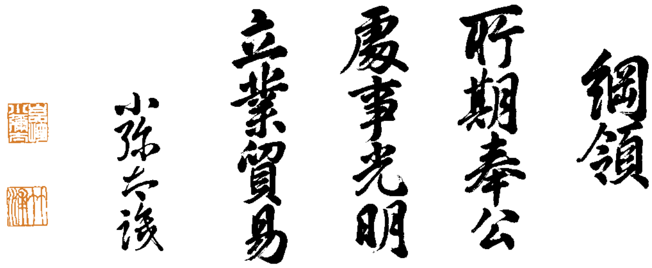
MITSUBISHI MOTORS CORPORATION

Annual Report 2006

Year ended March 31, 2006

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

On the Cover

Pajero (Montero) debuted in 1982 as an all-round SUV combining off-road driving performance with the speed and comfort of a passenger vehicle. Subsequent refinements led to second and third-generation models in 1991 and 1999. Over these years, *Pajero (Montero)* has been well received by customers in more than 170 countries and regions around the world, with roughly 2.5 million units produced and sold on a cumulative basis.

The new fourth-generation *Pajero (Montero)* features a diverse array of cutting-edge technologies befitting an all-round SUV built to global performance standards. It employs technologies and expertise cultivated through participation in the Dakar Rally for the past 23 years and has undergone numerous tests simulating some of the world's most exacting driving conditions.

Forward-looking Statements

This annual report contains forward-looking statements about Mitsubishi Motors Corporation's plans, strategies, beliefs and performance. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which Mitsubishi Motors Corporation (MMC) operates, as well as management's beliefs and assumptions. These expectations, estimates, forecasts and projections are subject to a number of risks, and uncertainties that may cause actual results to differ materially from those projected. Mitsubishi Motors Corporation, therefore, cautions 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

"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 this 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

Mitsubishi Motors will manufacture cars that deliver superior driving performance and superior levels of safety and durability to give peace of mind to those who use them, and to provide "utmost driving pleasure" and "reassuring safety" to customers.

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 driving 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,

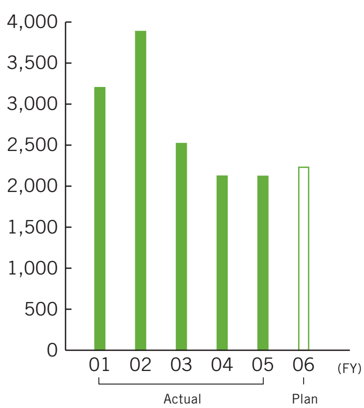
	FY2001	FY2002	FY2003	FY2004	FY2005 (In millions of yen)	FY2005 (In thousands of U.S. dollars)
For the year:						
Net sales	¥3,200,699	¥3,884,874	¥2,519,449	¥2,122,626	**¥2,120,068**	**$18,047,741**
Operating income (loss)	40,227	82,761	(96,852)	(128,544)	**6,783**	**57,748**
Income (loss) before income taxes and minority interest	(31,875)	42,206	(77,173)	(460,906)	**(82,745)**	**(704,400)**
Net income (loss)	11,256	37,361	(215,424)	(474,785)	**(92,166)**	**(784,596)**
					In yen	In U.S. dollars
Per share data:						
Net income (loss) per share: Basic	¥7.66	¥25.35	¥(145.22)	¥(194.36)	**¥(19.75)**	**$(0.17)**
Diluted	7.42	23.43	–	–	–	**–**
Cash dividends	–	–	–	–	–	**–**
					In millions of yen	In thousands of U.S. dollars
At year-end:						
Total assets	¥2,894,560	¥2,425,352	¥2,029,035	¥1,589,286	**¥1,557,570**	**$13,259,301**
Total stockholders' equity	270,663	280,294	29,972	324,782	**268,678**	**2,287,211**

Notes: 1. U.S. dollar amounts in the accompanying consolidated financial statements are converted, solely for convenience, at a rate of ¥117.47=U.S.$1.00, the exchange rate prevailing on March 31, 2006.

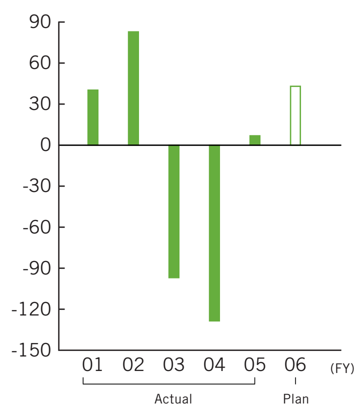
2. In the year 2003, due to a change of accounting period at consolidated overseas subsidiaries, with fiscal year-end date moving from December 31 to March 31, 15-month figures for overseas subsidiaries have been incorporated. Prior to fiscal year 2001, the accounting periods of subsidiaries in Japan ran from April to March of the subsequent year, whereas those of overseas subsidiaries ran from January to December with certain exceptions.

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. Furthermore, all remaining shares held by MMC had been transferred to other parties by the end of March 2005.

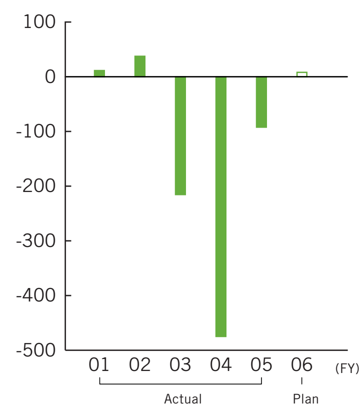
Net Sales
(¥ billion)



Operating Income (Loss)
(¥ billion)



Net Income (Loss)
(¥ billion)

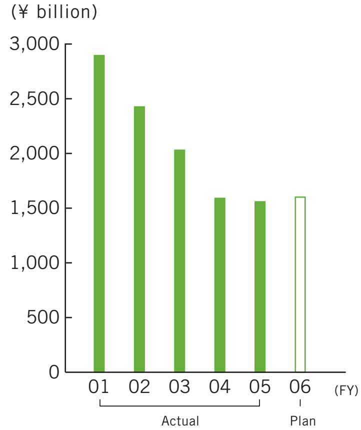


Progress in the Mitsubishi Motors Revitalization Plan

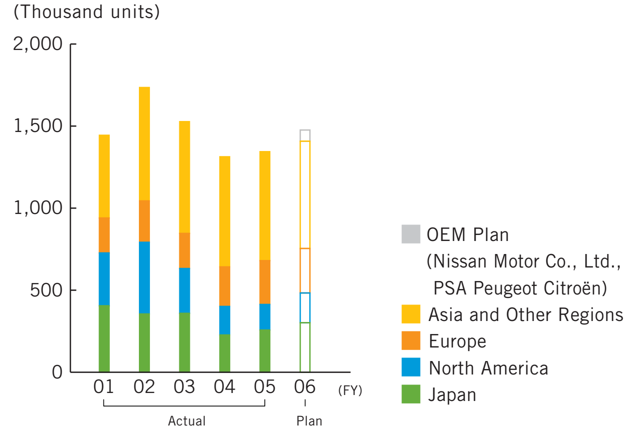
			Thousand units
	FY2005 (Target)	**FY2005 (Actual)**	FY2006 (Target)
Retail Sales[*1]	1,370	**1,344**	1,408
Japan	256	**257**	302
North America	169	**156**	181
Europe	254	**267**	271
Asia and Other Regions	691	**664**	654
			In billions of yen
Performance[*1]			
Net sales	¥2,220.0	**¥2,120.1**	¥2,230.0
Japan	530.0	**504.1**	570.0
North America	430.0	**415.7**	450.0
Europe	620.0	**586.2**	600.0
Asia and Other Regions	640.0	**614.1**	610.0
Operating income (loss)	(14.0)	**6.8**	43.0
Japan	(62.0)	**(55.3)**	(24.0)
North America	(22.0)	**(7.2)**	(11.0)
Europe	10.0	**24.4**	26.0
Asia and Other Regions	60.0	**44.9**	52.0
Net income (loss)	(64.0)	**(92.2)**	8.0
Balance Sheet[*2]			
Cash and cash equivalents	175.0	**259.0**	168.0
Total assets	1,592.0	**1,557.6**	1,601.0
Interest-bearing debt	497.0	**447.8**	500.0
Total stockholders' equity	281.0	**268.7**	289.0
Cash Flow[*2]			
Cash flow from operating activities	1.0	**54.4**	105.0
Cash flow from investing activities	(122.0)	**(84.8)**	(115.0)
Cash flow from financing activities	48.0	**(19.0)**	3.0
Effect of exchange rate changes on cash and cash equivalents	–	**2.6**	–
Total	(73.0)	**(46.8)**	(7.0)

[*1] MMC revised its targets for fiscal year 2005 and fiscal year 2006 on November 10, 2005 and April 27, 2006, respectively.
[*2] Targets for fiscal year 2005 and fiscal year 2006 are from figures in the Mitsubishi Motors Revitalization Plan announced on January 28, 2005.

Total Assets
(¥ billion)



Retail Sales
(Thousand units)



To Our Shareholders and Stakeholders

Takashi Nishioka
Chairman of the Board

Osamu Masuko
President

On March 31, 2006, Mitsubishi Motors Corporation (MMC) completed the first fiscal year of the three-year Mitsubishi Motors Revitalization Plan, which was unveiled on January 28, 2005 and covers fiscal years 2005 to 2007.

Progress was made in the two primary themes of the plan, to win back customer confidence and improve earnings. All corporate officers and employees united to execute each and every initiative of the plan. We're pleased to report that sales volumes and net sales were largely in line with forecasts for fiscal year 2005 and operating profitability moved back into the black one year earlier than planned. We want to thank our shareholders and stakeholders for their support and guidance in the wake of MMC's management crisis of 2004. We also want to thank all MMC employees in all regions around the world for their efforts.

Heading into the plan's second year, we face an increasingly challenging operating environment with sales slow to recover in certain markets and other factors at play such as high crude oil prices and rising materials costs. Most importantly, we have yet to achieve bottom-line profitability. Nevertheless, we are committed and determined to clear each and every one of the hurdles that remain to revitalize the company.

The main points of MMC's performance in fiscal year 2005 were as follows:

1. Sales Volume Driven by the Japanese and European Markets

In fiscal year 2005, sales volume increased 2.4% year-on-year to 1,344,000 vehicles, reaching 98% of targets.

In the Japanese market, MMC launched two new models that have received strong praise from numerous customers—the new *Outlander* SUV and the new *i* minicar. Launched in October 2005, *Outlander* recorded sales of 19,000 units in the six months leading to the end of March 2006, more than 50% higher than target. *i* got off to a steady start, too, selling 16,000 units in only two months following its January 2006 debut. With the strong sales of these two models, we feel that we have made strides in winning back the confidence of customers and taken decisive first steps in revitalizing the company. Also, sales volumes were strong in main European markets such as Germany and the U.K., and volumes grew briskly in Russia, the Ukraine, Central & South America, the Middle East and Africa.

2. Operating Profitability Restored

As mentioned earlier, we achieved our target of restoring operating profitability one year ahead of schedule, despite a 0.1% year-on-year decrease in net sales to ¥2,120.1 billion, 4.5% lower than target. Operating income was ¥6.8 billion, more than ¥20.0 billion better than the operating loss initially projected for the fiscal year. This partly reflected cost reduction efforts and favorable exchange rates as the yen weakened.

3. Sales Bottomed Out in the Important U.S. Market

MMC's sales have been slow to improve in the U.S. and Australian markets. To further ensure sound profitability in both these markets and provide for the risk of potential losses, MMC decided to book additional asset impairment losses in fiscal year 2005. Consequently, we posted a net loss of ¥92.2 billion for the fiscal year, which was worse than target. In the large U.S. market, we dispatched numerous management personnel from Japan, including Hiroshi Harunari as President & CEO of our U.S. subsidiary. This was done to conduct sweeping reforms of our operating structure, including enhancement of communication between parent company and U.S. operations as well as communication with distributors. As a result, U.S. sales volumes have improved year on year since April 2006, suggesting that sales have bottomed out and business is recovering.

In fiscal year 2006, we will strive to reach even more ambitious goals. We are targeting sales volume of 1,408,000 vehicles, roughly 5% higher than in fiscal year 2005, with the goal of bringing operating income, ordinary income, and net income fully into the black. For the first quarter of fiscal year 2006, MMC posted an operating loss of ¥6.8 billion. However, an operating loss of ¥9.0 billion in the first half was originally planned, and positive profitability planned for the second half. Therefore, we believe that MMC is largely on track to meeting forecasts. While we must rapidly respond to market conditions including declining demand in ASEAN countries, such as Indonesia and Thailand, due to the impact of high crude oil prices and other factors, there are many exciting developments to which to look forward. Sales are improving in the U.S., we will unveil more Mitsubishi-brand vehicles in China, and the *Outlander* SUV and *Triton (L200)* one-ton pickup truck models will be introduced to more markets worldwide. We anticipate reporting even more favorable news next year.

September 2006

T. Nishioka

Takashi Nishioka
Chairman of the Board

O. Masuko

Osamu Masuko
President

Progress in the Revitalization Plan and Restoring Trust

Overview of the First Year of the Mitsubishi Motors Revitalization Plan

Restored operating profitability one year earlier than planned

Top Management Interview 1

Q: What is your assessment of MMC's financial performance for the first fiscal year of the revitalization plan?

Osamu Masuko

President of MMC since announcement of Mitsubishi Motors Revitalization Plan in January 2005. Previously appointed MMC Managing Director in Charge of Overseas Operations Group Headquarters in June 2004, after serving as Senior Vice President & Division COO of the Motor Vehicle Business Division of Mitsubishi Corporation.

<President Masuko>

Since announcing the plan in January 2005, MMC has striven to implement each and every initiative under the new management team. The two key priorities are to win back customer confidence and improve earnings. It's gratifying to know that we were able to restore operating profitability one year ahead of schedule in the plan's first fiscal year.

In Japan, we launched two new models crucial to our revitalization—*Outlander* and *i*—on schedule under a stringent quality assurance system. These two models got off to a strong start, outperforming sales plans. With this strong customer response to new models, I believe that MMC took a strong first step toward revitalization and winning back customer confidence.

Meanwhile, the issues that we must resolve have become clearer. MMC must boost performance in markets where sales have been slow to recover, such as the U.S. and Australia, rationalize its global production system, and respond to escalating materials costs. In fiscal year 2005, we restored operating profitability, a key indicator of the health of a company's core operations, and the ordinary loss was better than forecast. However, the net loss was worse than forecast due to additional asset impairment charges taken and other factors. Nonetheless, our target for fiscal year 2006 is to restore profitability at all levels. To this end, MMC requires all regions and operational units to perform at their best. Fiscal year 2006 is a crucial year for ensuring that we remain firmly on the path to revitalization.

Hiizu Ichikawa

Managing Director in Charge of Finance Group Headquarters since June 2004. Previously with The Bank of Tokyo-Mitsubishi, Ltd. (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.)

<Managing Director Ichikawa>

In fiscal year 2005, MMC achieved positive operating income, an indicator of the earnings power of core operations, but a larger net loss than originally planned. I'd like to highlight several points of interest with respect to our performance.

First, while exchange rates did move in our favor, MMC was able to restore operating profitability principally due to cost reduction measures focused on fixed costs.

Second, while our net loss of ¥92.2 billion was ¥28.2 billion worse than forecast for fiscal year 2005, we believe that the booking of additional asset impairment charges in North America and Australia along with restructuring charges position us for improved earnings in fiscal year 2006 and beyond.

Third, MMC largely achieved its overall retail sales targets for fiscal year 2005. However, some regions outperformed while others underperformed due to changes in market conditions such as high crude oil prices and intensifying competition. Therefore, MMC has updated targets for fiscal years 2006 and 2007 based on the regional sales results from the plan's first fiscal year. This was done so as to achieve overall earnings targets originally laid out in the revitalization plan.

<Executive Vice President Kasugai>

One of my roles as MMC's Revitalization Promotion Officer is to foster an earnings-conscious mentality befitting a manufacturer in all operating divisions. Since my appointment, I have made every effort to pursue cost reductions across the company. To accomplish MMC's revitalization plan, it is imperative that we continuously implement cost reductions throughout the company to deliver greater results. This entails collectively harnessing the motivation and efforts of all employees.

Corporate Culture Reforms

Top Management Interview 1

Q: Corporate culture reforms are a key theme of MMC's revitalization plan. What progress has been made on this front?

<President Masuko>

In the past, MMC formulated plans but did not necessarily have the culture needed to follow up on execution. To make a success of its revitalization plan, MMC has clarified the responsibilities and authority of each operational unit, and is actively reviewing organizational and personnel systems. At the same time, we are striving to foster a culture where every employee fulfills their respective duties from a customer-first perspective and with a sense of responsibility, without creating walls between departments. This entails a mindset change. To this end, whenever the chance has presented itself I have held meetings directly with people from many organizational levels across various operational units, including plants and dealerships. I've used these opportunities to engage in dialog with frontline employees. These efforts are ongoing. MMC is also actively rotating staff from the standpoint of changing mindsets and raising the motivation of employees.

<Executive Vice President Kasugai>

In April 2006, a product strategy office and environment & recycling affairs department were added to the group I oversee: the corporate planning, product strategy, environment affairs & corporate affairs group. Product Executives (PX) responsible for product development were also transferred in from the product development group. As part of their mission, they are strongly aware of the importance of maximizing earnings and building eco-friendly vehicles in addition to developing quality vehicles, from the customer's and a company-wide perspective. MMC is also conducting job rotations like, for example, temporarily sending employees in development units who seldom have the chance to interact with customers to dealerships, giving them the chance to communicate with customers directly.

Heki Kasugai

Executive Vice President of MMC since June 2005. Revitalization Promotion Officer and also in Charge of Corporate Planning, Product Strategy, Environment Affairs & Corporate Affairs Group Headquarters. Previously a director of Mitsubishi Heavy Industries, Ltd.

<President Masuko>

It is important to bring in an external perspective to ensure that corporate culture reforms do not become insular and taken for granted. Since fiscal year 2004, the Business Ethics Committee and Business Revitalization Monitoring Committee have been thoroughly monitoring the company from an outside perspective to see whether our activities violate social norms and whether we are on track to achieving our plan's goals. I was named Chief Business Ethics Officer upon my appointment as President to ensure observance of business ethics, and the CSR (corporate social responsibility) Promotion Office has played a key role in instilling a compliance mindset through various initiatives across the company. Activities to restore trust are a continuous pursuit. Our goal remains to create a corporate culture and systems where there are no compliance violations.

With the enactment of new corporate laws in Japan, MMC established an Internal Control Promotion Committee chaired by Managing Director Ichikawa. By establishing this committee, we aim to redouble the commitment of all members of the Board of Directors to compliance and risk management, while raising the entire company's awareness of activities aimed at restoring public trust.

<Managing Director Ichikawa>

To firmly restore public trust, MMC must strengthen corporate governance, particularly in areas crucial to establishing stringent risk management. My role is to put in place a company-wide structure for identifying and understanding risks.

Restoring Profitability on All Counts

Fiscal Year 2006 Plan

Top Management Interview 1

Q: What kinds of challenges will you tackle in the second year of MMC's revitalization plan?

<President Masuko>

MMC aims to achieve profitability on all counts in the second year of its revitalization plan.

Specifically, we are targeting retail sales of 1,408,000 units, an increase of roughly 5% from fiscal year 2005. On the earnings front, our targets are operating income of ¥43.0 billion, ordinary income of ¥21.0 billion and net income of ¥8.0 billion. All of these targets are much more ambitious than those for the plan's first year.

Achievement of these targets is premised mostly on meeting retail sales targets in all regions. It is especially critical that we attain our targets in Japan, which have been set higher, and in North America, where we must ensure that sales continue to improve after the recent bottoming out.

To this end, MMC will move on the offensive by bringing a steady stream of new models to both of these markets in fiscal year 2006. First, in Japan, we aim to grow annual retail sales by more than 45,000 units year-on-year to surpass the 300,000 unit mark. This will be accomplished by extending the range of the *Outlander* and *i* models, which have garnered strong customer response for their outstanding performance and innovative design, through the launch of special editions. This will be done with the aim of establishing these two models as long sellers. We will also roll out three new offerings—*eK Wagon*, *Pajero* and *Delica*. In North America, we are striving to improve our ability to attract customers to dealerships and enhance sales capabilities by unveiling three new models, *Eclipse Spyder*, *Outlander* and *Lancer*, as well as through the successive launch of special editions of models already on the market.

<Managing Director Ichikawa>

Financial risk controls focused on factors such as exchange and interest rates will also be critical to achieving bottom-line profitability while remaining profitable at the operating level. We will therefore be carefully managing operations with a close eye on these controls.

Top Management Interview 1

Q: Cost reductions, such as curbing materials costs, are just as crucial to restoring profitability as improving sales. How is MMC progressing on this front?

<Executive Vice President Kasugai>

Curbing material costs is no easy feat, considering escalating materials prices worldwide. To realize further cost reductions, we must reinforce cost countermeasures from the design stage by strengthening relationships with trading partners. We have established a materials cost reduction committee in conjunction with making materials cost-reduction activities traditionally undertaken by procurement departments a company-wide initiative from fiscal year 2006. Progress toward cost-reduction targets is being monitored at a company-wide level worldwide.

Cost reductions also have a bearing on our product strategies. We have reduced the number of cost inefficient regional models and increased the number of global strategic models. Thailand is MMC's hub for exporting one-ton pickup trucks to more than 160 countries around the world. The new *Triton*, which entered production in August 2005, is positioned as a global strategic vehicle, and was launched in Europe as the new *L200* in March 2006; it has won strong customer support. In fiscal year 2006, MMC will export three new models, *Outlander*, *Pajero* (*Montero* in some markets) and *Lancer*, from Japan to overseas markets as global strategic models.

<President Masuko>

Triton (L200) features an innovative, rounded design that has proven highly popular in Europe. It also enjoys strong support from women.

L200

Top Management Interview 1

Q: ***What circumstances led to your decision to continue production at the Okazaki Plant? And how is your production system coping with growing demand for global strategic models?***

<President Masuko>

Configuring an optimal global production system is an extremely important issue for the company. MMC's Mizushima Plant is operating at over full capacity to meet strong demand in Japan and overseas for models produced there, whereas the Okazaki Plant and other production facilities have lower capacity utilization rates. The decision to continue production at the Okazaki Plant reflected the need to redress this imbalance in production levels in our domestic production network and avoid the loss of sales opportunities due to production shortfalls. This decision entailed transferring production of the *Outlander* model for overseas markets from the Mizushima Plant to the Okazaki Plant.

Top Management Interview 1

Q: ***Was this a costly move?***

<Managing Director Ichikawa>

The transfer of *Outlander* production to the Okazaki Plant will not require a large capital investment, and will not have a large impact on fiscal year 2006 operating results. Even with this investment, however, balancing production levels in Japan remains an outstanding issue.

<President Masuko>

Capacity utilization will rise at production subsidiary Pajero Manufacturing Co., Ltd. due to full model changes for *Pajero (Montero)* and *Delica* in fiscal year 2006.

Overseas, MMC will rationalize production levels at plants with excess capacity, while shipping vehicles to other regions to improve capacity utilization. The Illinois Plant of U.S. subsidiary Mitsubishi Motors North America, Inc. (MMNA) is striving to reduce costs and enhance productivity, while launching exports of *Galant* to the Middle East, Russia and the Ukraine. Netherlands Car B.V. (NedCar), a European subsidiary engaged in the production of *Colt*, was contracted by DaimlerChrysler AG to produce a compact model. However, production of this model was terminated at the end of June 2006 at the request of DaimlerChrysler. We are now considering rationalization measures to ensure profitability at NedCar based on *Colt* production alone. To further improve capacity utilization at NedCar, MMC is also currently considering exporting NedCar produced *Colt* models to Mexico and South Africa. By increasing shipments to other regions, we aim to effectively utilize each production facility. Meanwhile, Mitsubishi Motors Australia, Ltd. (MMAL), an Australia-based subsidiary, is working to boost overall sales of the locally made *380*. However, MMAL continues to face greater-than-expected difficulties, reflecting factors such as weakening demand for large sedans due to high oil prices and intensifying price-based competition. In response, MMC continues to implement production cutbacks, cost reductions and other measures in line with market conditions, as part of efforts to rationalize the company's local production operations.

