.0 |
| MMC Holding New Zealand Ltd. | New Zealand | NZD 48.0 | Holding company | 100.0 |
| Mitsubishi Motors New Zealand Ltd. (MMNZ) | New Zealand | NZD 38.2 | Automobile importing, sales | 100.0 (100.0) |
| Mitsubishi Motors Australia, Ltd. (MMAL) | Australia | AUD 1,039.9 | Automobile importing, assembly, sales | 100.0 |
| MMC International Finance (Netherlands) B.V. | Netherlands | EUR 0.1 | Procurement of funds, group company financing | 100.0 |
| Mitsubishi Motors Philippines Corp. (MMPC) | Philippines | PHP 1,640.0 | Automobile importing, assembly, sales | 51.0 |
| Asian Transmission Corp. (ATC) | Philippines | PHP 350.0 | Manufacture of automobile transmissions | 84.7 (79.4) |
| Mitsubishi Motors (Thailand) Co., Ltd. (MMTh) | Thailand | THB 7,000.0 | Automobile importing, assembly, sales | 99.8 |
| MSC Engine Co., Ltd. (MEC) | Thailand | THB 20.0 | Manufacture of automobile engines | 100.0 (100.0) |
| Mitsubishi Motor Parts Sales of Gulf FZE | UAE | UAD 10.0 | Importing, sales of automobile panels | 100.0 |

Note: MMC has 34 other subsidiaries outside Japan in addition to the above.

## EQUITY METHOD AFFILIATES IN JAPAN

| Company | Capitalization (In millions of yen) | Business Lines | MMC Share of Voting Rights (%)* |
|---|---|---|---|
| Hakodate Mitsubishi Motors Sales Co., Ltd.*** | 480 | Automobile sales | 16.9 |
| Muroran Mitsubishi Motors Sales Co., Ltd. | 100 | Automobile sales | 29.0 (29.0) |
| Tokachi Mitsubishi Motors Sales Co., Ltd. | 60 | Automobile sales | 35.0 |
| Morioka Mitsubishi Motors Sales Co., Ltd. | 48 | Automobile sales | 21.5 |
| Ibaraki Mitsubishi Motors Sales Co., Ltd. | 30 | Automobile sales | 40.0 |
| Meihoku Mitsubishi Motors Sales Co., Ltd. | 70 | Automobile sales | 28.6 |
| Mie Mitsubishi Motors Sales Co., Ltd. | 58 | Automobile sales | 24.8 |
| Kagawa Mitsubishi Motors Sales Co., Ltd. | 50 | Automobile sales | 23.0 |
| Iyo Mitsubishi Motors Sales Co., Ltd. | 30 | Automobile sales | 22.2 |
| Uwajima Mitsubishi Motors Sales Co., Ltd. | 30 | Automobile sales | 26.7 |
| Miyazaki Mitsubishi Motors Sales Co., Ltd. | 60 | Automobile sales | 38.8 |
| Mitsubishi Automobile Credit-Lease Corporation | 960 | Auto sales financing, leasing, rentals | 43.3 |

## MAJOR EQUITY METHOD AFFILIATES OUTSIDE JAPAN

| Company | Incorporated in | Capitalization (In millions) | Business Lines | MMC Share of Voting Rights (%)* |
|---|---|---|---|---|
| MDC Power GmbH | Germany | EUR 0.5 | Manufacture of automobile engines | 50.0 |
| Mitsubishi Motors do Portugal S.A. | Portugal | EUR 16.5 | Importing, sales of automobiles | 50.0 (50.0) |
| P.T. Mitsubishi Krama Yudha Motors & Manufacturing | Indonesia | IDR 11.5 | Manufacture, sales of automobile parts | 32.3 |
| Vina Star Motors Corp. | Vietnam | USD 16.0 | Manufacture and marketing of automobiles and parts | 25.0 |
| Kuala Lumpa (Malaysia) Sendrian Bhd | Malaysia | MYR 2.0 | Holding company | 25.0 |
| Nation Wide Distribution Service (Thailand) Co., Ltd. | Thailand | THB 20.0 | Transporting of automobiles in Thailand | 49.0 (49.0) |

Note: MMC has 9 other equity method affiliates outside Japan in addition to the above.

* Figures in parentheses represent indirect shares.
** Although MMC's equity holding is less than 50%, this affiliate is listed as a subsidiary because MMC exercises effective control over the company.
*** Although MMC's equity holding is less than 20%, this company is listed as an affiliate because MMC exercises effective control over the company.