In these and other ways, MMC will continue to rationalize the production networks of overseas production subsidiaries to match planned production levels in the near term.

Top Management Interview 1

Q: There is growing interest in environmental technologies among shareholders and customers. What progress is MMC making here?

<Executive Vice President Kasugai>

Environmental activities are one of our key responsibilities as a member of society. We recognize that automobiles have an impact on the environment, and are taking steps to mitigate this impact. To help combat global warming, MMC is working hard to reduce CO_2 emissions by improving the fuel economy of gasoline and diesel-driven vehicles and working to bring to market an electric vehicle that emits no CO_2 emissions whatsoever. We aim to bring an affordable electric vehicle to market in 2010. Furthermore, environmental demands differ in various regions around the world. In Europe, fuel-efficient diesel engines are highly prized. MMC and Mitsubishi Heavy Industries, Ltd. are therefore pursuing plans to jointly develop new-generation diesel engines. In Brazil, we are making progress in ethanol-powered vehicles. MMC is also pursuing other environmental initiatives, including the development of plant-based resins (Green Plastics), which help to conserve petroleum resources. We are strongly committed to developing and commercializing these and other environmental technologies.


Lancer Evolution MIEV

Top Management Interview 1

Q: What are your aspirations for fiscal year 2006, the second year of MMC's revitalization plan?

<President Masuko>

Concerns over the future course of the global economy, fueled by high crude oil prices and regional conflicts, among other factors, are making our business environment increasingly challenging. In this context, it will not be easy to achieve our targets for fiscal year 2006, which are more ambitious than in fiscal year 2005. I have been encouraging employees to meet these targets by fostering self-reliance—employees must take responsibility for their own company, without relying on anybody else for help. Now is the time for employees across all operational units and regions to band together and rise to the challenge of achieving MMC's revitalization plan.

Product Development

Fiscal Year 2005 Accomplishments

MMC launched a total of 6 new models on schedule during fiscal year 2005: *Eclipse* in the United States; *Triton (L200)* one-ton pickup truck in Thailand; *380* sporty sedan in Australia; *Zinger* MPV in Taiwan; and, in Japan, the *Outlander* SUV and *i* minicar. Each model has garnered praise in its respective market for design and performance.

Managing Director
In Charge of Product Development
Group Headquarters

Tetsuro Aikawa

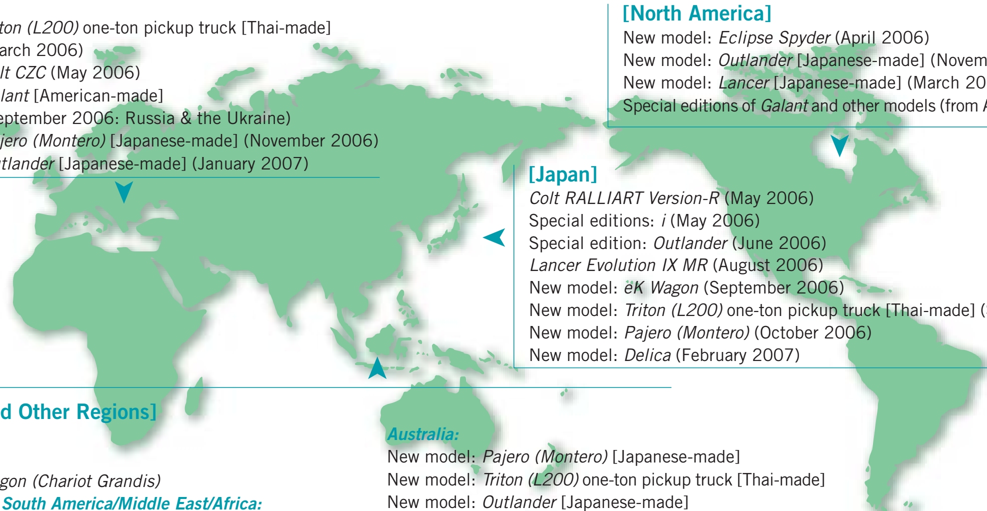
New Model Introduction Plans for Fiscal Year 2006

During fiscal year 2006, the second year of the Mitsubishi Motors Revitalization Plan, MMC plans to accelerate business revitalization efforts with an even more aggressive introduction program covering new models and special editions.

In terms of global model rollouts, following its successful introduction in Japan, the new *Outlander* SUV is due to be launched in the U.S. in November 2006 and in Europe from January 2007. The U.S. market *Outlander* will feature a newly developed 3.0 liter V6 MIVEC* engine and 6-speed automatic transmission. It promises to outperform rival SUVs on numerous fronts, including design, interior, suspension, driving performance, and fuel economy.

The new *Lancer* will receive its global debut in the U.S. in March 2007. Sharing the same platform as the new *Outlander*, through a new 2.0 liter MIVEC engine the new *Lancer* will provide increased power with improved fuel economy. Equipped with the largest tires of any C-segment vehicle in the U.S. and an

Principal New Model Introduction Plans for Fiscal Year 2006



[Europe]
New model: *Triton (L200)* one-ton pickup truck [Thai-made] (March 2006)
New model: *Colt CZC* (May 2006)
New model: *Galant* [American-made] (September 2006: Russia & the Ukraine)
New model: *Pajero (Montero)* [Japanese-made] (November 2006)
New model: *Outlander* [Japanese-made] (January 2007)

[North America]
New model: *Eclipse Spyder* (April 2006)
New model: *Outlander* [Japanese-made] (November 2006)
New model: *Lancer* [Japanese-made] (March 2007)
Special editions of *Galant* and other models (from April 2006)

[Japan]
Colt RALLIART Version-R (May 2006)
Special editions: *i* (May 2006)
Special edition: *Outlander* (June 2006)
Lancer Evolution IX MR (August 2006)
New model: *eK Wagon* (September 2006)
New model: *Triton (L200)* one-ton pickup truck [Thai-made] (September 2006)
New model: *Pajero (Montero)* (October 2006)
New model: *Delica* (February 2007)

[Asia and Other Regions]
China:
Lancer
Space Wagon (Chariot Grandis)
Central & South America/Middle East/Africa:
New model: *Triton (L200)* one-ton pickup truck [Thai-made]
New model: *Galant* [American-made] (Middle East)

Australia:
New model: *Pajero (Montero)* [Japanese-made]
New model: *Triton (L200)* one-ton pickup truck [Thai-made]
New model: *Outlander* [Japanese-made]
New grades: *380*

all-new suspension, the new *Lancer* delivers a particularly comfortable ride along with excellent steering characteristics. These characteristics help to realize smooth and sporty driving performance. A global rollout to Japan and other markets is also planned.

MMC plans to introduce an all new *Pajero (Montero)* in Europe and Japan in fall 2006. *Pajero (Montero)* has become a symbol of Mitsubishi Motors, and demand remains especially high for the vehicle in Europe. Through a subsequent global launch, MMC plans to stimulate demand in other regions with the aim of cultivating a global customer base for this model. Also, the company began production of the new *Triton (L200)* one-ton pickup truck in Thailand in 2005. Plans call for exporting this model to markets around the world, including Europe, Australia, Central & South America, the Middle East and Africa.

Regional model releases in fiscal year 2006 include the new *Eclipse Spyder* (U.S.), the *Colt CZC* cabriolet (Europe), and the new *eK Wagon* and *Delica* (Japan). All of these models have gained popularity in their home markets. In particular, the new *Delica* will be the first complete model change in 13 years. MMC plans to promote the remodeled *Delica* to 180,000 current *Delica* owners.

In Japan, a critical issue is to establish both the *Outlander* SUV and *i* minicar as long-selling models. A special edition of *Outlander, G-Limited Edition*, has been introduced with various exterior design touches and a luxury interior. For *i*, MMC has introduced two special editions—*i Play Edition*, which features a special slot for an iPod® nano music player from Apple Computer, plus *i Limited*, which is equipped with a variety of popular features that expand the customer base. Furthermore, MMC aims to make the *i* range even more appealing to a broader array of customers with the October 2006 introduction of an *i* model with a non-turbocharged engine.

* Mitsubishi Innovative Valve-timing Electronic Control system: features a proprietary continuously variable valve-timing mechanism.

Motor Sports

For more than 30 years, MMC has risen to the challenge of various motor sports events, including international rallies. Participation in such events has given MMC the opportunity to push its vehicles to the limit in pursuit of superior safety, durability, and refined drivability and endurance. The expertise and technology developed in these activities are fed back into all of the company's vehicle development and manufacturing operations. Motor sports are the embodiment of MMC's SUV DNA and Sporty DNA brand concepts, and are essential for refining technology and providing customers with cars that are both attractive and safe.

The *Outlander* SUV, launched in October 2005, features all wheel control (AWC) systems, a technology concept developed at the frontlines of motor sports. Technologies centered on an electronically controlled 4-wheel-drive system, along with an aluminum roof and mono-tube rear shock absorbers, contribute to optimal balance and control of all four wheels. This gives the driver more freedom in steering and delivers superior overall safety.

Dakar Rally—Sixth Consecutive Win (11th Overall)

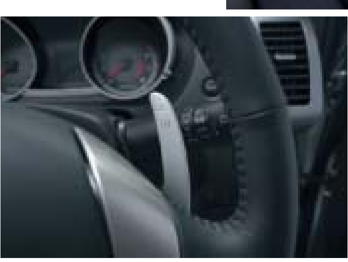
MMC is a time-tested veteran of the Dakar Rally, participating in the race for the 24th time in 2006. It was another year of great success for the company in this near-legendary event: the first win for Luc Alphand of France (Mitsubishi *Pajero Evolution*), MMC's sixth consecutive win, a new record for the Dakar Rally, and the 11th overall win for the company. Victory in this grueling event was a great opportunity to once again showcase the company's technologies, teamwork and determination to succeed.

Suspension of WRC Participation

As part of efforts to accomplish the goals of the Mitsubishi Motors Revitalization Plan, MMC has decided not to participate in the 2006 FIA World Rally Championship (WRC). The decision reflects a determination to concentrate management resources on carefully selected areas to ensure that MMC accomplishes the goals of its revitalization plan. However, MMC will continue to support participation of Mitsubishi drivers in motor sports. The company aims to return to the WRC as soon as possible after making a success of the revitalization plan.

MMC plans however to continue to participate in the Dakar Rally.

A Passion for Developing New Vehicles



Outlander

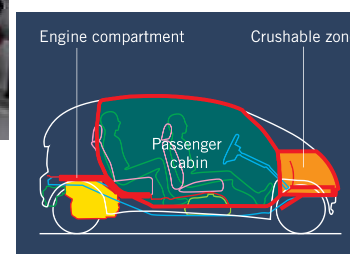
Outlander is MMC's flagship model in the C segment. Embodying "Heart Thumping Performance," *Outlander* features a range of newly developed technologies, such as a new aluminum block engine, aluminum roof, and mono-tube shock absorbers. As a vehicle leading MMC's revitalization, many more appealing features have been added to *Outlander* to send a strong message to customers. One of these features is a groundbreaking audio system installed as standard in premium grade models. This audio system realizes a sound quality that completely redefines the concept of car audio systems. By filling enclosures on the door panels to create a deadening effect around the speakers, the doors are designed to function as speaker boxes. This innovation reflects the commitment of younger car designers to realizing uncompromising sound quality. In Japan, *Outlander* achieved No. 1 retail sales volume in the SUV category in the second half of fiscal year 2005. This accomplishment shows that the approach MMC is taking in creating new cars has been extremely well received by customers—giving confidence that MMC is on the right track.

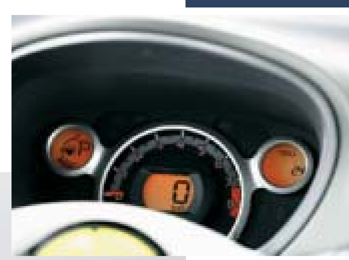
OUTLANDER

i

Minicars must reconcile trade-offs that arise from their size constraints such as “Design and Comfortable Interior Space” and “Comfortable Interior Space and Impact Safety.” *i* employs a new platform based on a rear midship layout, where the engine is mounted in front of the rear axel. This platform helps to realize *i*’s defining features—a futuristic one-motion form, agile handling, and excellent impact safety. It was extremely challenging to commercialize this model without compromising design quality. For instance, MMC had to conduct repeated trials of *i*’s single front wiper to ensure full coverage of the large, curved front windshield. Innovations were also required to ensure driving stability with *i*’s rear midship layout, such as employing front and rear tires with different widths. As a result, MMC was able to refine *i* into a premium minicar with intelligent features and an attractive design worthy of artistic merit.

The launch of *i* was originally planned for summer 2006. However, as a symbol of MMC’s revitalization plan, management was determined to roll out *i* in the plan’s first fiscal year. Incredible efforts by the development team brought forward the launch to January 2006. The entire company banded together across organizational lines to ship exhibition models to dealerships in time for the start of sales during the New Year holidays. Stringent quality verification activities were also conducted before shipment using volume production models. In short, *i* is the embodiment of MMC’s enthusiasm and commitment to design and engineering.





Basic R&D Policies

Guided by its business philosophy, Mitsubishi Motors engages in various research and development activities with the aim of creating technologies that realize three goals: the "Utmost Driving Pleasure," "Reassuring Safety," and "Environmental Contribution."

The company's R&D units employ approximately 4,000 people worldwide, or about 11% of the group-wide workforce. MMC also undertakes research projects in conjunction with major academic and other external research institutions, as well as entrusting some research projects to these institutions on a contract basis. Using a network of close collaborative and cooperative relationships, MMC aims to undertake R&D in cutting-edge technologies as efficiently as possible.

The Mitsubishi Motors Development System (MMDS) uses a system of "quality gates," consisting of strict product quality checks at each stage of development. Quality is the foremost priority within the product development process.

"Utmost Driving Pleasure": Development of High-performance Driving Control Technologies Based on All-wheel Control Systems

MMC is working to further enhance advanced all-wheel control technologies. In addition, MMC has developed a high-performance powertrain lineup that also boasts low fuel consumption. This combination is based on newly developed aluminum engine blocks featuring the MIVEC continuously variable valve-timing system, which delivers a swift response at all times. The high performance, low consumption matching is also based on continuously variable transmissions (CVTs), which enable the driver to make sporty gear shifts when in shift mode. MMC is also increasingly employing aluminum roofs and engine hoods, which help to reduce vehicle weight while also lowering the center of gravity.

"Reassuring Safety": Development of Passenger-protective Body Structures and Other Safety Features Along with Technologies for Increasing Cabin Comfort

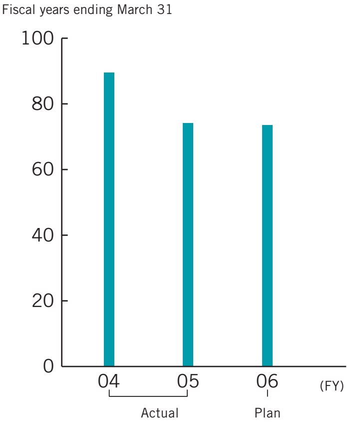
MMC's latest minicar *i* adopts an innovative rear midship layout in which the engine is mounted toward the rear of the vehicle. This creates a more extensive crushable zone at the front of the vehicle. With this as an example, MMC continues to develop technologies to protect both passengers and pedestrians. In the field of preventive safety, besides enhancing technologies in the traditional fundamental areas of vehicle stopping and turning, MMC is also expanding the use of advanced electronics, such as active stability control (ASC) systems to prevent skidding when cornering. Other safety-related systems under development include driver-support technologies to provide assistance with parking.

With the aim of increasing cabin comfort, MMC is working on a variety of developments to make the driving experience more pleasant. These include technologies to reduce cigarette and other odors as well as volatile organic compounds (VOCs), and to cut out harmful ultraviolet and infrared rays.

"Environmental Contribution": Development of Vehicles With Lower Emissions and Fuel Consumption, Next-generation Electric ZEVs, and Easily Recyclable Vehicles Free of Substances that Burden the Environment

MMC is actively working to meet new fuel economy standards before they come into force in Japan in 2010, as well as meet a new certification system for low-emission vehicles. In parallel, MMC is steadily working to meet overseas regulatory developments such as the tightening of CAFE standards in the United States, the implementation of ZEV (zero-emission vehicle) standards in California, and voluntary reduction targets for automotive CO_2 emissions in Europe. MMC is also promoting the development of clean diesel engines and new-generation electric vehicles, with the goal of bringing these products to market by 2010. The overriding aim is to create vehicles befitting the Century of the Environment.

Consolidated R&D Expenditures
(¥ billion)
Fiscal years ending March 31



Eco-friendly Product Development

The sharp increase in oil prices in recent years is contributing to rising global demand for vehicles with better fuel economy. MMC is initiating product and development strategies which meet this market trend.

In June 2006, MMC announced a joint development project with Mitsubishi Heavy Industries, Ltd. (MHI) to create 2-liter class diesel engines. The aim is to make these engines not only fully compliant with "Euro 5" exhaust emission standards due to come into force in Europe from 2010, but also the top of their class in terms of power output. MMC plans to obtain a broad range of support from MHI for this project, including advanced combustion analysis technology and basic research and testing equipment. MHI engineers will also be dispatched to aid in the project.

MMC is working to develop technologies that prioritize eco-friendly performance. Symbolic of this is technology for new-generation electric vehicles that emit no CO_2. MMC is also positioning the above clean diesel engines as a core technology alongside various fuel diversification technologies.

Electric Vehicle Development Program

MMC is pressing ahead with development efforts in new-generation electric vehicles using the MIEV (Mitsubishi In-wheel motor Electric Vehicle) system. These vehicles are the embodiment of the ultimate eco-friendly vehicle—one that emits no CO_2 or any other exhaust emissions whatsoever while in use. MMC has been focusing research on fundamental component technologies such as high-performance lithium-ion batteries, highly efficient electric motors, regenerative braking systems, and electricity-driven air conditioning. This research has entailed production of two test vehicles—*Colt EV* and *Lancer Evolution MIEV*.

Looking ahead, while continuing to improve these component technologies, MMC will pursue joint research with electric utility companies in areas such as the development of rapid battery recharging systems.

MMC is pressing ahead with development of an electric vehicle based on a minicar format, conducive to electric vehicles both in terms of driving distance and use. The goal is to bring this product to market by 2010.

GREEN PLASTIC

"Green Plastics" Development Program

The interior appointments of automobiles typically contain many materials such as oil-based plastics that have a high environmental impact. In its "Green Plastics" program, MMC is developing original plant-based plastics technology with the goal of creating eco-friendly alternative materials for commercial use in successive stages.

In February 2006, MMC announced the development of the first eco-friendly plastic to emerge from this program. Created in collaboration with the Aichi Industrial Technology Institute, this material is a resin that can be manufactured from plant-based raw materials. It is combined with fibers derived from fast-growing bamboo to create a material for use in automobile interiors. Compared with conventional materials derived from petrochemical resins, the new biomaterial generates more than 50% less CO_2 emissions over the course of its life cycle from harvesting to disposal, and reduces emissions of VOCs by approximately 85%.

Moreover, in June 2006, MMC announced the successful development of floor mats made from a plant-based resin and nylon fibers, developed in conjunction with Toray Industries, Inc. The second successful product of the "Green Plastics" program, these floor mats are due to enter commercial use during 2006.

The *Mitsubishi Concept-CT MIEV* concept car
(Unveiled at the 2006 Detroit Motor Show)

Roadmap for Improving Sales

Fiscal Year 2005: Brightness in Japan While the U.S. Has Yet to Clear the Fog

Top Management Interview 2

***Q:* Let's begin by asking President Masuko, who has been overseeing overseas operations since January 2006, about MMC's progress overseas. How were sales in fiscal year 2005, the first fiscal year of the Mitsubishi Motors Revitalization Plan? Could you provide a breakdown by region?**

Osamu Masuko
President
Concurrently in Charge of Overseas Operations Group Headquarters since January 2006

<President Masuko>

MMC performed very well in Europe. Retail sales climbed 10.5% year-on-year to 267,000 units, owing to steady sales in the large German and U.K. markets, as well as substantial sales growth in Russia and the Ukraine.

However, in Asia and other regions, retail sales decreased 0.8% from the previous year to 664,000 units. This decrease was mainly attributable to declining retail sales in Malaysia, which is promoting increased production of domestic automobiles, and Indonesia, where economic conditions were weak due to high oil prices. These declines were partially offset by growth in the strong markets of Thailand, Central & South America, the Middle East and Africa.

In North America, retail sales declined 10.3% to 156,000 units. Sales were lower than forecast due to falling sales in the U.S., despite strong sales in Mexico and Puerto Rico. High crude oil prices and other factors are significantly transforming the operating environment of the automobile industry in the U.S. In the prevailing environment, we believe that it is vital to establish a new operating structure that can respond more dynamically to market conditions by engendering closer cooperation between MMC and U.S. subsidiary Mitsubishi Motors North America, Inc. (MMNA). Hiroshi Harunari, formerly Managing Director in charge of the overseas operations group, was dispatched to the U.S. in January 2006 to accelerate ongoing reforms.

Mr. Harunari will explain the current status of U.S. operations in more detail.

Hiroshi Harunari
President and CEO of U.S. subsidiary Mitsubishi Motors North America, Inc. (MMNA) since January 2006. Previously appointed MMC Managing Director in Charge of Overseas Operations Group Headquarters in June 2005.

<MMNA CEO Harunari>

I regret that we were unable to deliver stronger performance in the U.S. in the first year of the revitalization plan. The all-new *Eclipse*, for which we had high expectations as our first new model since the plan was announced, generated strong sales. However, performance was affected by damage to the Mitsubishi brand caused by past management missteps, and the fact that the launch period for the new *Raider** pickup truck coincided with a major surge in oil prices. In addition, ongoing efforts to reduce fleet sales as part of initiatives to normalize sales activities lowered volume. These factors were compounded by a drop in overall U.S. automobile demand in the wake of events such as Hurricane Katrina in September 2005. In this climate, rival automakers began providing special offers such as employee pricing campaigns to stimulate demand, triggering fierce competition in terms of the use of incentives. MMC was unable to sufficiently respond to these and other disruptions in the U.S. market.

In the past, I believe there was a major breakdown in communication between MMNA and U.S. dealerships. Marketing and incentive strategies cannot be effective without understanding the approaches taken by dealerships, who are closest to customers. In other words, only by establishing strong relationships with dealerships based on trust can effective sales strategies be formulated. That's why the first step I took after being appointed as President and CEO of MMNA was to visit Mitsubishi dealers and listen to their views and requests. This feedback was reflected in various sales initiatives. To this end, in my first six months I visited 200 dealerships, roughly half of our U.S. sales network. These visits also demonstrated our strong commitment to reviving operations in the strategically key U.S. market.

*Supplied by DaimlerChrysler AG on an OEM basis.

Top Management Interview 2

Q: *The next question is for Managing Director Cho. How are domestic sales progressing?*

Fujio Cho
Managing Director since June 2004
In Charge of Domestic Sales Promotion Group Headquarters

<Managing Director Cho>
MMC did its utmost to ensure the successful launch of the new *Outlander* and *i* models in Japan. I'm truly grateful to consumers for their support for these two models, which got off to a strong start. Above all, the strong response garnered by these two models in Japan, where we were most heavily affected by past recall issues, is providing impetus for accomplishing the goals of the revitalization plan as we strive to win back the confidence of customers.

Following the launch of the two new models, MMC held model exhibits at Mitsubishi dealerships for three consecutive weeks. 66,000 customer groups previewed *Outlander* and 100,000 customer groups previewed *i*. These figures represent nearly double the attendance at past similar events to promote the launch of such hallmark Mitsubishi models as *Pajero (Montero)* and *eK Wagon*. Furthermore, *Outlander* was the number one selling vehicle in the SUV category in the second half of fiscal year 2005. These accomplishments were the culmination of concerted efforts by the entire MMC group, from development to production to sales, to promote the new models before launch. The success of this program has helped to restore confidence at MMC, as well as at affiliated companies and dealerships.

Enhancing Domestic Operations and Achieving a Turnaround in the U.S.

Top Management Interview 2

Q: The success of the revitalization plan hinges on improving MMC's competitiveness in Japan and the U.S. market. What initiatives will be taken in each market?

<Managing Director Cho>

Currently, the domestic operations group is striving to surpass a retail sales target of 300,000 units, and restore the overall profitability of dealerships in fiscal year 2006. Three new models will be rolled out. At the same time, to maximize the benefits from these new models, MMC is taking initiatives together with sales companies to raise the number of customers visiting dealerships and to reinforce customer service. For instance, MMC is holding the *Hello Kitty Campaign* based on the popular character Hello Kitty in collaboration with Sanrio Company, Ltd. This campaign is already delivering benefits, helping to increase the number of women and families with small children visiting dealerships. From April to June 2006, customer traffic at dealerships rose by 30% year on year. There was also a large improvement in the contract completion rate for new car sales at dealerships as a result. Looking ahead, we believe that making Mitsubishi Motors a more familiar brand among customers, especially women, will be vital to winning back customer confidence.

Furthermore, MMC will continue to press ahead with cost cutting through rationalization measures, while striving for stable growth in revenues from used car sales and after-sales services.

Top Management Interview 2

Q: Next, could MMNA CEO Harunari please explain initiatives in the U.S.?

<MMNA CEO Harunari>

During my fact-finding visits to dealerships in the U.S., many dealers expressed concerns over the possible withdrawal of MMC from the U.S. market. However, 2006 marks MMC's 25th year of business in the U.S., and as of March 2006, we had sold a cumulative 4.2 million vehicles locally with 2.8 million of these vehicles currently still in use. I was officially dispatched to the U.S. in January 2006 to drive home MMC's strong commitment to supporting U.S. operations with the full resources of the company. This commitment includes raising customer satisfaction, and working with dealerships to profit together with them. I'm striving to convey this message to customers and dealers and to ensure that we act on our commitment.

Many dealers on the other hand were upbeat about Mitsubishi vehicles and their standard of quality, and hardly any dealers felt that there were problems with products. In fact, *Endeavor* was recently ranked No. 1 in customer satisfaction in the premium mid-size SUV category in a survey by a U.S. market research company. Also, in the February 2006 issue of *Consumer Reports*, Mitsubishi ranked fourth place in brand-based reliability ratings, following three other major Japanese automakers. In light of these factors, I believe that MMC is well positioned to further raise the motivation of dealers by continuing to provide vehicles with outstanding quality, and by clearly demonstrating a long-term commitment to the U.S. market.

Acknowledging that MMC's approach to the U.S. market was not sufficiently articulated to local dealerships in past years, and aiming to deepen their understanding of MMC's resolve, we plan to provide consistent and reasonable incentive plans for dealerships, as well as support initiatives such as financial services programs. We are also conducting a major anniversary program commemorating our 25 years of business in the U.S. to demonstrate our commitment to the U.S. market.

These initiatives are gradually delivering tangible results. In the first quarter of fiscal year 2006, retail sales increased year on year, indicating that U.S. sales have bottomed.

Letting Mitsubishi Fans Know MMC is Back

Top Management Interview 2

Q: What kind of year do you want to make fiscal year 2006?

<President Masuko>

For over 30 years, MMC has been known for its participation in a wide range of motor sports, particularly the Dakar Rally. We were also one of the first Japanese automakers to start production in the ASEAN region, a move that contributed to the host countries' growth and industrial development. These activities have won us a large number of fans, who have given Mitsubishi vehicles high marks for their design and superior performance. Our fan base is one of our most valuable assets. Our deep-rooted popularity in Asia and Europe is now our main source of earnings in these regions, where we are determined to steadily reinforce our presence in the years ahead. MMC also plans to restore profitability at all levels in fiscal year 2006. To achieve this goal we must rebuild the Mitsubishi brand in Japan and the U.S., where it has been damaged.

<Managing Director Cho>

In Japan, MMC will introduce the new *eK Wagon*, a highly popular minicar, in September 2006, and import the *Triton (L200)* one-ton pickup truck from Thailand. The new *Pajero (Montero)* and *Delica* models, traditionally symbolic of Mitsubishi Motors, are scheduled for launch in the second half of the fiscal year. We will also implement initiatives to ensure that *Outlander* and *i* remain long-term sellers. The *Outlander* range has seen the roll out of the special *G Limited* edition, while the *i* has seen the debut of the special *i-play Edition* and *i Limited* editions. An *i* model with a non-turbocharged engine will also be introduced. Motor sports fans can look forward to *Lancer Evolution IX MR* and *Lancer Evolution Wagon MR*, and *Colt Ralliart Version-R*. Through these strategies, we aim to create and attract more publicity and appeal to a wider base of car owners. Through the new model introductions throughout fiscal year 2006, we will let Mitsubishi Motors fans know that MMC is back. Alongside these moves, we are implementing initiatives to enhance after-sales services and sales capabilities at dealerships to provide quality service. The overriding goal is to enhance customer satisfaction and win over new Mitsubishi Motors fans.

<MMNA CEO Harunari>

We plan to launch the new *Outlander*, which has proved popular in Japan, in the U.S. in November 2006. This will be followed by the launch of a new *Lancer* in March 2007, making its global debut in the U.S. By launching six new models during the period of MMC's three-year revitalization plan, we will greatly extend our product lineup beyond our range of offerings in the past. New model introductions are sure to increase customer traffic in our dealer showrooms and help lift sales, including sales of present models.

Mitsubishi's used cars are fetching higher prices and our brand value has recovered as we reduce fleet sales as part of efforts to normalize sales activities.

Rebuilding relationships based on trust with our dealers is a priority for fiscal year 2006. Equally important is delivering on our sales target of 138,000 units and making fiscal year 2006 the year that sales turned around.

Outlander (North American specification)

Concept car MITSUBISHI Concept-X
(Unveiled at the 2005 Tokyo Motor Show)

<President Masuko>

As explained by the two directors of operations, a continuing focus on rebuilding the Mitsubishi brand in Japan and the U.S. is vital. We must also not forget that we have customers throughout the world, and showing a commitment to efforts in each region with an aim of revitalizing our business overall is also important.

European sales of the new *Triton (L200)* one-ton pickup truck, exported from Thailand, are off to a strong start. We want to maintain this momentum by introducing new models, such as the new *Pajero (Montero)* and *Outlander*, to lift overall sales.

In recent years, we have been focusing on new growth markets and creating more Mitsubishi fans in these markets is very important. Recent developments include a great success in the Russian market. The Mitsubishi *Lancer* has proven highly popular in Russia and has won the Car of the Year Award (C-segment class) for the second straight year. Helped in part by strong relationships with local dealers, *Lancer* sales have now grown to the point where they are competing for the title of best-selling car in Russia. In September 2006, we will introduce the much larger U.S.-made *Galant* into the Russian market. Through exports of *Galant* to the Ukraine and the Middle East as well, capacity utilization at our U.S. plant will be raised. This will substantially contribute to fiscal year 2006 operating results, and I want to make a success of these initiatives.

In China, traditionally Mitsubishi-brand vehicles account for only around 20% of MMC's total sales, including local-brand cars produced by its local partners. In fiscal year 2006, however, we plan to take a direct equity interest in South East (Fujian) Motor Co., Ltd. (SEM), a partner in China, to commence full-fledged production and sales of Mitsubishi-brand vehicles. In fiscal year 2007, we plan to raise the share of Mitsubishi-brand vehicles to around 80% of total sales. Fortunately, the Mitsubishi brand enjoys a strong reputation in China, which we will leverage to expand our operating base.

In ASEAN, we have positioned Mitsubishi Motors (Thailand) Co., Ltd. (MMTh), our local manufacturing subsidiary, as the principal export base for our *Triton (L200)* one-ton pickup truck, which underwent a full model change in August 2005. Exports of this model from Thailand to Australia, Europe and South America have already started and MMTh plans to increase production capacity from 180,000 units per year to 200,000 units during fiscal year 2006 to meet growing overseas demand.

Retail sales are also on the rise in the Middle East and Africa, especially in oil-producing nations. Introduction of the mainstay *Triton (L200)* one-ton pickup truck will add to unit sales, thus continuing our expansion in these regions.

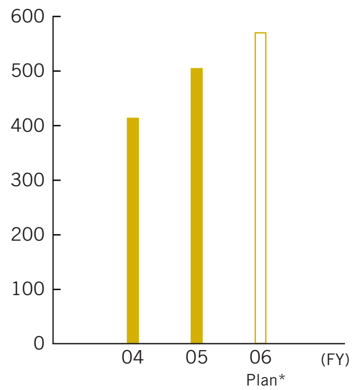
In Australia, following the introduction of the locally made *380* in 2005, we plan to boost overall sales by introducing three new models: the imported *Triton (L200)*, *Pajero (Montero)* and *Outlander*.

We want to make fiscal year 2006, the second year of our revitalization plan, a year in which a large number of people once again recognize the true worth of Mitsubishi Motors. Our targets for fiscal year 2006 are much more demanding and ambitious than in the first year of the plan. We are committed to marshalling group-wide resources in automobile development, manufacturing, marketing, and after-sales services to become the company of choice for vehicles and services.

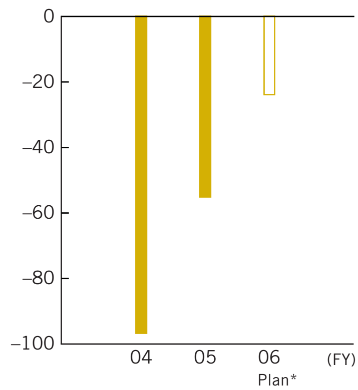
Regional Topics

Japan

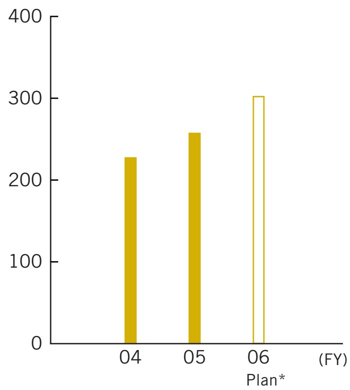
Net Sales
(¥ billion)



Operating Loss
(¥ billion)



Retail Sales
(Thousand units)



* MMC revised targets for fiscal year 2006 when it released fiscal year 2005 full-year financial results on April 27, 2006.

MMC's home market of Japan suffered the greatest negative impact due to past recall issues. However, numerous stakeholders, including customers and shareholders, have expressed their support for MMC, along with their critical views. Having sincerely taken to heart the input from all stakeholders, the company is focused on making further progress with initiatives to restore trust and increase customer satisfaction. MMC is targeting higher sales volumes by offering attractive new models and various sales promotion programs. Along with this higher sales volume, the company is aiming to improve profitability of sales companies and complete the revitalization plan.

Overview of Fiscal Year 2005

Retail sales in the Japanese market totaled 257,000 units in fiscal year 2005, increasing 30,000 units, or 13%, year-on-year. The figure was 1,000 units higher than the sales volume target of 256,000 units for the year. Growth was mainly driven by the successful launch of two new models: the *Outlander* SUV and *i* minicar. Sales of the *Outlander* SUV reached 19,000 units, more than 50% higher than target, from its launch in October 2005 to the end of March 2006. The *i* minicar achieved sales of over 16,000 units in the first two months following its launch in January 2006.

As a result, Japanese sales in fiscal year 2005 rose 22% over the previous year to ¥504.1 billion. The operating loss was ¥55.3 billion, an improvement of ¥41.7 billion year-on-year.

Plans for Fiscal Year 2006

MMC is targeting Japanese retail sales to surpass the 300,000 unit mark in fiscal year 2006. This reflects the planned launch of three new models, together with various special editions of current models. MMC also expects both the *Outlander* SUV and the *i* minicar to continue selling well.

Three limited editions have been launched in the first half of the fiscal year. These included a premium luxury version of the *Outlander* SUV, *G-Limited Edition*, along with two special versions of the *i* minicar—*i Play Edition*, which features a special slot to fit an iPod® nano music player, and *i Limited*. MMC also aims to boost sales with a number of improvements to other existing models, such as *Colt RALLIART Version-R*. In addition, new versions of the *eK Wagon* and *eK Sport* models are scheduled to go on sale during the first half.

eK Wagon (launched September 2006)

In the second half of the year, MMC plans to launch new versions of the flagship models *Pajero* and *Delica*, further boosting the company's presence in the SUV market. Another planned introduction is a non-turbocharged version of the *i* minicar to meet the needs of a broader range of customers.

In May 2006, MMC launched a new promotional campaign featuring Hello Kitty, the popular character from Sanrio Company, Ltd., to reach out to customers. The *Hello Kitty Campaign* is encouraging more customers to visit MMC dealerships in Japan.

Improving the Profitability of Domestic Sales Companies

With the successful launches of the *Outlander* SUV and *i* minicar in fiscal year 2005, MMC has taken the first steps to win back customer trust. Building on this success, the company aims to foster deeper trust and lasting customer satisfaction while returning operations in Japan to profitability by enhancing services at domestic sales companies. Through various initiatives and a broad range of support offerings, MMC aims to surpass the 300,000 unit mark for annual retail sales and restore sales companies in Japan to profitability.

• Strengthening Sales Force Effectiveness

Critical in strengthening sales effectiveness is increasing the amount of contact with customers, boosting the negotiating skills of sales personnel, and improving their responsiveness to customers at dealerships. MMC is putting stronger emphasis on role-play in sales force training and is also working to improve the coaching skills of dealership managers to enable them to get the best out of staff. A team of 13 training experts has been formed to provide support to Japanese sales companies.

• Expanding Profits From After-sales Services

MMC recognizes that making dealerships consistently profitable involves not only selling new cars, but also generating greater profits from after-sales services. The *Hearty Plus Program* has been developed to provide customers buying a new vehicle with a package of maintenance and inspection services. Through this and other measures, MMC is attempting to develop a base of customers that routinely bring their vehicles to Mitsubishi dealerships for various services. MMC is also seeking to position used car sales operations as an additional profit center through the establishment of standard operational procedures and methods for staff. By improving the management of these operations and establishing a company-wide standard, business will be expanded.

• Rebuilding the Sales Network

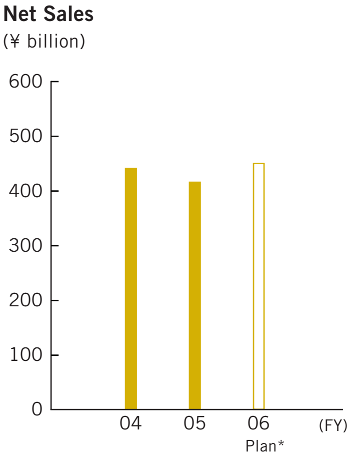
MMC remains focused on cutting overhead costs and boosting operating efficiency by consolidating and broadening the coverage of Japanese sales companies and auto-parts vendors. The sales company network stood at 158 companies, 855 branches at the beginning of April 2006, down from 165 companies, 865 branches a year earlier. Similarly, the network of auto-parts vendors shrank during fiscal year 2005 from 13 companies, 65 branches to 9 companies, 59 branches. MMC plans to continue this initiative in fiscal year 2006 to achieve further improvements in sales company profitability.

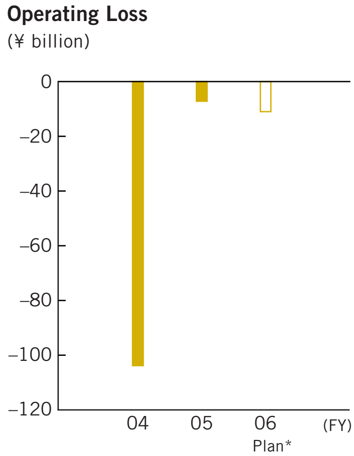
A nationwide dealership renovation program is underway to make Mitsubishi dealerships more attractive to customers. The redesign of advertising and company name signage has now been completed at all dealerships. The next stage of the program is the renovation of dealerships buildings themselves.

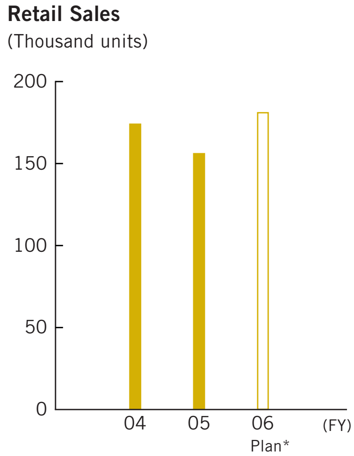
i

Lancer Evolution IX MR

North America







* MMC revised targets for fiscal year 2006 when it released fiscal year 2005 full-year financial results on April 27, 2006.

With annual demand of around 17 million vehicles, the huge U.S. market assumes the same importance as Japan in the Mitsubishi Motors Revitalization Plan. MMC is working to restore sales competitiveness in the world's leading automobile market through an aggressive new model introduction program and through various measures to build trust with dealerships and boost productivity at the U.S. manufacturing plant.

Overview of Fiscal Year 2005

Retail sales in the North American market totaled 156,000 units in fiscal year 2005. This figure was 18,000 units less than the previous year's total and 13,000 units below the target for the year. The drop in sales reflected the ongoing challenge to rebuild the Mitsubishi Motors brand in the United States and was also due to the combined effects of hurricanes, high oil prices and fierce sales competition.

Of the two new models introduced during the year, although the remodeled *Eclipse* sold steadily, sales of the *Raider* pickup truck fell below target. Overall, net sales declined 5.8% on a year-on-year basis to ¥415.7 billion. Following the large asset impairment charges and restructuring charges booked in fiscal year 2004 (thus leading to lower operating expenses), the operating loss improved by ¥96.6 billion to ¥7.2 billion. However, reflecting the delayed recovery, MMC booked additional impairment charges and restructuring charges against North American operations. These actions will help to strengthen and revitalize MMC's operating structure in fiscal year 2006 and subsequent fiscal years.

MMC appointed Hiroshi Harunari as president and CEO of Mitsubishi Motors North America, Inc. (MMNA) in January 2006. MMC has also dispatched management personnel from Japan to put in place an organizational structure that is responsive and strongly linked to the head office in all fields, including production, development, sales and marketing.

Outlander (North American specification)

Sales Strategy: Back to Basics

U.S. sales operations are currently returning to basics. Since fiscal year 2004, MMNA has focused on normalizing sales by reducing sales incentives to appropriate levels, lowering the ratio of fleet sales, and promoting proper inventory management. High fleet sales in particular damage the brand by undercutting resale values in used vehicle markets. Efforts to reduce the proportion of fleet sales have been successful, cutting the ratio from a historical high of 30% in fiscal year 2003 to 18% in fiscal year 2005.

In addition to maintaining these sales policies, MMNA is also making visits to local dealerships to discuss ways of improving sales. In light of these discussions, MMNA strives to further motivate dealerships by developing appropriate sales support programs based on the dealerships' requests.

MMC plans to undertake a dynamic strategic advertising campaign in fiscal year 2006. Building on the 25th anniversary of the entry of Mitsubishi Motors into the U.S. market, the campaign will emphasize MMC's commitment to providing customers with sporty, stylish cars. Campaign plans call for the use of strategic media to boost exposure in critical major city markets by up to 65% compared with the past fiscal year.

Addressing the problems associated with previous financial services programs, in July 2005, MMC established a new system for financial services operations in collaboration with leading U.S. financial institution Merrill Lynch & Co. The new arrangements promise to reduce significantly the risks associated with sales-finance receivables.

Aggressive New Model Introduction Program

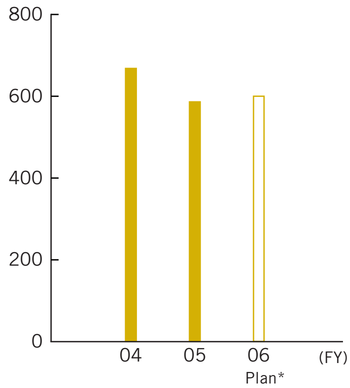
The first new model to be introduced in fiscal year 2006 was the *Eclipse Spyder* convertible, which was launched in April 2006. In November 2006, MMC also plans to launch in the United States the new *Outlander*, a new SUV model that has proven popular in Japan. The U.S. compact SUV market has continued to expand despite the recent sharp rise in oil prices. The new *Outlander* attracted many positive reviews on its debut at the New York International Automobile Show in April 2006. In addition, MMC plans to introduce an all new *Lancer* in March 2007. The new *Lancer*, which shares a platform with the new *Outlander*, is a global strategic model that will be rolled out first in the United States. Supplementing the succession of new models, MMC also plans to introduce a number of special editions of mainstay models such as *Galant* and *Endeavor* to attract new customers and boost sales.

Eclipse Spyder

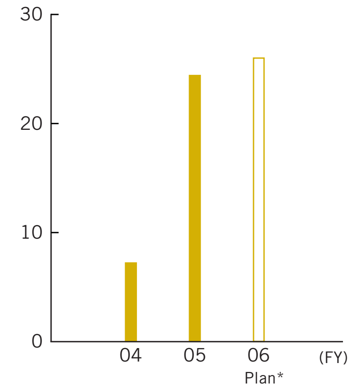
Galant

Europe

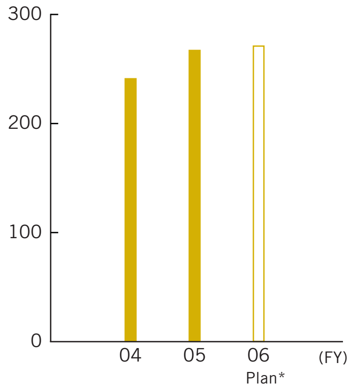
Net Sales
(¥ billion)



Operating Income
(¥ billion)



Retail Sales
(Thousand units)



* MMC revised targets for fiscal year 2006 when it released fiscal year 2005 full-year financial results on April 27, 2006.

MMC is generating steady earnings in Europe. This is a reflection of the high marks won by Mitsubishi vehicles in European markets for their performance and design and MMC's strong track record in motor sports events such as the Dakar Rally. In recent years, MMC has also substantially grown sales volumes in rapidly expanding markets in Eastern Europe, such as Russia and the Ukraine.

Overview of Fiscal Year 2005

In fiscal year 2005, retail sales in Europe totaled 267,000 units, an increase of 26,000 units year on year as well as 16,000 units higher than target. Sales volume was boosted by strong demand for *Lancer*, as well as the launch of the locally made three-door *Colt (CZ3 and CZT)* models. By country, MMC once again performed well in large markets such as Germany and the U.K., while continuing to steadily grow sales in the expanding markets of Russia and the Ukraine. In these two markets, MMC reported sales growth of greater than 50% year on year.

For the second straight year, *Lancer* received the Car of the Year Award for 2006 (C segment) in Russia. In the Ukraine, the 3-door *Colt CZ3* won the Car of the Year Award for 2006 (small car segment).

In fiscal year 2005, sales in Europe decreased 12.2% over fiscal year 2004 to ¥586.2 billion, chiefly due to a decline in OEM supply volumes to other automakers. However, operating income improved ¥17.2 billion to ¥24.4 billion.

Colt CZC

Aggressively Launch New Models

In fiscal year 2006, MMC plans to further grow sales by aggressively rolling out new models. The company has already begun the staggered launch of the Thai made *Triton (L200)* one-ton pickup truck in various European countries, starting in March 2006. Sales continue to surpass targets, as the model has garnered a strong response from dealers and customers throughout Europe for its innovative styling, which defies the look of conventional pickup trucks.