# SHAREHOLDER INFORMATION

(As of March 31, 2005)

## STOCK INFORMATION

| | |
|---|---|
| PAID-IN CAPITAL | ¥642,300 million |
| NUMBER OF SHARES | 4,254,521,405 shares (including preferred shares) |
| NUMBER OF SHAREHOLDERS | 215,332 |

| Type | Number of issued shares | Number of stockholders |
|---|---|---|
| COMMON SHARES | 4,253,995,212 | 215,310 |
| PREFERRED SHARES | | |
| First Series Class A | 130,000 | 4 |
| Second Series Class A | 35,000 | 8 |
| Third Series Class A | 1,000 | 1 |
| Second Series Class B | 11,000 | 1 |
| Third Series Class B | 40,600 | 2 |
| First Series Class G | 130,000 | 2 |
| Second Series Class G | 168,393 | 3 |
| Third Series Class G | 10,200 | 1 |

## MAJOR SHAREHOLDERS

| Name | Number of shares held (thousands) | % of total |
|---|---|---|
| Mitsubishi Heavy Industries, Ltd. | 580,683 | 13.65 |
| Mitsubishi Corporation | 571,065 | 13.42 |
| DaimlerChrysler AG | 548,372 | 12.89 |
| Phoenix Capital Partners One, Inc. | 300,000 | 7.05 |
| Phoenix Capital Partners Four, Inc. | 240,000 | 5.64 |
| The Bank of Tokyo-Mitsubishi, Ltd. | 203,949 | 4.79 |
| Phoenix Capital Partners Two, Inc. | 150,000 | 3.52 |
| JP Morgan Securities Limited | 59,995 | 1.40 |
| Phoenix Capital Partners Three, Inc. | 50,000 | 1.17 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 43,966 | 1.03 |
| Total | 2,747,985 | 64.59 |

# CORPORATE INFORMATION

(AS OF MARCH 31, 2005)

| | |
|---|---|
| **COMPANY NAME** | MITSUBISHI MOTORS CORPORATION |
| **DATE OF ESTABLISHMENT** | April 22, 1970 |
| **HEAD OFFICE** | 2-16-4, Konan, Minato-ku, Tokyo 108-8410, Japan<br>Telephone: +81-3-6719-2111 Fax: +81-3-6719-0014 |
| **ENGINEERING CENTERS** | Research & Development Center—Okazaki<br>1, Aza-Nakashinkiri, Hashime-cho, Okazaki, Aichi 444-8501, Japan<br>Telephone: +81-564-31-3100 |
| | Research & Development Center—Kyoto<br>1, Uzumasa Tatsumi-cho, Ukyo-ku, Kyoto 616-8501, Japan<br>Telephone: +81-75-864-8000 |
| | Research & Development Center—Tokachi Proving Ground<br>22-1, Aza-Osarushi, Otofuke-cho, Kato-gun, Hokkaido 080-0271, Japan<br>Telephone: +81-155-32-7111 |
| **DESIGN CENTER** | Tokyo Design Center (From May 2005)<br>2-16-4, Konan, Minato-ku, Tokyo 108-8410, Japan<br>Telephone: +81-3-6719-2996 |
| **PLANTS** | Nagoya Plant—Okazaki (Assembly)<br>1, Aza-Nakashinkiri, Hashime-cho, Okazaki, Aichi 444-8501, Japan<br>Telephone: +81-564-31-3100 |
| | Mizushima Plant (Assembly)<br>1-1, Mizushima Kaigandori, Kurashiki, Okayama 712-8501, Japan<br>Telephone: +81-86-444-4114 |
| | Powertrain Plant—Kyoto (Engines & Transmissions)<br>1, Uzumasa Tatsumi-cho, Ukyo-ku, Kyoto 616-8501, Japan<br>Telephone: +81-75-864-8000 |
| | Powertrain Plant—Shiga (Engines)<br>2-1, Kosunacho, Kosei-cho, Koka-gun, Shiga 520-3212, Japan<br>Telephone: +81-748-75-3131 |
| **NUMBER OF EMPLOYEES** | 36,970 (Consolidated Basis) 12,094 (Non-consolidated Basis) |
| **LISTED SECURITIES** | Tokyo Stock Exchange and Osaka Securities Exchange |
| **TRANSFER AGENT AND REGISTER** | The Mitsubishi Trust & Banking Corporation<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan |
| **ACCOUNTING AUDITOR** | Shin Nihon & Co. |

MITSUBISHI MOTORS

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