In May 2006, MMC also unveiled *Colt CZC*, a cabriolet model designed by Pininfarina SpA of Italy. This model, based on *Colt*, is aimed at the highly popular cabriolet segment in Europe. By boosting sales of *Colt CZC*, the company will also be able to enhance the image of the other *Colt* models, helping to raise sales volumes across the entire *Colt* range.

In November 2006, MMC will bring to market a new version of the *Pajero (Montero)* SUV, one of its flagship models. Together with the launch of the new *Outlander* SUV in January 2007, MMC will reinforce its product lineup in the SUV and pickup truck market where the company already has strong brand recognition. The company hopes that synergies captured among these models will further strengthen brand value and attract more customers to dealerships.

In Russia and the Ukraine, *Lancer* remains in strong demand. In 2006, MMC will enter the D segment for the first time in these markets with the launch of the American made *Galant* in September. The new *Pajero (Montero)* SUV model will also be launched. Through these new models, the company aims to expand sales to a broader range of customers.

Termination of *smart forfour* Production for DaimlerChrysler

Netherlands Car B.V. (NedCar), MMC's vehicle assembly plant in Europe, was contracted by DaimlerChrysler AG (DC) to produce the *smart forfour* model from 2004 to 2010. However, this year, DC approached MMC with a request to end production of this model. Following negotiations, MMC and DC concluded various agreements to terminate *smart forfour* production at the end of June 2006. Based on these agreements, MMC has received financial compensation from DC for costs associated with the termination of production. The termination of production is therefore not expected to impact earnings for fiscal year 2006.

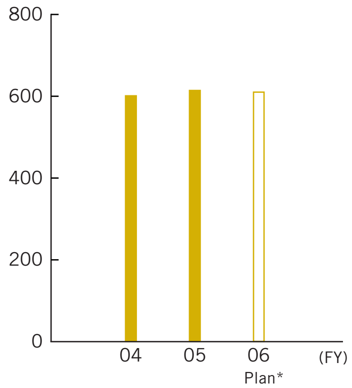
MMC will continue to produce the *Colt* model at NedCar after the termination of *smart forfour* production.

Triton (L200)

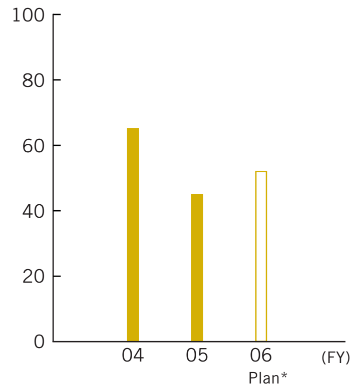
Pajero (Montero) (November 2006 Launch)

Asia, ASEAN and Other Regions

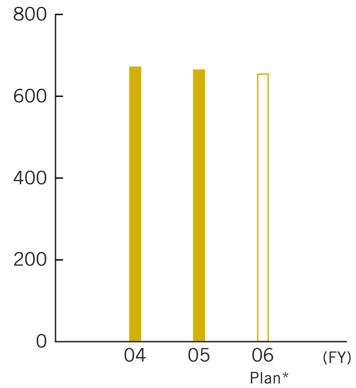
Net Sales
(¥ billion)



Operating Income
(¥ billion)



Retail Sales
(Thousand units)



* MMC revised targets for fiscal year 2006 when it released fiscal year 2005 full-year financial results on April 27, 2006.

One defining characteristic of MMC is that overseas operations represent approximately 80% of consolidated net sales, with around 30% of net sales derived from overseas regions other than North America and Europe. In particular, MMC has a long history in Asia, including the ASEAN region. This presence has engendered trust in Mitsubishi-brand vehicles and fostered a strong brand image in these markets.

Overview of Fiscal Year 2005

In the past fiscal year, retail sales volume in North Asia (China and Taiwan), ASEAN and other regions decreased 7,000 units to 664,000 units, 27,000 units below forecast.

Plans in fiscal year 2005 called for increasing retail sales by around 20,000 units year on year, with high growth in the Middle East, Africa, and Central & South America, as well as higher sales in North Asia, Australia and other areas. This growth was expected to outweigh an anticipated drop in shipments to Malaysia-based Proton Holdings Bhd. In terms of results, MMC grew volume by 31,000 units, or 23%, in Central & South America, the Middle East, and Africa. In addition to this high growth in these regions, MMC surpassed sales volume targets for the ASEAN region, on the back of favorable sale volumes of the new *Triton (L200)* one-ton pickup truck in Thailand. In the promising North Asia region, volume growth in China was offset by a lackluster showing in Taiwan. In Australia, the new *380* model failed to provide momentum, with overall sales volumes falling slightly below the previous fiscal year, resulting in disappointing results overall.

Net sales in fiscal year 2005 rose 2.3% to ¥614.1 billion. However, operating income was down 31.0% at ¥44.9 billion.

Triton (L200) (made in Thailand)

North Asia

China's automobile market continues to grow at a double-digit pace, despite already having an annual sales volume of nearly six million vehicles, a level comparable with the Japanese market. MMC will work to strengthen its operating structure in the Chinese market in conjunction with expanding the lineup of local Mitsubishi-brand vehicles, making the most of the Mitsubishi brand's strong image in China. To supply Mitsubishi-brand vehicles that meet the requirements of this diversifying and increasingly sophisticated market, MMC commissioned a new R&D Center in Shanghai with the establishment of Lingfa Car Technical Consulting (Shanghai) Ltd. in January 2006. Plans also call for establishing a local integrated sales company before the end of March 2007 which will focus on vehicles imported from Japan.

In April 2006, MMC concluded agreements with China Motor Corporation and Fujian Motor Industrial Corporation on taking a direct equity interest in South East (Fujian) Motor Co., Ltd. (SEM). MMC plans to acquire 25% of the issued shares of SEM. The goal is to make SEM a key production and sales base for Mitsubishi-brand vehicles.

Following this investment, SEM will produce and sell the Mitsubishi-brand *Lancer*, *Space Wagon* (*Chariot Grandis* in Japan), and *Galant* models in fiscal year 2006. The company further plans to enlarge its local sales network to 400 dealerships through the inclusion of 200 SEM dealerships alongside 200 existing Mitsubishi-brand dealerships by the end of the current fiscal year.

Moreover, MMC is currently considering plans to establish a new venture business with Hunan Changfeng Motor Co., Ltd. (CFA) to serve as an SUV production base in China. CFA began production and sales of the Mitsubishi-brand *Pajero (Montero)* model in December 2004.

In another development, in fiscal year 2006, MMC will export from Japan the *Lancer Evolution IX* and new *Outlander* models to China.

In fiscal year 2005, sales volume of Mitsubishi brand vehicles in China was only 23,000 units, compared with total sales volume of 129,000 units. Through various initiatives to increase sales of Mitsubishi brand vehicles, including those described above, MMC aims to raise MMC brand sales volume to 82,000 units in fiscal year 2006.

MMC currently produces approximately 150,000 engines per year at two engine-manufacturing companies in China: Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. (SAME) and Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (HDMC), in which MMC holds equity stakes of 25% and 15.3%, respectively. MMC is considering plans to convert these two companies into key engine-manufacturing bases for Asia. Particularly in regard to SAME, MMC plans to raise its equity interest, thus bringing total foreign holdings in SAME to 51% and obtaining a controlling interest in this firm. With additional strengths in industrial engines, SAME has won a contract to supply 15,000 engines per year to a U.S. industrial machinery manufacturer.

Lancer (made by SEM)

Space Wagon (made by SEM; **Chariot Grandis** in Japan)

ASEAN

The ASEAN region's auto market represents only around 3% of the global auto market but is a very important market for MMC, accounting for 17% of total sales. In fiscal year 2006, MMC is targeting retail sales of 202,000 units in this region.

Currently, the company is focusing efforts on production of the *Triton (L200)* one-ton pickup truck in Thailand. Production and sales of *Triton (L200)*, a global strategic model, commenced in August 2005, with exports to Europe beginning the following December. Building on previous increases in production capacity, Mitsubishi Motors (Thailand) Co., Ltd. (MMTh) plans to further ramp up capacity by an additional 20,000 units to 200,000 units per annum within fiscal year 2006. This increase is in light of strong *Triton (L200)* exports since December 2005. With one-ton pickups being exported to more than 140 countries around the world, MMTh is playing a vital role as an export hub to global markets.

In Malaysia, despite a downturn in shipments of production parts and components to Proton Holdings Bhd, MMC signed a new agreement with Proton in February 2006 that promises to open up new business opportunities.

Countries in the ASEAN market pursue distinctive industrial policies. MMC will thus strive to launch automobiles that collectively fit the market structure of each country.

Other Regions

In other regions, MMC is posting rising sales volumes fueled by remarkable growth in markets such as Central & South America, the Middle East, and Africa in recent years. In these other regions, MMC is targeting retail sales of 251,000 units in fiscal year 2006, 21,000 units more than in the previous fiscal year.

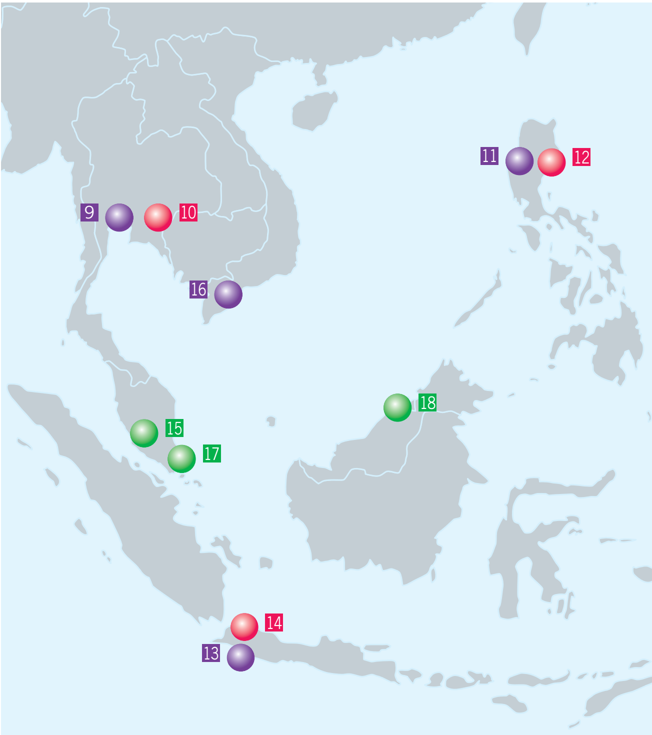
In Australia, MMC is taking steps to boost overall sales, such as repositioning *380* in new competitively priced grades. However, the company faces greater-than-expected difficulties, reflecting factors such as weakening demand for large sedans due to high oil prices and intensifying price-based competition. In response, MMC continues to implement production cutbacks, cost reductions and other measures in step with market conditions, as part of efforts to rationalize its local production operations.

Furthermore, MMC will strive to establish a stronger market position in Australia through efforts to reinforce sales of imported vehicles. Specifically, the company will bring three new models to market—*Triton (L200)*, *Pajero (Montero)* and *Outlander*—and launch additional model variations, such as a cabriolet model of the European-made *Colt*.

Continuing on from fiscal year 2005, the company is working to increase sales by bringing the Thai-made *Triton (L200)* to markets in Central & South America, the Middle East, and Africa. MMC also plans to launch the European-made *Colt* in the South African market and the American-made *Galant* in markets in the Middle East.

380

Operations in North Asia and ASEAN Region



● Local production (vehicles)
● Local production (engines/transmissions)
● Import and sales of finished vehicles (regional sales company)

(As of August 31, 2006)

Country/ Region		Name	MMC's Equity Interest (%)	Major Products and Models	Brand
China	①	Hunan Changfeng Motor Co., Ltd. (CFA)	14.59%	Pajero (Montero)	Mitsubishi brands
				Liebao (old Pajero), Liebao Feiteng (Pajero iO)	Local brands
	②	South East (Fujian) Motor Co., Ltd. (SEM)	0% *	Lancer, Spacewagon (Chariot Grandis)	Mitsubishi brands
				Delica, Freeca, Veryca	Local brands
	③	Beijing Benz-DaimlerChrysler Automotive Co., Ltd. (BBDC)	0%	Outlander (Airtrek)	Mitsubishi brands
	④	Hafei Motor Co., Ltd. (HHMC)	0%	Sigma (Dingo)	Local brands
	⑤	Mitsubishi Corporation (Shanghai) Co., Ltd. (SSL)	0%	Grandis	Mitsubishi brands
	⑥	Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. (SAME)	25%	2.0- and 2.4-liter engines	–
	⑦	Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (HDMC)	15.3%	1.3- and 2.0-liter engines, transmissions	–
Taiwan	⑧	China Motor Corporation (CMC)	13.97%	Galant, Lancer, Zinger, Grunder, Savrin (Chariot Grandis)	Mitsubishi brands
				Veryca, Varica	Local brands
Thailand	⑨	Mitsubishi Motors (Thailand) Co., Ltd. (MMTh)	99.8%	Triton, Strada, Lancer, Spacewagon (Grandis)	Mitsubishi brands
	⑩	MMTH Engine Co., Ltd. (MEC)	100%	Engines	–
The Philippines	⑪	Mitsubishi Motors Philippines Corporation (MMPC)	51%	Adventure, Delica, Pajero (Montero)	Mitsubishi brands
	⑫	Asian Transmission Corporation (ATC)	94.7%	Transmissions	–
Indonesia	⑬	P.T. Krama Yudha Tiga Berlian Motors (KTB)	0%	Colt T120SS, L300	Mitsubishi brands
	⑭	P.T. Mitsubishi Krama Yudha Motors and Manufacturing (MKM)	32.3%	Engines, parts	–
Malaysia	⑮	Mitsubishi Motors Malaysia Sdn Bhd (MMM)	0%	Lancer, L200	Mitsubishi brands
Vietnam	⑯	Vina Star Motors Corporation (VSM)	25%	Grandis, Lancer, Pajero (Montero)	Mitsubishi brands
Singapore	⑰	Cycle & Carriage Automotive Pte Ltd. (CCA)	0%	i, Colt, Colt plus, Lancer, Grandis, Outlander, Pajero (Montero), L200, L300	Mitsubishi brands
Brunei	⑱	GHK Motors Sdn Bhd (GHK)	0%	Colt plus, Lancer, Grandis, Outlander, Pajero (Montero), L200, L300	Mitsubishi brands

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

*Equity investment of 25% planned for fiscal year 2006.

Quality

Quality improvement measures are crucial to restoring trust, a key priority of the Mitsubishi Motors Revitalization Plan. MMC is determined to prevent any recurrence of past recall issues. To this end, the overall quality of MMC's vehicles is being improved through a variety of initiatives. These include strengthening recall-related functions, expediting quality improvements based on market feedback, and implementing stringent risk management and quality verification activities at the product development and production stages.

Creating a Quality Improvement Framework

In March 2005, MMC submitted its final report in response to a warning issued by Japan's Ministry of Land, Infrastructure and Transport (MLIT) in May 2004. The final report details the findings of an exhaustive investigation by a team of external lawyers that delved into the facts behind the past recall problems and into their root causes. Also, since the receipt of the MLIT warning, MMC has been developing a new quality improvement framework.

First, in order to unify the quality control decision-making process, all quality control operations were consolidated under the Quality Affairs Office in 2004. Additionally, a Quality Audit Department was established within the CSR Promotion Office, putting in place a system for supervising the compliance status of the activities of the Quality Affairs Office.

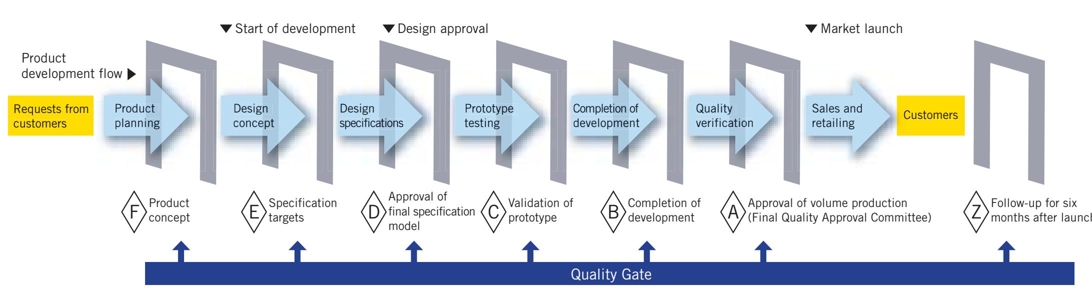
In 2001, MMC introduced MMDS (Mitsubishi Motors Development System), a comprehensive quality management system designed to ensure and continually enhance quality at all levels, from concept formulation to product development, production and sales. Under MMDS, MMC has established quality standards that must be met associated with each of seven quality gates. Efforts are focused on continuously upgrading MMDS to ensure quality. MMDS has been employed throughout development, from the product concept stage onwards, for *Outlander* and *i*, which entered production in fiscal year 2005. The goal has been to develop cars that are selected and valued for their quality.

In fiscal year 2005, MMC added 20 employees to its 10 technical centers throughout Japan, and when *Outlander* and *i* were launched, 10 employees involved in the development of each model were dispatched to these technical centers for 6 month stays. The goal was to collect feedback on quality from customers through the dealer network, and to respond without delay. These employees have been able to hear customers' views first-hand and are now sharing this feedback with development teams.

Managing Director
In Charge of Quality Affairs &
Technical Aftersales Service Group
Headquarters
Corporate General Manager of
Quality Affairs Office

Mitsuo Hashimoto

MMDS (Mitsubishi Motors Development System)



Fiscal Year 2006 Initiatives

In fiscal year 2006, MMC will focus on improving and expanding the quality assurance system it has built up so far.

As part of organizational reforms in April 2006, MMC established the Technical Aftersales Service Office. The Quality Affairs & Technical Aftersales Service Group Headquarters was formed to unify the management of both the Technical Aftersales Service Office and the Quality Affairs Office. This structure will enable MMC to not only offer high-quality products that satisfy customers, but also to provide high-quality after-sales services. It will also allow incorporation of customer views gained through these services into the development of even better products.

Furthermore, MMC has transferred production quality control functions from the Quality Affairs Office to the Production Group Headquarters, to clarify plants' responsibilities for quality. This step will enable production quality control departments to concentrate on analysis of inspection results of each manufacturing process and improving quality control standards.

In overseas markets also, MMC is redoubling initiatives to improve quality. A Product Support Center (PSC*) was established in Europe in March 2006, to join the center already established in the U.S. While plans call for opening PSCs in other regions as well, MMC is focusing on enhancing the functions of existing overseas bases and strengthening ties with local sales companies. Expertise gained in Japan will be extended overseas, through such means as introduction of MMDS and adoption of uniform inspection criteria.

*Product Support Centers are equivalent to technical centers in Japan.

Implementation Status of Quality Improvement Initiatives

Every three months, MMC voluntarily submits a report to MLIT, detailing progress and improvement initiatives on seven items (initially six) that the company promised to improve in its final report to the ministry. The key to quality improvements are to ensure continuity and transparency. This requires that for each quality improvement cycle, information be openly shared on issues arising, and improvement initiatives taken. This process will lead to improving quality and winning back customer trust.

Pursuing quality can also deliver other benefits. For instance, it can lead to reductions in the use of materials, lengthen product life and raise production efficiency, as well as contribute to environmental protection. By clearly identifying customer requirements and problems, MMC can offer speedy and optimal technical after-sales services with greater efficiency.

All MMC employees are aware of the importance of and are committed to listening to customers and accurately responding to their needs. This process is fundamental to quality, and will ultimately help in restoring trust, as well as realizing eco-friendly management.

Periodic Voluntary Report Submitted to the Ministry of Land, Infrastructure and Transport: Implementation Status of Improvement Initiatives:

Themes	Main Improvement Initiatives
Reform processes to eliminate ordered recalls	• Clarify process for issuance of technical information to dealerships • Conduct periodic audits of the process for issuing technical information through The CSR Promotion Office's Quality Audit Department.
Review decision-making criteria for taking quality-related countermeasures and speed up procedures	• Reflect customer and external perspectives in discussions by having staff from customer-facing departments participate in quality-related committees, and having Business Ethics Committee members and labor union executives participate as observers • Shorten time required to obtain information through the launch of new IT system • Augment personnel at technical centers to improve ability to identify vehicles with defects at an early stage
Raise management and employee awareness of past recall and quality issues	• Include quality information in the agendas of management committee meetings (report to directors through quality meetings and managing directors meetings even when issues are deemed not to require quality-related countermeasures) • Enhance training and education systems
Strengthen quality assurance divisions	• Augment personnel through staff rotations while reassigning staff within the Quality Affairs Group Headquarters to reinforce the technical after-sales service network of sales companies
Improve customer service and technical skills of dealer service departments	• Continue training seminars on "Mitsubishi Standard Customer Service Style" • Improve Mitsubishi technical after-sales service certification systems
Company-wide compliance initiatives	• Implement action program for observing corporate ethics • Hold Business Ethics Committee meetings
Strengthen cooperation with dealers	• Reinforce cooperation with dealer service departments to respond more quickly to defect information from market feedback and enhance customer services

Production

For achieving the goals of the Mitsubishi Motors Revitalization Plan, MMC views improving productivity through stringent quality management and raising capacity utilization through optimal use of its global production system as two of the highest priorities. Production departments are therefore making every effort to achieve continuous improvements in these areas.

Excellent Progress With ISQC

MMC recognizes that building quality into each production process is essential to improving productivity. The company therefore is implementing In Stage Quality Creation (ISQC)*1 at all plants. In fiscal year 2005, these activities generated solid results, with the first time capability (FTC)*2 rate averaging more than 95% at all domestic plants. MMC believes that a better FTC rate can contribute substantially to income because it makes just-in-time parts procurement based on detailed production plans feasible. This leads to reductions in logistics costs associated with component shipments from business partners and from within the company.

MMC has also made strides in developing traceability systems for tracking component quality. This enables identification of vehicles with potentially faulty components down to their production date, time, and line, within a few hours of finding a defect in any one of roughly 300 safety-critical key components. MMC plans to reinforce cooperation with business partners to expand the range of components covered by such traceability systems.

Managing Director
In Charge of Production Group
Headquarters

Makoto Maeda

Promoting Optimal Use of the Global Production Network

In Japan, MMC expects planned production volume to continue to exceed capacity at the Mizushima Plant throughout fiscal year 2006 due to strong demand for minicar models and export models, along with projections of continued export-led sales growth. To resolve the capacity issue, MMC has opted to reverse the decision originally contained in the Mitsubishi Motors Revitalization Plan to stop mass production at the Okazaki Plant. This decision was made based on a comprehensive review of options for avoiding missed sales opportunities at minimal cost, achieving the shortest possible launch lead times, and ensuring the quality of components procured from business partners. Production of *Outlander* will be partially transferred from the Mizushima Plant to the Okazaki Plant, and operations at the Okazaki Plant will move from one to two-shift production.

MMC subsidiary Pajero Manufacturing Co., Ltd. (PMC) will also resume two-shift production from the second half of fiscal year 2006 with the planned launch of the new *Pajero (Montero)* and *Delica* models this fiscal year. MMC's production departments are working in close cooperation with other divisions to put in place a system for meeting higher demands stemming from these new models. These efforts are crucial to fulfilling the company's responsibility to deliver high-quality vehicles to valued customers.

Overseas, MMC will strive to boost capacity utilization by adjusting production levels at plants with excess capacity while raising output through model shipments to new markets where appropriate.

Capacity Utilization Improvement at U.S. Plant

At the Illinois Plant of U.S. subsidiary Mitsubishi Motors North America, Inc. (MMNA), a multinational team composed of staff from Japan and the U.S. has been formed to implement various initiatives to reduce costs and raise productivity. Capacity utilization at this plant is projected to improve following the July 2006 start of production of *Galant* for export to the Middle East and Russia.

Developments at NedCar

Netherlands Car B.V. (NedCar), a European subsidiary engaged in production of *Colt*, was contracted by DaimlerChrysler AG (DC) to produce the *smart forfour* model from 2004 to 2010. However, DC approached MMC with a request to end production of this model. Following negotiations between MMC and DC, the two companies signed various agreements to (1) terminate *smart forfour* production at NedCar at the end of June 2006; and to (2) transfer to DC MMC's entire shareholding in MDC Power GmbH, a 50-50 Germany-based joint venture engine plant between the two companies.

In response to reductions in production levels, MMC is pursuing rationalization measures to ensure commercial viability of NedCar based on the current scale of *Colt* production (70,000 to 80,000 vehicles per year). These measures include shifting operations from two to one-shift production, improving productivity, reducing plant-related costs and increasing operating efficiency.

Furthermore, as part of moves to boost capacity utilization at NedCar, MMC is currently considering exporting NedCar-produced *Colt* models to Mexico, South Africa and elsewhere.

*[1] ISQC entails detailed management of each process on production lines. The system calls for improvement in equipment and operating procedure optimization to prevent defects caused by equipment-related and human factors at each stage of production. ISQC also establishes specific in-stage quality-checking processes to ensure that defects are not carried over to the next step. This significantly reduces the effort involved in inspecting and repairing finished vehicles at the final stage.

*[2] The FTC rate is the proportion of finished vehicles that are assembled without being removed from the production line at any time due to defects.

Procurement

MMC's procurement operations have a vital mission to accomplish in the Mitsubishi Motors Revitalization Plan since the success of procurement activities has a significant bearing on operational management. The company has shifted its core approach from volume-based to quality-based purchasing, with the emphasis on developing strong relationships with trading partners based on trust. MMC aims to combine high quality with appropriate costs by working in conjunction with trading partners from the component design phase.

Four Material Cost Reduction Themes

In fiscal year 2006, the second year of the Mitsubishi Motors Revitalization Plan, MMC established the Material Costs Reduction Committee to increase effectiveness and transparency of materials cost reduction efforts in today's tough procurement environment. The committee is being chaired by Executive Vice President Kasugai. The members of this committee have been charged with overseeing the implementation of planned cost-reduction initiatives based on the following four specific themes.

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

Norio Aoki

The first theme is the reinforcement of value engineering (VE) activities. To reinvigorate these activities, in fiscal year 2006 MMC will incorporate required costs into its budget to extend VE activities to areas previously untouched due to evaluation expenses and other factors.

The second theme is the reduction of the volume of materials required. Traditionally, MMC focused on lowering unit purchasing costs as a means of reducing materials costs. However, both unit prices and the volume of materials required have a bearing on material costs. For this reason, the procurement group is actively collaborating with the production group to make necessary improvements to reduce the volume of material required.

The third theme is the improvement of contracting methods. MMC is working to alleviate the pressure created by annual price negotiations by extending the periods of supply contracts. Through this, the company can concentrate on VE and supporting trading partners in improving their operations. These longer supply contracts will set three-year fixed pricing levels which take into account the gains that suppliers can achieve by increasing efficiency.

Finally, the fourth theme focuses on upgrading performance improvement activities at trading partner's production facilities. In addition to procurement staff, experts from various areas at MMC will visit trading partner's production facilities and work together with partners to improve performance facility-wide. Programs of this type were initiated at 15 suppliers during fiscal year 2005. Plans call for expanding these programs to a total of 46 suppliers during fiscal year 2006.

Support for Trading Partners From the Mitsubishi Group

As a member of the Mitsubishi Group, MMC's procurement group has a key advantage. With the advanced technology and marketing expertise of firms such as Mitsubishi Heavy Industries, Ltd. and Mitsubishi Corporation, MMC is able to provide additional support to trading partners and increase their competitiveness. By sharing these technologies and expertise, the company aims to strengthen procurement activities.

Corporate Governance

Fundamental Approach to Corporate Governance

MMC is taking three key measures to strengthen corporate governance: ensure legal and regulatory compliance, improve transparency through frequent disclosure of information to stakeholders, and clarify management responsibilities.

1. Corporate Governance Framework

(1) Governance Institutions

The Board of Directors and Board of Statutory Auditors audit and oversee business execution. MMC has also sought to improve and strengthen the corporate governance framework beyond statutory requirements through moves such as the introduction of an executive officer system and appointment of advisory committees.

The Board of Directors has 12 members, two of whom are outside directors. The Board is responsible for making decisions concerning important management issues and overseeing business execution. The adoption of the executive officer system in June 2000 clarified the separation of the roles and responsibilities of directors and executive officers. Managing directors meetings, which are attended by 16 members (including directors, executive officers and statutory auditors), are held every two weeks to expedite decision-making within the company.

The Board of Statutory Auditors has five members, three of whom are outside auditors. Statutory auditors attend meetings of the Board of Directors, the managing directors meetings and other key forums. 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 and independent auditors. In June 2006, in a move to strengthen the Board of Statutory Auditors, Yukio Okamoto, a former prime ministerial aide, was appointed as a new outside statutory auditor by resolution of the General Meeting of Shareholders. The considerable experience of Mr. Okamoto in international affairs is expected to be invaluable in ensuring that MMC applies appropriate auditing controls in its operations, especially in overseas operations.

Separate from the auditing functions of the statutory auditors, to strengthen the company's "self cleansing" activities MMC has also established two departments within the CSR Promotion Office, the Quality Audit Department and the Internal Audit Department. Independent from other business functions, these groups conduct internal audits from an objective perspective.

The Quality Audit Department, which had four employees at the end of March 2006, monitors all processes that are carried out within the Quality Affairs Office. It does so to ensure compliance with laws and regulations worldwide related to the development and production of automobiles, including Japanese road safety and transportation laws. The department reports its findings to senior management and also reports to the Business Ethics Committee twice per year.

The Internal Audit Department, which had 15 employees at the end of March 2006, conducts regular company-wide audits to check the appropriateness of business processes, including those of subsidiaries and affiliates in Japan and overseas. These audits aim to verify the execution status of all internal control systems, including compliance and risk management. The results of internal audits are reported to senior management of MMC and of its subsidiaries and affiliates, along with proposals for improvement.

By the end of December 2005, MMC completed the establishment of a global internal audit system with internal auditing functions within all major overseas subsidiaries. MMC continues to work to strengthen internal audit systems and governance structures for the overall company while taking into account specific characteristics of overseas markets and regional differences in regulatory approach.

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

The Business Revitalization Monitoring Committee is another important advisory body to the Board. Its responsibility is to monitor progress against the aims of the Mitsubishi Motors Revitalization Plan. Established in April 2005, this committee is composed of external experts and representatives of major shareholders.

(2) Internal Control Systems

Internal control systems are reviewed to respond to any changes in the domestic or overseas environment. MMC aims to strengthen governance structures further and is continually working on system improvements and upgrades to ensure compliance with laws and regulations and to promote proper, effective, and efficient business administration.

With regard to improving the reliability of financial reporting, the Internal Controls Promotion Committee was established in March 2006 to coordinate efforts to plan and develop new systems that will facilitate management's evaluation of the effectiveness of internal controls for financial reporting. These evaluations are scheduled to become mandatory in the near future. Separately, MMC also initiated moves to strengthen corporate governance by establishing management systems for various functions of subsidiaries and affiliates to clarify the functions of each company.

In May 2006, in line with the statutory requirements of new Japanese corporate laws, the Board of Directors approved a basic policy on the construction of internal control systems.

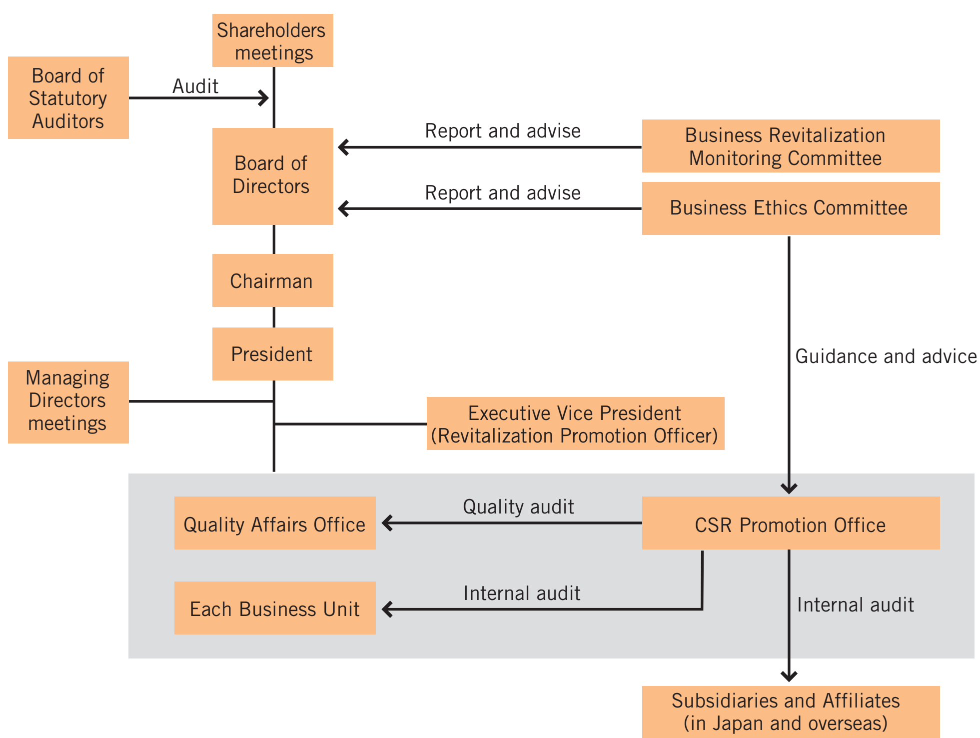
Compliance

- Full legal and regulatory compliance and observance of business ethics, based on internal regulations such as the "Corporate Ethics Compliance First" declaration and business ethics guidelines.
- Establishment of an internal reporting system. Application of systems to investigate any information received and to take necessary measures to rectify and prevent any recurrence of identified problems.
- Establishment of the Business Ethics Committee.

Risk management

- Specification and application of clear rules for management reporting based on criteria set by the Board of Directors and at managing directors meetings.
- Development of company-wide risk management systems centered on risk management promotion departments.
- Appointment of risk management officers in each operational group.
- Development of emergency response capabilities to react to unforeseen contingencies, including emergency communication and contact systems.

MMC's Corporate Governance Framework



Efficient organizational function and operational execution

- Promotion of task execution based on specific goals established by each division in line with company-wide business plans.
- Clarification of leadership through appointment of senior managers at operational divisions to director level. Maintenance and improvement of management efficiency through regular confirmation by MMC directors of status of operations under their watch. Achievement of business goals.
- Integration of command hierarchies to expedite decision-making processes. Efficient execution of directorial duties through improved internal communications and the development of systems to facilitate efficient organizational function and operational execution.

Information management and storage

- Appropriate management of important information related to key decisions and execution of duties (including minutes of the General Meeting of Shareholders and meetings of the Board of Directors, business plans, investment plans, and product plans).
- Maintenance and proper operation of information security controls.

Ensuring the proper execution of group-wide business operations

- Clarification of responsibilities and authority for subsidiaries and affiliates through the establishment of clear rules governing the management of such companies by the corresponding parent company division with primary supervisory responsibility.
- Ensure the proper execution of group-wide business operations through formulation of rules governing the supervision of subsidiaries' management cycles, together with regular monitoring and evaluation.

Statutory auditors

- Attendance at all important meetings (including Board of Directors and managing directors meetings). Regular exchanges of views with the president of MMC. Links with internal auditing groups and independent auditors. Proper decision-making oversight and efficient audit operations.
- Establishment of the Office of Statutory Auditors and assignment of dedicated staff.
- Precautions taken to ensure the independence of statutory auditors' staff, including consulting the statutory auditors prior to implementing any personnel changes at the office and having the statutory auditors conduct personnel evaluations of staff members.

2. Cooperation Between Statutory Auditors, Internal Audit Departments and Independent Auditors

To strengthen cooperation, the statutory auditors regularly exchange information with independent auditors and MMC's internal audit departments, the Internal Audit Department and the Quality Audit Department.

In fiscal year 2005, the statutory auditors held a total of 8 meetings with independent auditors to hear presentations on auditing systems, related plans and the status of financial audits. These meetings also provided an opportunity for the statutory auditors to explain the status of their audits and related plans.

Meetings were held with the Internal Audit Department during the year to discuss the results of monthly internal audits of MMC and its subsidiaries around the world. The statutory auditors provided feedback on the status of their auditing activities to the Internal Audit Department at these meetings, which were also attended by independent auditors to facilitate the effective exchange of information. In addition, quarterly meetings held with the Quality Audit Department focused on the results of quality assurance audits.

3. Relationships With Outside Directors and Statutory Auditors (as of June 30, 2006)

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

Outside directors	Mikio Sasaki	Chairman, Mitsubishi Corporation (main MMC shareholder)
	Hidetoshi Yajima	Chairman, Shimadzu Corporation (MMC business partner)
Outside statutory auditors	Shigemitsu Miki	Chairman, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (major MMC shareholder)
	Hiroshi Kan	Managing Director, Mitsubishi Heavy Industries, Ltd. (main MMC shareholder)
	Yukio Okamoto	Representative Director, Okamoto Associates

Compliance

Guided by a "Compliance First" approach, MMC will continue to implement measures to enforce thorough compliance with laws and regulations and observe business ethics. The aim is to win back the confidence of society and be recognized as a trustworthy company.

Compliance Promotion System

Top management has pledged its commitment to taking the lead in instilling a compliance mindset throughout the company. The president of MMC, who was appointed in January 2005, reaffirmed the company's "Corporate Ethics Compliance First" declaration upon his appointment as Chief Business Ethics Officer (CBEO). Under the leadership of the CBEO, "compliance officers" were assigned to each operational unit in conjunction with appointing each department manager as a "code leader" under the compliance officers. This step was taken to reinforce the compliance promotion structure so as to ensure compliance down to each and every employee. The CSR Promotion Office, which was established in June 2004, constantly monitors the compliance status of employees and their stance toward customers, to provide instructions and guidance on required improvement measures. The CSR Promotion Office also reports on the status of compliance promotion to the Business Ethics Committee, an advisory body to the Board of Directors comprised of outside experts. Based on these reports, the Business Ethics Committee provides guidance and advice on compliance promotion from an independent perspective.

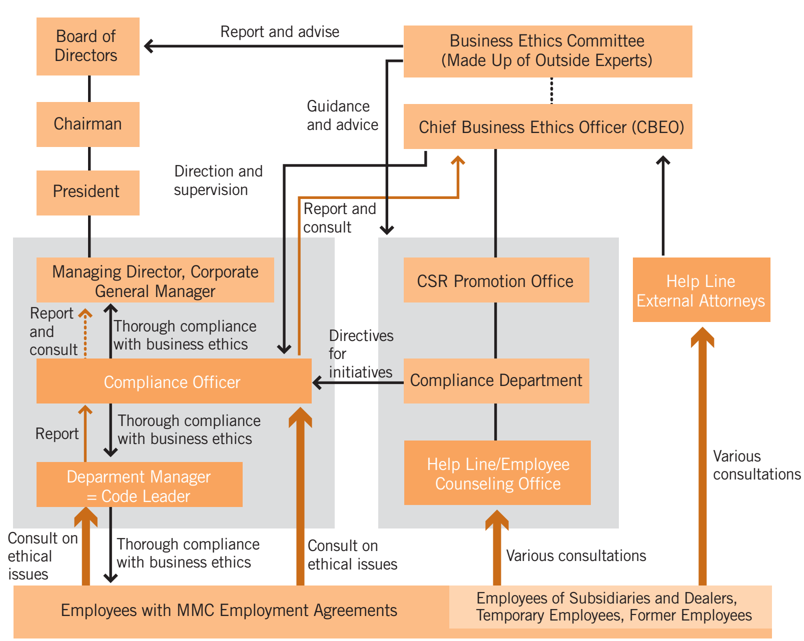
Compliance Initiatives

In fiscal year 2005, based on the theme of "converting self-awareness into action," MMC strove to strengthen compliance awareness based on the accomplishments of initiatives in fiscal year 2004. Particularly noteworthy are business ethics issue review meetings, held to identify and discuss solutions to business ethics issues familiar to workplaces. Using discussions based on case studies, MMC is placing this meeting at the heart of its compliance activities as it provides a prime opportunity to raise awareness of business ethics and improve communication. Another key initiative for raising compliance awareness is training programs for directors, compliance officers, and code leaders, all of whom play crucial roles in promoting compliance at MMC.

Other key initiatives include the designation of January 10 and October 19 as "Pledge of Safety Days" in remembrance of the victims of the two fatal accidents caused by Fuso-brand heavy-duty trucks to assure that mistakes associated with past recall issues are not forgotten. On these days, all employees hold a moment of silence for the accident victims. Also, business ethics issue review meetings are scheduled close to these days. In addition to these activities aimed at improving awareness of past recall and quality issues, MMC conducts training and awareness-building programs targeting laws such as whistleblower protection laws and private information protection laws in Japan.

Guided by a theme of "shifting from a passive to proactive, self-reliant mindset," MMC will build upon and develop fiscal year 2005 compliance initiatives in fiscal year 2006.

Compliance Promotion Structure



Message From the Business Ethics Committee Chairman

The Business Ethics Committee was established in June 2004 as an advisory body to the Board of Directors to help rebuild trust in MMC. Made up only of external experts, the committee advises the Board of Directors from the standpoint of establishing compliance. Another role of the committee is to provide guidance and advice to the CSR Promotion Office, which promotes business ethics and corporate culture reforms as well as quality audits.

As chairman of the Business Ethics Committee, I realize that MMC is taking numerous initiatives to put compliance, safety and customers first, as part of a sincere effort to ensure the continued existence of the company. Together with other committee members, I will continue to check and provide guidance on these initiatives from the standpoints of an independent observer and in terms of social norms, with the aim of restoring public trust in MMC.

Chairman
Business Ethics Committee
Noboru Matsuda

Two years have passed since the first meeting of the Business Ethics Committee was held in July 2004. At the 26 meetings held so far, the committee has raised questions and offered candid opinions on each and every report received from the company. The committee has also promoted and kept a watchful eye over reforms aimed at strengthening compliance through visits to plants and other actions. I feel that the series of resolute measures implemented by the current management team underscores their determination to reform and revitalize MMC. They have squarely addressed past recall issues that triggered a loss of customer confidence. MMC notified the authorities of all recall issues where necessary and reopened its investigation into the cause of the recall issues. Based on the findings, MMC made a clean break with the past by holding those responsible accountable for their actions. Concrete measures to prevent any future recurrence and to revitalize MMC have been announced and are being implemented.

I believe that MMC is making steady strides toward revitalization.

Despite this progress, MMC cannot foster a compliance-oriented mindset throughout the company and win back public trust overnight. To me, compliance means that companies must work earnestly to satisfy the expectations and requests of society in addition to obeying laws and regulations. As an automaker, this means that MMC must practice compliance by not only supplying safe, high-performance vehicles to the public, but also by winning back the confidence of society as a trustworthy automaker through its business activities. In other words, I believe that MMC must win recognition as a good corporate citizen to be permitted to co-exist in society. Ensuring compliance will help to foster a trustworthy brand image, a key source of competitiveness, which will in turn drive forward the revitalization process.

The credibility of MMC can only be rebuilt through the sincere efforts of each and every corporate officer and employee. This sincerity lies at the heart of compliance and must be achieved through hard work and personnel development. Recently, I've called upon employees at manufacturing sites to add "Sincerity" to their watchwords of "Orderliness, Tidiness, Cleanliness, Neatness and Discipline." I hope that this message will help to make compliance a more familiar concept.

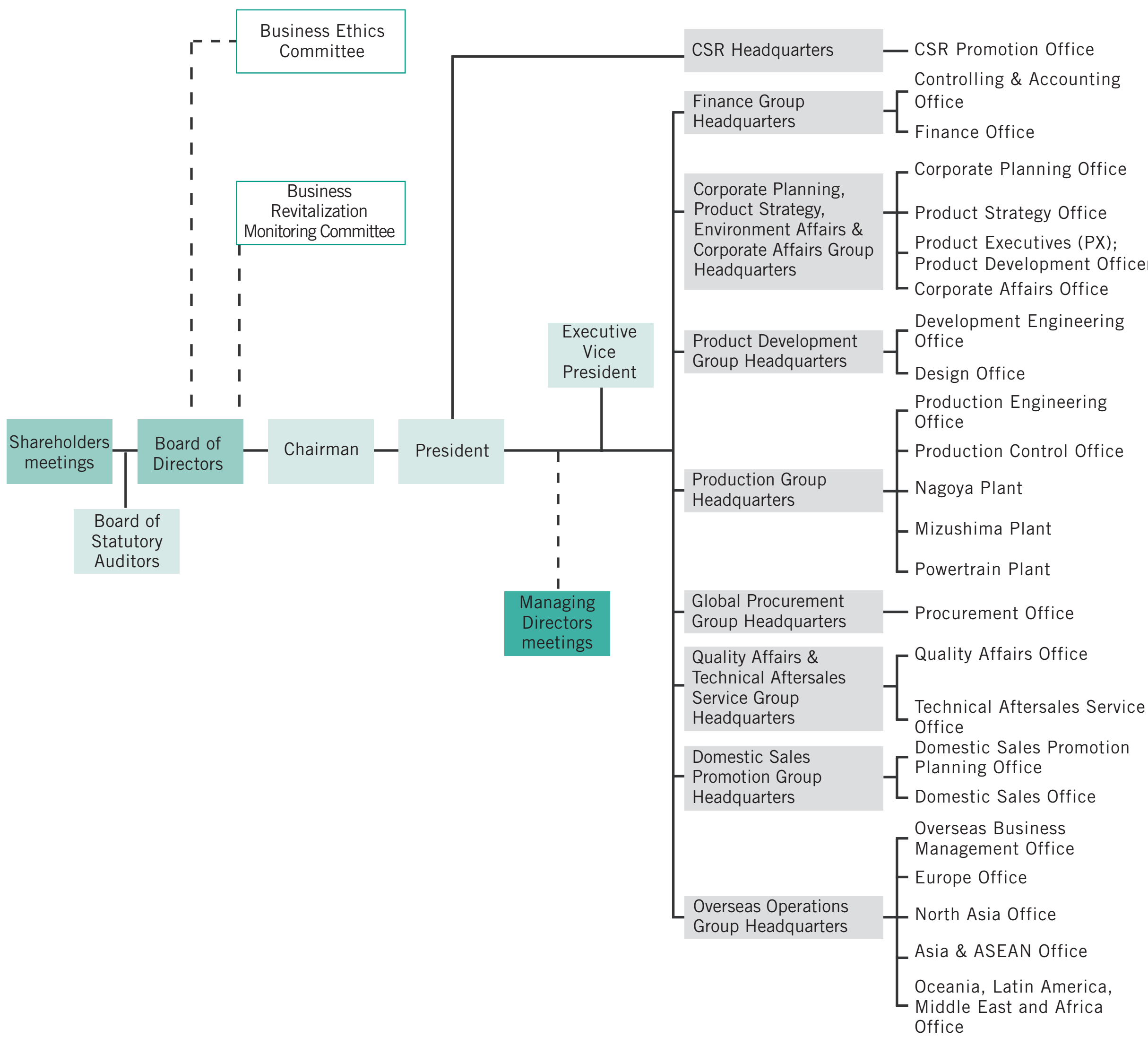
I congratulate MMC on restoring operating profitability in fiscal year 2005, the first fiscal year of the Mitsubishi Motors Revitalization Plan. In fiscal year 2006, a crucial year for the company, I hope that all employees will continue to make a concerted effort to keep the "Compliance First" principle foremost in mind, based on a correct understanding of current circumstances. The Business Ethics Committee will continue to actively offer guidance and advice to MMC from an independent perspective.

September 2006
Noboru Matsuda

Organizational Structure

On April 1, 2006, MMC instituted organizational changes to enable more rapid and appropriate response to various issues faced by management. The main thrust of these organizational reforms was to consolidate chains of command, as well as to clarify areas of accountability by establishing various operational groups, or headquarters, to consolidate and streamline organizational units. These reforms focused mainly on reinforcing business planning, cost and profitability control, and product strategy functions. Other key actions included enhancing quality control functions and service functions from the customer's perspective.

New Organization
(As of April 1, 2006)



Executives

(As of August 15, 2006)

Members of the Board

Takashi Nishioka*
Chairman of the Board

Osamu Masuko*
President
Chief Business Ethics Officer
In Charge of Overseas Operations Group Headquarters

Heki Kasugai*
Executive Vice President
In Charge of Corporate Planning, Product Strategy, Environment Affairs & Corporate Affairs Group Headquarters

Hiizu Ichikawa*
Managing Director
In Charge of Finance Group Headquarters

Fujio Cho
Managing Director
In Charge of Domestic Sales Promotion Group Headquarters

Makoto Maeda
Managing Director
In Charge of Production Group Headquarters

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

Hiroshi Harunari
Managing Director
President & CEO - Mitsubishi Motors North America, Inc.

Tetsuro Aikawa
Managing Director
In Charge of Product Development Group Headquarters

Mitsuo Hashimoto
Managing Director
In Charge of Quality Affairs & Technical Aftersales Service Group Headquarters
Corporate General Manager of Quality Affairs Office

Mikio Sasaki
Director
(Non-Executive Director)

Hidetoshi Yajima
Director
(Non-Executive Director)

* Representative Director

Statutory Auditors

Norihide Ujita
Statutory Auditor
(Full-time)

Kenji Egawa
Statutory Auditor
(Full-time)

Shigemitsu Miki
Statutory Auditor
(Outside Statutory Auditor)

Hiroshi Kan
Statutory Auditor
(Outside Statutory Auditor)

Yukio Okamoto
Statutory Auditor
(Outside Statutory Auditor)

Executive Officers

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

Yoshikazu Nakamura
Executive Officer
Corporate General Manager of CSR Promotion Office and General Manager of Public Relations Department

Akira Kameo
Executive Officer
Corporate General Manager of Finance Office and General Manager of Financial Planning Department

Shuma Uchino
Executive Officer
Corporate General Manager of Corporate Planning Office

Masao Ohmichi
Executive Officer
Vice Corporate General Manager of Corporate Planning Office

Shinichi Kurihara
Executive Officer
Corporate General Manager of Product Strategy Office

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

Seiichi Ota
Executive Officer
Corporate General Manager of Development Engineering Office

Akinori Nakanishi
Executive Officer
Corporate General Manager of Design Office

Masaru Masuda
Executive Officer
Plant General Manager of Nagoya Plant

Osamu Matsumoto
Executive Officer
Plant General Manager of Mizushima Plant

Shuzo Muramoto
Executive Officer
Plant General Manager of Powertrain Plant

Kenichi Miki
Executive Officer
Corporate General Manager of Domestic Sales Promotion Planning Office

Michio Mori
Executive Officer
Corporate General Manager of Domestic Sales Office

Yoichi Yokozawa
Executive Officer
Corporate General Manager of Overseas Business Management Office

Toshifumi Sudo
Executive Officer
Corporate General Manager of Europe Office

Kazuyuki Kikuchi
Executive Officer
Corporate General Manager of Oceania, Latin America, Middle East and Africa

Makoto Ochi
Executive Officer
Chairman and Chief Executive Officer–Netherlands Car B.V.

Hisayoshi Kumai
Executive Officer
President–Mitsubishi Motors (Thailand) Co., Ltd.

Shiro Futaki
Executive Officer
President & Chief Executive Officer, Manufacturing–Mitsubishi Motors North America, Inc.

Environmental Activities

Aiming to Become a Company That Co-exists With the Environment and Helps Build a Sustainable Society

MMC has formulated the Mitsubishi Motors Environment Initiative Program 2010 (EIP 2010), a new action plan to tackle environmental issues through fiscal year 2010. The launch of EIP 2010 follows the completion of MMC's previous Environmental Sustainability Plan (ESP). Based on the accomplishments and outstanding issues of ESP, EIP 2010 will guide the company's efforts to co-exist with the environment and to contribute to building a sustainable society as MMC strives to both revitalize itself and spur further growth.

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

(Basic Guidelines)

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, MMC is committed to harnessing all its resources to achieve continuous reductions in the environmental impact of all its corporate activities, spanning development, procurement, production, sales, and after-sales servicing of vehicles.
2. As a good corporate citizen, MMC is committed to taking actions that protect the environment at the level of local communities and of society as a whole.

(Behavioral Standards)

1. MMC will endeavor to protect the environment by forecasting and assessing the environmental impact of the company's 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 and recycling
2. MMC will endeavor to improve our environmental management practices as part of ongoing efforts to improve the environment.
3. MMC will comply with environmental regulations and agreements, and will work to protect the environment by establishing voluntary management targets.
4. MMC will encourage our affiliates and suppliers, both in Japan and abroad, to cooperate in working to protect the environment
5. MMC will actively disclose environment-related information and will seek the understanding of local communities and of society at large.

Mitsubishi Motors Environment Initiative Program 2010

Based on the accomplishments and outstanding issues of ESP, MMC launched Mitsubishi Motors Environment Initiative Program 2010. EIP 2010 also reflects the latest environmental developments around the world, such as the February 2005 ratification of the Kyoto Protocol and increasingly stringent environmental regulations and legislation in Japan, North America, Europe and elsewhere. This new environmental program strengthens initiatives in four main areas: Environmental Management, Prevention of Global Warming, Prevention of Environmental Pollution and Recycling & Resource Conservation. EIP 2010 also incorporates new measures relating to resources and energy from the standpoint of reducing dependence on oil.

The main points of EIP 2010 are as follows:

1. Environmental management

MMC will build its integrated global environmental management framework to extend environmental management systems to affiliates and subsidiaries in Japan and around the world, including non-manufacturing operations.

2. Prevention of global warming

- MMC will aim to improve overall fleet fuel economy by achieving compliance with 2010 Japanese Fuel Consumption Standards in fiscal year 2007. Also, the company will continue efforts in development of clean diesel engines, high-efficiency transmissions and other core new-generation technologies.
- MMC will develop ethanol and other bio-fuel technologies to meet the need of diversifying energy sources.
- The company will pursue R&D in its own Green Plastic line of materials and parts made from plant-based resins, aiming to commercialize products in successive stages.

3. Prevention of environmental pollution

MMC will institute R&D programs aimed at bringing new-generation electric vehicles to market to aid in preventing global warming and reducing society's dependence on oil.

4. Recycling and resource conservation

While continuing to design products that are easier to recycle, MMC will work to make all parts and components reusable*. The company will also work to reduce shredder residue disposal costs at the same time as raising its shredder residue recycling rate and achieve the required rate before relevant legislation comes into force in 2015.

* End-of-life vehicles are disassembled into their smallest metal parts, which are then fed through a press to provide raw material for manufacturing steel.

Main Accomplishments of the Mitsubishi Motors Environmental Sustainability Plan (ESP: Fiscal Years 2002 to 2005)

Environmental Management

- Having acquired ISO 14001 certification, an international standard for environmental management systems, for all its manufacturing plants in Japan in 1998, MMC also gained ISO 14001 certification for its R&D units in October 2005. MMC is working to obtain certification at its major affiliates and subsidiaries in Japan and overseas.
- MMC has begun the introduction of environmental management systems at its sales companies in Japan. This will be continued under EIP 2010 as MMC pursues Eco Action 21 (EA21) certification at its sales companies.
- MMC adopted Design for the Environment (DfE) principles, setting up assessment processes and benchmarks and also implementing life cycle assessment principles (LCA) for current models in its lineup. MMC will continue to pursue the adoption of DfE principles with a view to applying them to the development of new models.

Prevention of Global Warming

- MMC achieved an overall fleet average fuel economy of 15.5 km/L for its gasoline cars in Japan in fiscal year 2005, a 28% improvement over the average for fiscal year 1990. This improvement stemmed in part from the revamping of the car engine family and from fitting vehicles with continuously variable transmissions (CVT).
- Concerning Japanese 2010 fuel economy standards (for all weight classes of gasoline cars), after a major review of product planning under the Mitsubishi Motors Revitalization Plan, MMC revised its target for early achievement of Japanese 2010 fuel economy standards from fiscal year 2005 to fiscal year 2007. This revision has been incorporated into EIP 2010.
- Under ESP, total CO_2 emissions from production and logistics operations at MMC's plants in Japan as of fiscal year 2005 have been reduced by approximately 26% compared with fiscal 1990 year levels. This reduction was a result of the introduction of more energy-efficient plant equipment and of switching to different energy sources. MMC also met its CO_2 emissions target with respect to the transportation of finished vehicles by raising efficiency.

Prevention of Environmental Pollution

- MMC has continued to introduce models that produce significantly lower emissions than regulatory levels. As a result, Japanese sales of 3 and 4-star rated low-emission vehicles represented 71% of registered cars and 92% of minicar sales in fiscal year 2005 in Japan, rising 13 and 21 percentage points, respectively, from fiscal year 2004.
- MMC participated in the Japan Hydrogen & Fuel Cell Demonstration Project (JHFC Project), funded by the Japanese government, for which it developed the Mitsubishi FCV prototype based on the Mitsubishi *Grandis* minivan model. MMC has also embarked on a R&D program for a new-generation electric vehicle powered by high energy density lithium-ion batteries.
- MMC met Japan Automobile Manufacturers Association (JAMA) voluntary requirements for vehicle interior volatile organic compound (VOC) levels, due for introduction in April 2007, in January 2006 with the launch of the new *i* model. Going forward, MMC will ensure that every new model launched meets VOC requirements.
- MMC introduced water-based body painting lines at the Mizushima Plant in August 2004 as part of efforts to reduce shop floor VOC levels and meet its factory VOC reduction target for fiscal year 2010.

Recycling and Resource Conservation

- MMC is fully responding to the requirements of the Automobile Recycling Law that came into force in January 2005. In fiscal year 2005, MMC achieved an automobile shredder residue (ASR) recovery rate of 64.2%, surpassing the regulatory level of 30% for fiscal year 2005 and that of 50% for fiscal year 2010.
- MMC continues to steadily meet its targets for the recycling of in-process resources and for the Zero Landfill Waste program.

For more details, please refer to the Social and Environmental Report 2006.

Mitsubishi Motors Social and Environmental Report 2006
http://www.mitsubishi-motors.com/corporate/environment/report/e

Financial Section

Contents

Role of the Finance Group Headquarters

The first fiscal year of the Mitsubishi Motors Revitalization Plan ended on March 31, 2006. Despite difficult conditions in North America, Australia and other regions, MMC is starting to see positive signs overall, such as increased sales in Japan, Europe, the Middle East and other regions. The company is committed to making a sustained company-wide effort in the second and third year of the plan to achieve the overriding goals of the Mitsubishi Motors Revitalization Plan: restore profitability in fiscal year 2006 and reach sustainable profitability in fiscal year 2007 and beyond. In this context, the finance group has two major roles to play.

First, it is the group's job to steer the company along the most direct road toward complete recovery. This involves carefully monitoring quantitative financial data on MMC's performance to analyze progress with various initiatives, and to assure that results are 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, the finance group aims to prevent the company from straying off the path to restoring profitability that is set out in the revitalization plan. MMC's business environment is changing at a more rapid, dynamic pace than originally anticipated in terms of economic conditions in various countries, as well as factors such as crude oil and raw materials prices, foreign exchange markets and interest rates. In this business environment, based on a precise analysis and understanding of the course charted so far, the group must quickly steer MMC around various obstacles as measures to reach goals are accelerated.

Second, the finance group is focused on the vital task of securing the funds required for the revitalization process. These funds are principally the capital needed to develop the new models that promise to be the main driver of restored profitability. The revitalization plan calls for ¥490.0 billion in additional funding. MMC has already raised ¥348.0 billion, roughly 70% of the total, mainly through third-party share allocations, long-term borrowings, and bond issues. Looking ahead, while monitoring cash flow trends on a consolidated basis, the group will continue to raise the funds required through closer communication with various market participants and partner financial institutions.

(¥ billion)

Progress on Fund Procurement Plan Announced on January 28, 2005			
Three-Year Fund Procurement Plan		**Funds Procured in First Year of Plan**	
● Equity capital increases (excluding debt-equity swaps)	220.0	● Equity capital increases	250.0
● Asset divestitures or equity capital increases	30.0	● Borrowings, bond issues, and other sources	98.0
● Borrowings and other sources	240.0		
Total:	490.0	Total	348.0

The three years covered by the Mitsubishi Motors Revitalization Plan is a vital period for MMC to recover strength by carefully taking initiatives to improve and reinforce earnings in preparation for the next stage of growth. With an unwavering resolve, the company aims to achieve steady growth in shareholder value and meet the expectations of all stakeholders.

Financial Results and Discussion

Operational Review

In fiscal year 2005, Japan approached the end of its deflationary period. Having largely eliminated the fallout from the collapse of the bubble economy, specifically excess employment, production capacity, and debt, Japan is finally seeing an upturn in corporate earnings, gradual yet sustained growth in consumer spending, and other positive signs. In fiscal year 2005, the Japanese economy also benefited from stronger exports underpinned by economic growth in the U.S., Asia outside Japan, and other overseas regions.

Under this prevailing business environment, overall vehicle demand in Japan rose 0.7% over fiscal year 2004 to 5,861,000 units. Of this figure, demand for registered vehicles was 3,913,000 units, down 0.7%, while that for minicars rose 3.6% to an all-time high of 1,948,000 units.

Results of Operations

In fiscal year 2005, consolidated net sales were ¥2,120.1 billion, a 0.1% decline from the previous fiscal year. This decrease in sales mainly reflected lower OEM supply volumes in North America and Europe, partially offset by a boost to net sales in Japan from higher sales volumes due to two new model launches.

MMC posted operating income of ¥6.8 billion, an improvement of ¥135.3 billion from the previous year's operating loss. Key factors of this improvement were as follows: a contribution of ¥23.1 billion from changes in unit volumes and model profitability mix; a reduction of ¥15.8 billion in selling expenses, mainly advertising costs in North America and Europe; and an exchange rate gain of ¥10.0 billion reflecting a weaker yen. Other key components included reductions of ¥38.6 billion in warranty-related expenses in Japan and ¥14.7 billion in lower depreciation as a result of impairment charges booked in the U.S. and Australia in the previous fiscal year. Lastly, the absence of the previous fiscal year's loss of ¥10.4 billion on the sale of sales finance receivables booked by the U.S. financial services company was a key factor as were other business restructuring efforts.

For non-operating income (loss), MMC reported a loss of ¥24.6 billion, an improvement of ¥26.1 billion from the previous fiscal year.

The reasons for the improvement included a ¥14.5 billion improvement in income (losses) from equity-method affiliates, and a decrease of ¥12.6 billion in stock issuance costs.

Meanwhile, MMC posted ¥45.1 billion for asset impairment charges taken in Japan, the U.S. and Australia, as well as restructuring charges of ¥14.8 billion. In Japan, MMC adopted new asset impairment accounting standards which led to losses totaling ¥26.2 billion for fiscal year 2005. This included an impairment loss of ¥21.9 billion reported in the first half of the fiscal year, as well as subsequent impairment losses associated with a drop in the market value of land owned by domestic sales companies. In the U.S. and Australia, regions where sales have been slow to improve, MMC booked additional impairment losses of ¥18.9 billion in fiscal year 2005, following impairment losses of ¥84.4 billion booked in fiscal year 2004. MMC also took steps to mitigate the potential risk of future losses—the booking of the above restructuring charges of ¥14.8 billion, for example, to reduce the future burden of fixed costs related to consigned production activities in the U.S.

The above factors, combined with income tax charges for overseas subsidiaries, resulted in a net loss of ¥92.2 billion, a ¥382.6 billion improvement over that in the previous fiscal year. However, this was worse than the forecasted net loss of ¥64.0 billion for fiscal year 2005 announced with first half earnings on November 10, 2005. Nevertheless, MMC believes that these actions will help to build sound individual businesses and restore a stronger operating structure in fiscal year 2006 and beyond.

In light of the net loss for fiscal year 2005, MMC is forced to decide once again not to pay dividends for the fiscal year under review.

Segment Analysis

<Business Segment Information>

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

■ Automobiles

In fiscal year 2005, sales in the automobile business declined 0.2% year-on-year to ¥2,080.9 billion. MMC recorded an operating loss of ¥6.1 billion, a ¥98.2 billion improvement over the previous fiscal year. Retail sales rose 31,000 units, 2.4%, to 1,344,000 units, with overall growth driven by two new models launched in Japan in fiscal year 2005.

■ Financial Services

Mitsubishi Auto Credit-Lease Corporation (MCL) and U.S.-based Mitsubishi Motors Credit of America, Inc. (MMCA) conduct auto leasing, sales financing and related operations.

MMC holds an equity interest in MCL, a domestic equity method affiliate. In March 2006, Mitsubishi Corporation, Diamond Lease Co., Ltd. and MMC reached a basic agreement concerning the strategic reorganization of MCL's automotive finance operations. MCL plans to begin services under a new structure in 2007.

As part of the Mitsubishi Motors Revitalization Plan, MMC shifted its U.S. financial services operations to a joint venture business between MMCA and Merrill Lynch & Co. in July 2005.

In fiscal year 2005 revenues from financial services fell 2.5% year-on-year to ¥39.2 billion. MMC reported operating income of ¥10.4 billion from the segment, an improvement of ¥31.5 billion from the previous fiscal year. This improvement was mainly due to the absence of a loss of ¥10.4 billion on the sale of finance receivables booked in fiscal year 2004.

<Geographical Segment Information>

The geographical segment analysis provided in this section is based on the results aggregated by the region of the wholesaler and end user. Accordingly, figures differ from the 'Geographic Segment Information' section provided in the Notes to Consolidated Financial Statements. Figures in this section correspond to the sales figures reported in the 'Overseas Sales' section in the Notes to Consolidated Financial Statements.

■ Japan

In Japan, retail sales rose 30,000 units, 13.2% year-on-year, to 257,000 units in fiscal year 2005. Sales had increased year-on-year for 11 consecutive months as of the end March 2006 (since May 2005). The main reasons for the increase were the strong starts for the new *Outlander* SUV and the new *i* minicar, which were launched in October 2005 and January 2006 respectively.

Consequently, in Japan, sales increased 22.1% to ¥504.1 billion and operating loss improved ¥41.7 billion to a ¥55.3 billion loss.

North America

In North America, retail sales declined 18,000 units, 10.3% year on year, to 156,000 units. This decrease mainly reflected the impact of damage to the Mitsubishi brand caused by past over-ambitious sales strategies, problems related to the launch timing for the new *Raider* pickup truck, and ongoing efforts to reduce fleet sales as part of initiatives to normalize sales activities. These factors were partially offset by a strong start by the all-new *Eclipse*, a sporty coupe launched in May 2005 in the U.S., and higher retail sales in Mexico and Puerto Rico.

Due to the above factors, as well as the termination of OEM sales contracts in fiscal year 2004, sales in North America declined 5.8% to ¥415.7 billion. The operating loss improved ¥96.6 billion to ¥7.2 billion, however, due to lower depreciation expenses resulting from the impairment charges booked in fiscal year 2004 and reductions in selling expenses such as advertising costs.

Europe

In Europe, retail sales rose 26,000 units, 10.8% over fiscal year 2004, to 267,000 units, with growth coming from steady sales in the large German and U.K. markets, as well as a substantial increase in sales in Russia.

Net sales decreased 12.2% to ¥586.2 billion, mainly due to a decline in OEM supply volume. However, operating income rose ¥17.2 billion to ¥24.4 billion.

Asia and Other Regions

In Asia and other regions, retail sales decreased 7,000 units, a 1.0% drop from fiscal year 2004, to 664,000 units. The main factors behind this decrease were declining retail sales in Malaysia, which is promoting increased production of domestic automobiles, and Indonesia, where economic conditions were weak. Retail sales also declined slightly in North Asia (China & Taiwan) and Oceania. These factors were partially offset by growth in retail sales in the Thai market, as well as Central & South America, the Middle East, and Africa.

Net sales rose 2.3% to ¥614.1 billion, but operating income was ¥44.9 billion, down 31.0% from the previous fiscal year.

Financial Position

<Assets>

Total assets as of March 31, 2006 were ¥1,557.6 billion, down ¥31.7 billion from the end of fiscal year 2004.

Current assets were ¥842.3 billion, up ¥20.4 billion from a year earlier. Inventories rose ¥24.6 billion in conjunction with the launch of new models, which along with other factors outweighed a decrease of ¥48.4 billion in cash and cash equivalents mainly due to the repayment of borrowings.

Tangible fixed assets decreased ¥24.9 billion to ¥506.0 billion, due mainly to impairment losses booked in Japan, the U.S. and Australia.

Investments and other assets declined ¥20.9 billion to ¥183.4 billion. This decrease mainly reflected a drop of ¥42.0 billion in residual interest in securitized assets.

<Liabilities>

Total liabilities as of March 31, 2006 were ¥1,276.3 billion, an increase of ¥22.0 billion from the end of fiscal year 2004.

Current liabilities increased ¥9.8 billion to ¥867.2 billion. The main contributing factor was an increase of ¥40.0 billion in trade notes and accounts payable in conjunction with the launch of new models.

Interest-bearing debt decreased ¥28.2 billion from the previous year to ¥447.8 billion. This decrease was mainly due to the scheduled repayment of debt, which outweighed the issue of bonds by MMC's Thailand-based subsidiary.

<Stockholders' Equity>

Total stockholders' equity decreased ¥56.1 billion to ¥268.7 billion due to the net loss of ¥92.2 billion for fiscal year 2005, which was partly offset by capital increases to strengthen equity. As a result, the equity ratio was 17.2%, a deterioration of 3.2% from a year earlier.

Cash Flows

Looking at cash flows in fiscal year 2005, net cash provided by operating activities totaled ¥54.4 billion, ¥40.8 billion more than in fiscal year 2004, mainly reflecting the year-on-year improvement in the net loss.

Net cash used in investing activities was ¥84.8 billion, ¥50.6 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 used in financing activities was ¥19.0 billion, compared with net cash of ¥133.6 billion provided by mainly capital procurement activities in fiscal year 2004. This mainly reflected the repayment of short-term and long-term borrowings, which exceeded proceeds from the issue of bonds and long-term debt.

As a result, the year-end balance of cash and cash equivalents was ¥248.1 billion, a decrease of ¥46.8 billion from the beginning of the fiscal year.

Consolidated Balance Sheets

Mitsubishi Motors Corporation and Consolidated Subsidiaries
As of March 31, 2006 and 2005

	In millions of yen		In thousands of U.S. dollars (Note 5)
Assets	2006	2005	2006
Current assets:			
Cash and cash equivalents (Note 16)	¥ 248,069	¥ 294,903	$ 2,111,767
Trade notes and accounts receivable (Notes 6 and 11)	179,101	150,951	1,524,654
Finance receivables (Notes 6 and 11)	39,278	24,476	334,372
Inventories (Notes 7 and 11)	257,946	233,353	2,195,851
Short-term loans receivable	2,047	2,386	17,432
Deferred tax assets (Note 20)	1,206	1,799	10,270
Prepaid expenses and other current assets (Note 11)	140,462	128,244	1,195,726
Allowance for doubtful accounts	(25,805)	(14,176)	(219,677)
Total current assets	842,306	821,937	7,170,398
Property, plant and equipment, net (Notes 8 and 11)	506,007	530,903	4,307,548
Intangible assets	25,836	32,107	219,941
Investments and other assets:			
Investments (Notes 9 and 11)	83,429	80,115	710,215
Long-term finance receivables (Notes 6 and 11)	8,365	2,072	71,216
Long-term loans receivable	12,900	11,747	109,815
Deferred tax assets (Note 20)	7,413	6,730	63,113
Residual interest in securitized assets and others	126,290	178,615	1,075,085
Allowance for doubtful accounts	(54,979)	(74,943)	(468,033)
Investments and other assets, net	183,419	204,337	1,561,412
Total assets	¥1,557,570	¥1,589,286	$13,259,301

Liabilities, minority interest and stockholders' equity	In millions of yen 2006	In millions of yen 2005	In thousands of U.S. dollars (Note 5) 2006
Current liabilities:			
Trade notes and accounts payable	¥ 333,842	¥ 293,853	$ 2,841,939
Short-term borrowings (Note 11)	159,254	236,151	1,355,700
Current portion of long-term debt (Note 11)	85,108	41,800	724,514
Accrued expenses, accounts payable and deferred income (Note 10)	234,998	253,893	2,000,498
Accrued income taxes (Note 20)	7,371	3,157	62,750
Other current liabilities (Note 20)	46,585	28,481	396,572
Total current liabilities	867,160	857,338	7,381,975
Long-term debt (Note 11)	203,389	198,020	1,731,419
Deferred tax liabilities (Note 20)	18,251	17,357	155,367
Accrued retirement benefits (Note 19)	102,787	99,295	875,013
Other non-current liabilities	84,721	82,262	721,220
Total liabilities	1,276,311	1,254,274	10,864,995
Minority interest	12,580	10,229	107,094
Stockholders' equity (Notes 12 and 23):			
Preferred stock:			
Authorized: 3,312,000 shares			
Issued or converted 526,193 shares in 2005 442,593 shares in 2006	221,296	263,096	1,883,855
Common stock:			
Authorized: 9,958,285,000 shares			
Issued or converted 4,253,995,212 shares in 2005 5,491,452,544 shares in 2006	436,040	379,204	3,711,930
Capital surplus	432,648	417,612	3,683,055
Accumulated deficit	(749,198)	(656,068)	(6,377,783)
Unrealized holding gain on securities	9,046	9,208	77,014
Translation adjustments	(81,142)	(88,262)	(690,752)
Treasury stock — 54,250 shares at March 31, 2005 73,191 shares at March 31, 2006	(12)	(8)	(108)
Total stockholders' equity	268,678	324,782	2,287,211
Contingent liabilities (Note 13)			
Total liabilities, minority interest and stockholders' equity	¥1,557,570	¥1,589,286	$13,259,301

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2006	2005	2006
Net sales	¥2,120,068	¥2,122,626	$18,047,741
Cost of sales	1,700,524	1,808,110	14,476,242
Reversal of deferred profit on installment sales, net	0	16	0
Gross profit	419,544	314,532	3,571,499
Selling, general and administrative expenses (Note 14)	412,760	443,076	3,513,750
Operating income (loss)	6,783	(128,544)	57,748
Interest and dividend income	5,105	7,920	43,462
Interest expense	19,580	25,601	166,689
Loss on impairment of fixed assets	(45,084)	(84,376)	(383,796)
Other loss, net (Notes 9 and 15)	(29,969)	(230,304)	(255,125)
Loss before income taxes and minority interest	(82,745)	(460,906)	(704,400)
Income taxes (Note 20):			
Current	7,351	4,016	62,580
Deferred	558	15,745	4,751
	(7,909)	(19,761)	(67,331)
Minority interest	1,511	(5,882)	12,864
Net loss (Note 23)	¥ (92,166)	¥ (474,785)	$ (784,596)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2006	2005	2006
Preferred stock:			
Balance at beginning of year	¥ 263,096	¥ —	$ 2,239,690
Preferred stock issued or converted	(41,800)	263,096	(355,835)
Balance at end of year	221,296	263,096	1,883,855
Common stock:			
Balance at beginning of year	379,204	252,201	3,228,095
Common stock issued or converted	56,836	127,003	483,835
Balance at end of year	436,040	379,204	3,711,930
Capital surplus:			
Balance at beginning of year	417,612	27,513	3,555,059
Issuance or conversion of common and preferred stock	15,035	390,099	127,996
Balance at end of year	432,648	417,612	3,683,055
Accumulated deficit:			
Balance at beginning of year	(656,068)	(183,410)	(5,584,990)
Net loss	(92,166)	(474,785)	(784,596)
Effect of affiliates for which the equity method was newly applied	—	2,127	—
Effect of Australian subsidiary for adopting new accounting standards	(962)	—	(8,196)
Balance at end of year	(749,198)	(656,068)	(6,377,783)
Unrealized holding gain on securities:			
Balance at beginning of year	9,208	19,917	78,392
Net change	(161)	(10,709)	(1,377)
Balance at end of year	9,046	9,208	77,014
Translation adjustments:			
Balance at beginning of year	(88,262)	(86,245)	(751,360)
Net change	7,119	(2,016)	60,607
Balance at end of year	(81,142)	(88,262)	(690,752)
Treasury stock:			
Balance at beginning of year	(8)	(3)	(73)
Net change	(4)	(5)	(35)
Balance at end of year	(12)	(8)	(108)
Total stockholders' equity	¥ 268,678	¥ 324,782	$ 2,287,211

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2006	2005	2006
Operating activities:			
Net loss	¥ (92,166)	¥(474,785)	$ (784,596)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	68,718	96,043	584,984
Allowance for doubtful accounts, net of reversal	(9,345)	(9,125)	(79,560)
Accrued retirement benefits, net of reversal	1,763	(11,722)	15,013
Loss (gain) from affiliates accounted for by the equity method	(1,453)	13,002	(12,374)
Deferred income taxes	558	15,745	4,751
Minority interest	1,511	(5,882)	12,864
Loss (gain) on sales and disposal of property, plant and equipment, net	(1,862)	16,189	(15,854)
Loss on impairment of fixed assets	45,084	84,376	383,796
Gain on sales of investments in securities, net	(391)	(1,331)	(3,331)
Loss on impairment of investments in securities	335	446	2,856
Loss compensation based on stock transfer contract	1,186	74,736	10,104
Stock issuance costs	295	12,854	2,513
Change in trade notes and accounts receivable	(19,550)	39,597	(166,431)
Change in inventories	(5,881)	53,402	(50,071)
Change in finance receivables (Note 16)	15,790	126,116	134,419
Change in retained interests in transferred receivables	16,853	49,660	143,474
Change in trade notes and accounts payable	30,210	(57,396)	257,176
Other	2,774	(8,274)	23,620
Net cash provided by operating activities	54,430	13,654	463,355
Investing activities:			
Decrease (increase) in investments in term deposits	3,045	(18,920)	25,925
Purchase of property, plant and equipment (Note 16)	(133,924)	(140,760)	(1,140,077)
Proceeds from sales of property, plant and equipment (Note 16)	45,839	111,788	390,218
Decrease (increase) in investment in securities	(166)	7,301	(1,419)
Decrease in short-term loans receivable	741	5,009	6,315
Loans made	(2,017)	(444)	(17,177)
Collection of loans receivable	1,584	1,616	13,491
Other	86	203	736
Net cash used in investing activities	(84,811)	(34,206)	(721,985)
Financing activities:			
Decrease in short-term borrowings	(48,192)	(425,649)	(410,251)
Proceeds from issuance of long-term debt	41,687	119,974	354,873
Repayment or redemption of long-term debt	(42,067)	(328,067)	(358,116)
Common and preferred stock issued	29,704	767,344	252,870
Dividend paid to minority interest — common stock	(33)	(40)	(284)
Other	(53)	(5)	(457)
Net cash provided by (used in) financing activities	(18,955)	133,556	(161,366)
Effect of exchange rate changes on cash and cash equivalents	2,557	(12)	21,773
Net change in cash and cash equivalents	(46,779)	112,991	(398,222)
Cash and cash equivalents at beginning of year	294,903	181,911	2,510,454
Change in cash and cash equivalents due to inclusion and exclusion of subsidiaries in consolidation	(54)	—	(464)
Cash and cash equivalents at end of year (Note 16)	¥ 248,069	¥ 294,903	$ 2,111,767

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Motors Corporation and Consolidated Subsidiaries

1. Going Concern

In fiscal years (FY) 2003 and 2004, the Mitsubishi Motors Corporation (MMC) group recorded net losses of ¥215,424 million and ¥474,785 million respectively. In FY2005, the MMC group also recorded a net loss of ¥92,166 million ($784,596 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 its operating base, the MMC group formulated the "Business Revitalization Plan" (from FY2004 to FY2006) in May 2004.

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

After announcing its "Business Revitalization Plan" in May 2004, the MMC group devoted itself to implementing the measures set out in the plan, designed to regain customer and public trust and improve profitability. Despite these measures, MMC's inability to respond adequately to past recall problems delayed the hoped for restoration of consumer and public trust and seriously impacted sales. This, in turn, highlighted the problem of over capacity that lurked beneath the surface over recent years. In addition, concerns deepened about delays in the recovery of operations and about the financial health of the MMC group. As a result, the MMC group was forced to use funds allocated for the revitalization program in the repayment of interest bearing debt.

To break out of this situation and successfully revitalize itself, the MMC group, while continuing its efforts to regain customer and public trust, found itself in a situation that required additional measures to improve profitability. Given these circumstances, the MMC group put together the new "Mitsubishi Motors Revitalization Plan" in January 2005. Highlights of the plan as well as the progress in FY2005 are summarized as follows.

(1) Corporate culture reform initiatives

Recovering customer and public trust and reforming corporate culture are absolute priorities in the 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 the 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.

An investigation by a panel of external lawyers into past recall problems was completed in March 2005. The MMC group submitted to the Ministry of Land Infrastructure & Transport (MLIT) its final report, which summarizes disciplinary action and measures to prevent any recurrence. In FY2005, these measures continued to be carried out by the MMC group and the latest status of the implementation has been reported to MLIT every three months.

(2) Key points and additional topics in the Mitsubishi Motors Revitalization Plan

- Putting customers first/Recovering trust
  - Put customers first in all areas, from marketing through after sales services
  - Provide measures for achieving no compromise improvements in product quality
- Business strategy
  - Sales plans reflect downside risks
  - Promote of operational tie-ups with other automakers
  - Rationalize of production capacity and sales network
- Reinforce capital and funding
  - Strengthen financial standing and securing capital for revitalization
- Boost management's effectiveness
  - Lead from the top with a new management team
  - Set up a thorough follow-up system
- Implement and extend across the board compliance

[Additional topics]

- Strengthen sales operations around the world (as Japan and North America) in order to meet the sales target set out by the plan
- Implementing cost reduction policy in all functional areas including sales, production and research
- Optimization of the global production system
- Enhancing corporate governance through internal control

(3) Targets

- Achievement of profit in FY2006 (net income of ¥8 billion ($68 million))
- Establish sustainable profitability in FY2007 (net income of ¥41 billion ($349 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 FY2003 level of 1,500,000 vehicles in FY2007.

(ii) Product strategy

a. Motorsports

The MMC group places Motorsports at the very heart of its car design and development activities. The technology and experience 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 reflected into all production cars as the "Sporty DNA" and "SUV DNA" that define the MMC brand. That same technology and expertise also enables increased safety and durability as well as driving performance and the MMC group intends to further raise its product value by actively promoting these embodied qualities.

b. Improving efficiencies in model mix

The new plan incorporates measures under which the MMC group will cut 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. The MMC group will expand earning opportunities by actively introducing new models across all regions.

(iii) Business tie-up strategy

To further promote a policy of selection and concentration, the MMC group will actively pursue strategic tie-up opportunities with other automakers. As well as an expansion in May 2005 of the supply of minicars on an OEM basis to Nissan Motor Co., Ltd., in July 2005, MMC reached an agreement with PSA Peugeot Citroën to supply a new SUV model on an OEM basis. The new SUV model is expected to be released in FY2007 to the European market. MMC group is looking to expand its tie-ups and considering the options such as increasing OEM arrangements, component supply partnering, joint distribution arrangements and joint procurements arrangements.

(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 in FY2004. The MMC group will also restructure its sales network and will drive to maximize after sales services by launching a new brand in the after market auto parts market.

b. North America

North America remains a vital market for MMC group. To put its operations in that market on a profitable basis, in January 2006, MMC appointed a managing director to become CEO and President of its North American subsidiary. The Company also introduced a new management structure that will strengthen links and promote effective communication with MMC.

The MMC group is currently addressing its U.S. captive finance unit that was at the center of problems in its North American operations. It is currently reducing its exposure to loan default risk by selling off a portion of its finance asset holdings to Merrill Lynch & Co. For the purpose of creating competitive and attractive consumer financing programs, the MMC group also established a new joint venture company with Merrill Lynch.

c. Europe

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

d. China

Positioning China as a core market by actively utilizing the Mitsubishi brand, which is very strong and well established in China, the MMC group seeks to expand its operating base. The MMC group is strengthening its capital tie-ups with local companies in order to expand the Mitsubishi brand models, and plans to establish and expand its sales network. The MMC group is also considering establishing engine joint ventures in China, as a major engine production hub, and R&D facilities to meet local market needs on a timely basis.

e. Other markets

The 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 operations in Indonesia. The 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, the MMC group closed its engine plant in August 2005.

(v) Cost reductions

a. Manpower

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

b. Materials costs

In view of the deterioration in procurement brought about by falling sales volumes and sharp rises in raw materials costs, the new plan aims to reduce materials costs by approximately ¥90 billion ($766 million) on a cumulative basis by FY2006 over the FY2003 level. While this is a downward revision of the "Business Revitalization Plan," the MMC group still maintains a 15% cost reduction rate as stated in the "Business Revitalization Plan."

(5) Corporate ideals and direction

Through a process of exhaustive analysis and discussion between cross-functional teams composed mainly of younger employees and affected departments, the Corporate Revitalization Committee has looked in depth at a number of issues that the MMC group faces. This has allowed the MMC group to formulate a new course of action; one that clarifies to its stakeholders the ideals that underpin the 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: "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." In addition, in September 2005, the MMC group also adopted a new slogan in Japan, which was chosen by staff: "Kuruma zukuri no genten e" (English translation: "Pursuing the Origins of Car Engineering.")

(6) Profit and loss targets

To reflect all the measures described above, the targets for consolidated sales and earnings for the periods through FY2006 in the "Business Revitalization Plan" were revised downward in the "Mitsubishi Motors Revitalization Plan."

Also, in FY2005, the MMC group did not achieve profitability except for on the operating profit level. Overall profitability however, has been improving since FY2004 as MMC looks forward to bringing net income back to the black in FY2006 and expects to generate record net income of ¥41 billion ($349 million) in FY2007.

(7) Support systems: capital and funding reinforcements

(i) Capital reinforcement

With the full support of four Mitsubishi companies, during FY2004, the MMC group received a capital enhancement of ¥284.2 billion ($2,419 million) through the issuance of common and preferred stock [Mitsubishi Heavy Industries, Ltd. (MHI) ¥50 billion ($425 million); Mitsubishi Corporation, ¥70 billion ($595 million); The Bank of Tokyo-Mitsubishi UFJ, Ltd. ¥154 billion ($1,310 million) (of which ¥54 billion ($459 million) was a debt-equity swap); The Mitsubishi UFJ Trust and Banking Corporation, ¥10.2 billion ($86 million) (the entire amount being a debt-equity swap)].

In January 2006, with Mitsubishi Corporation as underwriter, MMC group issued ¥30 billion of preferred stock by third party allocation.

The combined interests in the MMC group by MHI, Mitsubishi Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd. was approximately 34% at March 31, 2006. Following MHI's conversion of its preferred stock, which made its holdings in MMC more than 15%, MMC became an equity method affiliate of MHI in the second half of FY2005.

(ii) Borrowing

In January 2005, as part of the "Mitsubishi Motors Revitalization Plan," the MMC group announced its plan to raise ¥240 billion ($2,043 million) through new loans. Financing had been successful as the MMC group already raised ¥70 billion ($595 million) by the end of FY2005. As actual cash flow exceeded forecast, the MMC group will review its financing needs each year and will raise the appropriate amount of funds to successfully carry out the "Mitsubishi Motors Revitalization Plan."

(iii) Capital expenditure for revitalization

The capital enhancement and funding measures will give the MMC group access to ¥490 billion ($4,171 million) (excluding a ¥64.2 billion ($546 million) debt-for-equity swap). MMC will allocate this funding with maximum efficiency to R&D and capital investment, which will provide the platform vital to the successful achievement of targets and goals set out in the "Mitsubishi Motors Revitalization Plan."

The MMC group set up a new "Business Revitalization Monitoring Committee," an external body that monitors the progress made in the implementation of the "Mitsubishi Motors Revitalization Plan" in April 2005. The members of the committee are made up of specialists and leaders in their fields from outside the MMC group as well as representatives from key stockholders of Mitsubishi companies, and they have been overseeing the progress of the "Mitsubishi Motors Revitalization Plan" and have given valuable advice and guidance.

For this fiscal year, due to effective business strategy, financing, and management, consolidated operating income returned to the black a year ahead of original plan. Consolidated net loss however fell below plan as a result of the impairment charge in Japan, additional impairment charges in North America and Australia, and provision for losses on restructuring for this period. It is expected that as a result, the strength of individual operations will restore and improve, and the transformation of the organization will continue steadily from FY2006 going forward.

The MMC group, in order to restore operations as well as financial health across the board, is devoting itself to materializing the new "Mitsubishi Motors Revitalization Plan" that was announced in January 2005 with full support of three Mitsubishi companies (MHI, Mitsubishi Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd.).

Accordingly, these 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.

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. Foreign subsidiaries maintain their books of account in conformity with standards in their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Japan which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. These financial statements have been compiled from the consolidated financial statements filed to 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 generally accepted accounting principles 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 over 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 inter-company transactions have been eliminated in consolidation.

Any differences at the date of acquisition between acquisition cost and the fair value of the net assets acquired are expensed when incurred or are 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 to be 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 were not held during FY2005. 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 gains and losses, 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 and Amortization

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.

Intangible fixed assets, including software intended for use by MMC and its consolidated subsidiaries, are amortized by the straight line method over the 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 warranties

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

(i) Retirement benefits

Accrued retirement benefits for employees at March 31, 2006 and 2005 are calculated based on the retirement benefits obligation and the fair value of the pension plan assets estimated at year end. The full amount of the transition difference, arising from the adoption of the new accounting standard for retirement benefits was expensed entirely in FY2000 when the new accounting standard was adopted.

Prior service cost is being amortized using the straight line method over periods of 5 to 21 years, and 10 to 21 years for the years ended March 31, 2006 and 2005, respectively. These periods are within the estimated average remaining service years of the employees.

Actuarial gains and losses are being amortized using the straight line method over the periods of 5 to 21 years and 10 to 21 years for the years ended March 31, 2006 and 2005, respectively. 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 purchase warrants.

(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 the 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 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 forecast exports 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 forecast exports 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.

For interest rate swaps accounted for as special hedges, instead of measuring hedge effectiveness, confirmation of the conditions for special hedge accounting is carried out.

3. Changes in Accounting Policies

(a) Accounting Standard for Impairment of Fixed Assets

Effective for the year ended March 31, 2006, the accounting standard for impairment of fixed assets, “Opinion concerning Establishment of the Accounting Standard for the Impairment of Fixed Assets” (The Business Accounting Council, August 9, 2002) and “Guidance for Accounting Standard for Impairment of Fixed Assets” (Accounting Standards Board of Japan (ASB) Guidance, No. 6 October 31, 2003) have been adopted. As a result, loss before income taxes and minority interest increased by ¥26,176 million ($222,832 thousand) this reporting period. The effects on the segment information are stated in Note 21. The accumulated impairment loss has been deducted directly from the book value of property, plant and equipment in accordance with Japanese accounting standards.

In addition, although some of overseas subsidiaries have reported impairment losses in this period, the above figure does not include those losses, as these subsidiaries have already been adopting local accounting standards for impairment of fixed assets on the basis of local Generally Accepted Accounting Principles.

(b) Accounting Standard for Retirement Benefits

Effective for the year ended March 31, 2006, the accounting standard for retirement benefits “Amendment of Accounting Standards for Retirement Benefits” (Accounting Standard No. 3 March 16, 2005) and “Guidance for Amendment of Accounting Standards for Retirement Benefits” (ASB Guidance No. 7 March 16, 2005) have been adopted. The effect of the adoption of this change in accounting policy for retirement benefits was insignificant in net loss of fiscal year 2005. The effects on the segment information are stated in Note 21.

4. Additional Information

On March 30, 2006, MMC agreed with DaimlerChrysler AG (DCX) as to the basic outline on which both sides would further advance their consultations regarding the discontinuance of production of the *smart forfour* model manufactured by MMC's consolidated subsidiary, Netherlands Car B.V., as well as compensation for the discontinuance of production. At present, MMC is in discussion with DCX. However, based on the Contract Manufacturing Agreement between Netherlands Car B.V. and smart gmbh which is effective until the year 2010, smart gmbh will bear annual fixed costs related to the *smart forfour*. Therefore MMC's FY2006 earnings projections are unchanged regardless of the discontinuance of the production of *smart forfour*.

5. U.S. Dollar Amounts

The U.S. dollar amounts in the accompanying consolidated financial statements are included, solely for convenience, at ¥117.47 = U.S.$1.00, the exchange rate prevailing on March 31, 2006. 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.

6. Trade Notes and 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 ¥12,359 million ($105,210 thousand) and ¥7,913 million as of March 31, 2006 and 2005, respectively. Such amounts deducted from finance receivables were ¥115,214 million ($980,800 thousand) and ¥240,317 million as of March 31, 2006 and 2005, respectively.

7. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	**2006**
Finished products	**¥164,510**	¥163,187	**$1,400,448**
Raw materials	**32,008**	25,468	**272,485**
Work in process	**61,427**	44,696	**522,918**
	¥257,946	¥233,353	**$2,195,851**

8. Property, Plant and Equipment

Property, plant and equipment at March 31, 2006 and 2005 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	**2006**
Land	**¥ 105,038**	¥ 127,449	**$ 894,176**
Buildings and structures	**320,919**	332,613	**2,731,927**
Machinery and equipment	**1,319,823**	1,350,483	**11,235,407**
Construction in progress	**20,732**	34,964	**176,490**
	1,766,514	1,845,511	**15,038,002**
Accumulated depreciation	**(1,260,506)**	(1,314,608)	**(10,730,453)**
Property, plant and equipment, net	**¥ 506,007**	¥ 530,903	**$ 4,307,548**

Asset groups for which impairment losses were recorded for the year ended March 31, 2006 were as follows:

Location	Application	Assets	In millions of yen	In thousands of U.S. dollars
			Impairment loss amount	
Illinois, USA and South Australia, Australia, (2 sites)	Assets used in production	Structures, machinery and equipment	**¥18,908**	**$160,965**
Nagakute, Aichi and Fujiidera, Osaka and others (95 sites)	Assets used in sales operations	Land, buildings and others	**20,266**	**172,524**
Sendai, Miyagi and Nara, Nara and others (9 sites)	Assets leased to others	Land, buildings and others	**2,563**	**21,821**
Tama, Tokyo and Kato, Hokkaido and others (31 sites)	Idle assets	Land, buildings and others	**3,346**	**28,485**
			¥45,084	**$383,796**

The grouping of assets are determined as follows:

Assets used in production are grouped either by manufacturing plants or operational site. Assets used in sales operations are generally grouped by operational site. Assets leased to others and idle assets have their own asset groups.

As a result of the previously listed factors that cast doubt on the ability of the MMC group to continue as a going concern, as well as significant decreases in market prices, the book value of some of the assets has been adjusted downwardly to recoverable value.

The recoverable values of assets have been obtained through comparing and then taking the highest value of: value in use, which is determined by estimating future cash flow with 6% discount rate; an appraisal value obtained from a professional real estate appraiser: and net sales value, which is calculated on a reasonable basis by using the estate tax valuations through land assessments and similar methods.

Loss on impairment of fixed assets amounted to ¥45,084 million ($383,796 thousand) as other loss, net for the year ended March 31, 2006. Losses on land and buildings at March 31, 2006 amounted to ¥20,665 million ($175,924 thousand) and ¥3,944 million ($33,578 thousand), respectively. Losses on other assets at March 31, 2006 amounted to ¥20,474 million ($174,293 thousand).

9. Investments

Other securities at March 31, 2006 and 2005 were as follows:

In millions of yen

	2006				2005			
	Acquisition cost	Carrying amount	Unrealized gains	Unrealized (losses)	Acquisition cost	Carrying amount	Unrealized gains	Unrealized (losses)
Other securities:								
Securities with market value	**¥ 9,870**	**¥25,110**	**¥15,246**	**¥(6)**	¥ 9,890	¥25,622	¥15,759	¥(27)
Securities without market value	**27,288**	**27,288**	**—**	**—**	23,178	23,178	—	—
Total other securities	**¥37,159**	**¥52,399**	**¥15,246**	**¥(6)**	¥33,068	¥48,800	¥15,759	¥(27)

	In thousands of U.S. dollars			
	2006			
	Acquisition cost	Carrying amount	Unrealized gains	Unrealized (losses)
Other securities				
Securities with market value	$ 84,029	$213,764	$129,788	$(54)
Securities without market value	232,301	232,301	—	—
Total other securities	$316,331	$446,065	$129,788	$(54)

Proceeds from sales of other securities and the corresponding gross gains and losses, which are included in other loss, net in the accompanying consolidated statements of operations for the years ended March 31, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Proceeds	¥74	¥9,477	$638
Gross gains	31	1,609	268
Gross losses	—	277	—

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 value is established. Losses recognized on the impairment of securities with market value totaled ¥2 million for the year ended March 31, 2005. However, an impairment was not incurred in the year ended March 31, 2006.

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 ¥9 million ($84 thousand) and ¥38 million for the years ended March 31, 2006 and 2005, respectively.

Investments in unconsolidated subsidiaries and affiliated companies, and investments in securities at March 31, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Investments in unconsolidated subsidiaries and affiliated companies	¥36,395	¥35,535	$309,827
Investments in securities	47,033	44,580	400,388
	¥83,429	¥80,115	$710,215

10. Accrued Expenses, Accounts Payable and Deferred Income

Accrued expenses, accounts payable and deferred income at March 31, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Accrued expenses and accounts payable	¥181,553	¥175,734	$1,545,528
Allowance for product warranties	49,589	49,859	422,143
Deferred income	3,856	22,783	32,827
Accrued bonuses	—	5,516	—
	¥234,998	¥253,893	$2,000,498

MMC's consolidated subsidiaries in Japan have not accrued any amount for employees' bonuses for FY2005 because of a change in the internal rules for the period covered. MMC's consolidated subsidiaries in Japan accrued total ¥5,021 million for employees' bonuses in FY2004.

11. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2006 and 2005 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Loans, principally from banks	¥159,254	¥236,151	$1,355,700

The weighted average interest rates on short-term borrowings at March 31, 2006 and 2005 were 4.6% and 4.6%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Loans, principally from banks and insurance companies, due through 2023 at interest rates averaging 4.4% in 2006 and 4.0% in 2005:			
Secured	¥208,962	¥173,270	$1,778,859
Unsecured	17,150	24,007	146,000
3.1% bonds due May 28, 2007 (issued May 28,1997)	8,700	8,700	74,061
3.3% bonds due May 28, 2009 (issued May 28,1997)	25,600	25,600	217,927
Euro medium-term notes due 2005 through 2006 at rates 5.0% (issued April through May, 2003)	3,745	4,243	31,882
Euro medium-term notes due 2005 through 2008 at rates 2.6% (issued 2003 through 2004)	3,000	4,000	25,538
5.7% to 6.0 % bonds due 2008 through 2009 (issued 2005 through 2006)	21,140	—	179,960
1.1% bonds due September 24, 2010 (issued September 26, 2005)	200	—	1,702
	288,498	239,821	2,455,933
Less current portion	(85,108)	(41,800)	(724,514)
	¥203,389	¥198,020	$1,731,419

(a) 3.1% bonds due May 28, 2007, 3.3% bonds due May 28, 2009, and Euro medium-term notes due through 2008 at rates 2.6% were issued by the parent company.

(b) Euro medium-term notes due through 2006 at rates 5.0% consist of notes were issued by an overseas subsidiary, MMC International Finance (Netherlands) BV. (Ending balances at FY2005 and FY2004 were 26,225 thousand euro and 30,555 thousand euro respectively).

(c) 5.7% to 6.0 % bonds due through 2009 consist of notes issued by an overseas subsidiary, Mitsubishi Motors (Thailand) Co., Ltd. (Ending balance at FY2005 was 7,000,000 thousand baht).

(d) 1.1% bonds due September 24, 2010 were issued by a domestic subsidiary, Suiryo Plastics Co., Ltd.

The maturities of long-term debt were as follows:

Year ending March 31,	In millions of yen	In thousands of U.S. dollars
2007	¥ 85,108	$ 724,514
2008	74,884	637,479
2009	73,997	629,927
2010	50,660	431,261
2011	1,982	16,875
Thereafter	1,864	15,875
Total	¥288,498	$2,455,933

Assets pledged as collateral for short-term borrowings, long-term debt and guarantees (excluding factory related groups of assets) at March 31, 2006 and 2005 are as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Trade notes and accounts receivable	¥ 14,129	¥ 15,711	$ 120,281
Inventories	55,956	52,712	476,346
Finance receivables	32,080	21,018	273,091
Investments	3,341	500	28,447
Property, plant and equipment, net	202,879	211,908	1,727,075
Other (see (i) below)	81,608	79,840	694,716
	¥389,995	¥381,691	$3,319,959

(i) ¥687 million of other current assets are pledged based on an encumbrance from a term lease contract of building with Murata Medical Services, Ltd.

The following groups of assets of the parent company, the Okazaki factory, were pledged as collateral at March 31, 2006.

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Buildings and structures	¥11,038	¥11,871	$ 93,966
Machinery and equipment	4,124	8,884	35,107
Land	985	985	8,393
	¥16,148	¥21,741	$137,466

The following groups of assets of the parent company, the Mizushima factory, were pledged as collateral for the debt from The Japan Bank for International Cooperation to EQUUS Leasing B.V., a counterparty of Netherlands Car B.V., a consolidated subsidiary, at March 31, 2006 and 2005, respectively. The amounts guaranteed to EQUUS were ¥15,600 million ($132,799 thousand) and ¥14,353 million at March 31, 2006 and 2005, respectively.

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Buildings and structures	¥ 5,375	¥ 5,003	$ 45,762
Machinery and equipment	25,704	22,066	218,813
Land	2,008	2,008	17,100
	¥33,088	¥29,078	$281,677

The following groups of assets of the parent company, the Kyoto factory, were pledged as collateral at March 31, 2006 and 2005, respectively.

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Buildings and structures	¥ 7,347	¥ 7,250	$ 62,545
Machinery and equipment	13,622	15,222	115,963
Land	2,275	2,137	19,367
	¥23,244	¥24,610	$197,876

The following groups of assets of the parent company, the Shiga factory, were pledged as collateral at March 31, 2006 and 2005, respectively.

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Buildings and structures	¥ 3,251	¥ 3,426	$ 27,680
Machinery and equipment	10,599	11,940	90,229
Land	3,859	3,859	32,855
	¥17,710	¥19,226	$150,764

The following groups of assets of a consolidated subsidiary, Pajero Manufacturing Corporation, were pledged as collateral at March 31, 2006 and 2005, respectively.

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Buildings and structures	¥3,181	¥3,424	$27,080
Machinery and equipment	2,130	2,585	18,136
Land	1,540	1,540	13,109
	¥6,851	¥7,549	$58,326

The following groups of assets of a consolidated subsidiary, Suiryo Plastics Co., Ltd., were pledged as collateral at March 31, 2006 and 2005, respectively.

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Buildings and structures	¥1,053	¥1,123	$ 8,966
Machinery and equipment	1,248	944	10,628
Land	194	194	1,655
	¥2,496	¥2,261	$21,250

The obligations secured by such collateral at March 31, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Short-term borrowings	¥ 87,729	¥210,011	$ 746,827
Current portion of long-term debt	71,270	27,889	606,712
Long-term debt	137,692	145,380	1,172,147
Total short-term borrowings and Long-term debt	¥296,692	¥383,281	$2,525,687

12. 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 the 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.

MMC is authorized to issue 3,312,000 shares of convertible preferred stock that are classified as Series A, B and G (3 to 4 times in each series), and has 442,593 shares outstanding at March 31, 2006.

The holders of each series of convertible preferred stock are not entitled to voting rights, but the holders of Series A and G (except for Series B) are entitled to preferred stock dividends of ¥50,000 per share each year after April 2009.

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

13. Contingent Liabilities

Loan guarantees given in the ordinary course of business amounted to ¥5,274 million ($44,903 thousand) and ¥6,008 million at March 31, 2006 and 2005, respectively. Agreements similar to guarantees given in the ordinary course of business amounted to ¥3,215 million ($27,374 thousand) and ¥3,449 million at March 31, 2006 and 2005, respectively.

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Sales promotion and advertising	¥121,453	¥132,727	$1,033,908
Freight	21,177	19,757	180,276
Bad debts expense	1,041	4,602	8,866
Salaries and wages	80,588	86,906	686,035
Pension expenses	5,382	4,348	45,820
Severance payments to directors and corporate auditors	649	796	5,528
Depreciation	19,003	14,150	161,777
Research and development	60,345	68,775	513,707
Others	103,118	111,011	877,830
Total	¥412,760	¥443,076	$3,513,750

15. Other Loss, Net

Other loss, net for the years ended March 31, 2006 and 2005 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Gain on sales of investments in securities	¥ 130	¥ 1,331	$ 1,114
Gain (loss) on sales and disposal of property, plant and equipment and intangible assets	1,862	(16,189)	15,854
Income (loss) from affiliated companies	1,453	(13,002)	12,374
Severance payments for early retirement	(3,183)	(16,283)	(27,101)
Amortization of consolidation goodwill	767	1,441	6,537
Provision for losses on restructuring	(14,766)	(29,530)	(125,708)
Litigation expenses	(5,732)	(3,184)	(48,803)
Foreign exchange losses	(3,395)	(2,007)	(28,905)
Extraordinary measure expenses	—	(25,247)	—
Stock issuance costs	(295)	(12,854)	(2,513)
Loss compensation based on stocks transfer contracts	(1,186)	(74,736)	(10,104)
Other	(5,623)	(40,044)	(47,870)
	¥(29,969)	¥(230,304)	$(255,125)

16. Cash Flow Information

Cash and cash equivalents at March 31, 2006 and 2005 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Cash and bank deposits	¥259,045	¥307,474	$2,205,202
Time deposits with maturities of three months or more	(16,331)	(16,791)	(139,027)
Short-term investments maturing within three months from the acquisition date	5,355	4,220	45,491
Cash and cash equivalents	¥248,069	¥294,903	$2,111,767

Interest paid less interest received and dividends received within operating activities in the consolidated statements of cash flows for the years ended March 31, 2006 and 2005 amounted to a net expense of ¥12,603 million ($107,291 thousand) and ¥15,927 million, respectively. Income taxes paid for the years ended March 31, 2006 and 2005 amounted to ¥2,680 million ($22,814 thousand) and ¥4,675 million, respectively.

Purchases of property, plant and equipment within investing activities in the consolidated statements of cash flows for the years ended March 31, 2006 and 2005 included payments for the acquisition of lease vehicles of ¥8,904 million ($75,801 thousand) and ¥16,061 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, 2006 and 2005 included proceeds from sale of lease vehicles of ¥16,323 million ($138,958 thousand) and ¥36,276 million, respectively.

Changes in finance receivables within operating activities in the consolidated statements of cash flows for the years ended March 31, 2006 and 2005 are primarily the net of payments amounting to ¥89,546 million ($762,289 thousand) and ¥95,011 million, respectively, and proceeds from collections amounting to ¥96,441 million ($820,984 thousand) and ¥223,580 million, respectively.

17. Leases

As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation, impairment losses, and net book value of the leased assets as of March 31, 2006, which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance lease 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, impairment losses, and related net book value of such finance lease assets:

	In millions of yen						
	2006				2005		
	Notional equivalent acquisition cost	Notional equivalent accumulated depreciation	Notional equivalent impairment loss	Notional equivalent net book value	Notional equivalent acquisition cost	Notional equivalent accumulated depreciation	Notional equivalent net book value
Tools and equipment	¥36,950	¥21,843	¥20	¥15,086	¥31,275	¥23,033	¥ 8,242
Others	5,507	3,215	17	2,273	5,372	2,432	2,940
Total	¥42,458	¥25,059	¥38	¥17,360	¥36,648	¥25,466	¥11,182

	In thousands of U.S. dollars			
	2006			
	Notional equivalent acquisition cost	Notional equivalent accumulated depreciation	Notional equivalent impairment loss	Notional equivalent net book value
Tools and equipment	$314,554	$185,950	$172	$128,431
Others	46,882	27,375	153	19,353
Total	$361,437	$213,325	$325	$147,785

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

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Due within 1 year	¥11,105	¥ 7,350	$ 94,536
Due after 1 year	11,824	9,933	100,660
Total	¥22,929	¥17,283	$195,197

The balance of impairment provision relating to leased assets is ¥25 million ($218 thousand) at March 31, 2006.

(c) Lease payment expense, reversal of impairment provision relating to leased assets, notional depreciation expense, notional interest expense and impairment loss of such finance leases:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Lease payment expense	¥9,570	¥10,156	$81,471
Reversal of impairment provisions relating to leased assets	12	—	107
Notional depreciation expense	8,747	8,483	74,463
Notional interest expense	498	522	4,243
Impairment loss	38	—	325

(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, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Due within 1 year	¥15,596	¥15,456	$132,771
Due after 1 year	30,294	46,697	257,891
Total	¥45,891	¥62,153	$390,662

As lessor

Future minimum lease revenues from operating lease transactions entered into by MMC and its consolidated subsidiaries as lessor at March 31, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Due within 1 year	¥14,508	¥20,741	$123,504
Due after 1 year	15,279	22,215	130,072
Total	¥29,787	¥42,956	$253,576

18. Derivative Financial Instruments

(a) Nature of and policy for derivative transactions

MMC and its 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 its consolidated subsidiaries do not utilize derivatives for speculation or trading purposes.

(b) Risk

MMC and its 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 (pay-floating/receive-fixed) 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 Headquarters. 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 Headquarters.

Summarized below are the notional amounts and the estimated fair values (based on the prices provided by counterparty financial institutions) of the derivative positions, except for those accounted for under the special hedge provisions, outstanding at March 31, 2006 and 2005:

[Forward foreign exchange contracts]

In millions of yen

	2006			2005		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell:						
U.S. $	¥18,596	¥19,523	¥ (927)	¥14,033	¥13,867	¥ 166
Euro	48,999	47,676	1,323	18,328	18,690	(362)
£ stg	1,420	1,518	(98)	2,284	2,351	(66)
Canadian $	—	—	—	967	1,034	(66)
Australian $	9,704	9,845	(141)	2,920	3,172	(251)
Japanese ¥	19,812	17,023	2,789	13,444	13,199	245
Buy:						
Japanese ¥	12,714	12,392	(322)	10,950	10,900	(49)
Total			¥2,623			¥(385)

In thousands of U.S. dollars

	2006		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
U.S. $	$158,304	$166,196	$ (7,891)
Euro	417,126	405,856	11,269
£ stg	12,091	12,927	(836)
Canadian $	—	—	—
Australian $	82,608	83,813	(1,204)
Japanese ¥	168,664	144,921	23,742
Buy:			
Japanese ¥	108,236	105,493	(2,743)
Total			$22,336

[Cross currency swaps]

	In millions of yen					
			2006			2005
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Cross currency swaps:						
Pay-JPY receive — U.S. $	¥722	¥ 5	¥ 5	¥2,166	¥(16)	¥(16)
Pay-THB receive — U.S. $	711	102	102	3,157	1	1
Total			¥108			¥(15)

	In thousands of U.S. dollars		
			2006
	Notional amount	Fair value	Unrealized gain (loss)
Cross currency swaps:			
Pay-JPY receive — U.S. $	$6,149	$ 48	$ 48
Pay-THB receive — U.S. $	6,055	871	871
Total			$920

All cross currency swaps have maturities within one year.

[Interest rate swaps]

	In millions of yen					
			2006			2005
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:						
Pay-fixed, receive-floating	¥41,556	¥181	¥181	¥129,869	¥113	¥113
Pay-floating, receive-fixed	6,696	(30)	(30)	61,428	139	139
Total			¥150			¥252

	In thousands of U.S. dollars		
			2006
	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Pay-fixed, receive-floating	$353,763	$1,542	$1,542
Pay-floating, receive-fixed	57,008	(261)	(261)
Total			$1,280

Included in interest rate swaps above, are contracts with maturities over one year with notional amounts of ¥283 million ($2,410 thousand) and ¥103,008 million as at March 31, 2006 and 2005, respectively.

						In millions of yen
			2006			2005
	Within 1 year	From 1 year to 3	Over 3 years	Within 1 year	From 1 year to 3	Over 3 years
Pay-fixed, receive-floating						
Notional amount	¥41,556	—	—	¥57,728	¥72,140	—
Average pay-fixed rate (%)	3.2	—	—	3.6	3.1	—
Average receive-floating rate (%)	4.9	—	—	4.1	4.6	—
Pay-floating, receive-fixed						
Notional amount	¥ 6,413	¥283	—	¥30,560	¥30,868	—
Average pay-floating rate (%)	5.2	6.9	—	—	—	—
Average receive-fixed rate (%)	3.9	4.7	—	—	—	—

The method to determine fair value is based on quotations obtained from financial institutions.

Derivative financial instruments, principally forward exchange contracts and interest swaps, that qualify as hedges and are accounted for using the deferred hedge accounting method are excluded from the above table according to the disclosure requirements.

19. 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 retirement benefits are paid in certain cases upon an employee's retirement. Certain foreign consolidated subsidiaries have defined contribution pension plans. At March 31, 2006, MMC and its consolidated subsidiaries have 8 funds for contributory plans in accordance with the Welfare Pension Insurance Law, and 39 funds for tax-qualified plans. MMC and 44 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, 4.6%–5.8% for its foreign consolidated subsidiaries, and 1.5%–2.5% for MMC and its domestic consolidated subsidiaries, 6.0%–6.3% for its foreign consolidated subsidiaries at March 31, 2006 and 2005, respectively. The rate of return on plan assets assumed was 0.8%–4.0% for MMC and its domestic consolidated subsidiaries, 6.7%–8.5% for its foreign consolidated subsidiaries, and 0.8%–4.0% for MMC and its domestic consolidated subsidiaries, 8.0%–8.5% for its foreign consolidated subsidiaries for the year ended March 31, 2006 and 2005, respectively.

Prior service cost is being amortized using the straight line method over periods of 5 to 21 years, and 10 to 21 years for the years ended March 31, 2006 and 2005, respectively. These periods are within the estimated average remaining service years of the employees.

Actuarial gains and losses are being amortized using the straight line method over the periods of 5 to 21 years and 10 to 21 years for the years ended March 31, 2006 and 2005, respectively. These periods are within the estimated average remaining service years of the employees.

The retirement benefit obligation for MMC and its consolidated subsidiaries' employees' defined benefit plans at March 31, 2006 and 2005 are summarized as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Retirement benefits obligation	¥(187,638)	¥(173,805)	$(1,597,333)
Pension plan assets at fair value	66,251	45,628	563,983
Unfunded status	(121,387)	(128,177)	(1,033,350)
Unrecognized actuarial losses	10,236	20,362	87,141
Unrecognized prior service costs	12,040	11,449	102,500
Net recognized retirement benefits obligation	(99,110)	(96,365)	(843,708)
Prepaid pension premiums	3,677	2,929	31,305
Accrued retirement benefits	¥(102,787)	¥ (99,295)	$ (875,013)

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 ¥9,529 million ($81,125 thousand) and ¥3,708 million at March 31, 2006 and 2005, respectively.

Some of the consolidated subsidiaries adopt the simplified method for the calculation of retirement benefits obligation.

Pension expenses for MMC and its consolidated subsidiaries' employees' retirement defined benefit plans for the years ended March 31, 2006 and 2005 are as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 9,444	¥ 9,086	$ 80,395
Interest cost	4,351	4,803	37,046
Expected return on plan assets	(3,267)	(2,158)	(27,816)
Amortization of actuarial losses	3,102	781	26,414
Amortization of prior service costs	716	708	6,098
Others	—	428	—
Pension expenses	¥14,347	¥13,650	$122,137

In addition to the above pension expenses, additional retirement benefits of ¥3,183 million ($27,101 thousand) and ¥16,283 million were paid and recorded as other loss, net during the years ended March 31, 2006 and 2005, respectively.

Pension expenses of consolidated subsidiaries that adopt the simplified method are included in service cost.

20. Income Taxes

MMC and its domestic consolidated subsidiaries are subject to corporate, resident and enterprise taxes based on their taxable income. Income taxes of the foreign consolidated subsidiaries are generally calculated based on the tax rates applicable in their countries of incorporation. The consolidated tax payment system is applied at March 31, 2006 and 2005.

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

		(%)
	2006	2005
Statutory income tax rate for MMC	Due to loss before income taxes and minority interest, the information is omitted from the notes.	40.3
Increase in valuation allowance, effect of use of loss carry forwards and similar items		(42.4)
Income from affiliates accounted for by the equity method		1.1
Amortization of consolidation goodwill		(0.1)
Increase by tax effect of overseas subsidiaries and similar		1.1
Expenses not deductible for income taxes purposes		(0.1)
Income on sales of affiliates		0.1
Other		4.3
Income taxes as a percentage of loss before income taxes and minority interest		4.3

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Net operating loss carry forward	¥ 183,201	¥ 308,079	$ 1,559,557
Accrued retirement benefits	45,561	41,411	387,858
Allowance for doubtful accounts	25,264	31,270	215,069
Allowance for product warranties	18,583	13,339	158,198
Accounts payable — warranties	14,359	19,468	122,235
Impairment losses	42,799	31,054	364,341
Others	77,861	85,931	662,820
Less valuation allowance	(351,425)	(483,085)	(2,991,617)
Total deferred tax assets	56,205	47,468	478,464
Deferred tax liabilities:			
Reserves under the Special Taxation Measures Law	(436)	(1,486)	(3,716)
Unrealized holding gain on securities	(6,022)	(6,145)	(51,270)
Fair value adjustments relating to land in consolidated subsidiaries	(6,149)	(5,921)	(52,353)
Accelerated depreciation in overseas consolidated subsidiaries	(41,627)	(30,448)	(354,363)
Other	(11,685)	(12,393)	(99,475)
Total deferred tax liabilities	(65,921)	(56,396)	(561,180)
Net deferred tax assets	¥ (9,716)	¥ (8,927)	$ (82,716)

Deferred tax assets and liabilities at March 31, 2006 and 2005 are included in the accompanying consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Current assets	¥ 1,206	¥ 1,799	$ 10,270
Investments and other assets	7,413	6,730	63,113
Current liabilities	(86)	(100)	(733)
Non-current liabilities	(18,251)	(17,357)	(155,367)
Net deferred tax assets	¥ (9,716)	¥ (8,927)	$ (82,716)

21. Segment Information

(a) Business segments

The business segment information for MMC and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are summarized as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Net sales:			
Automobiles	¥2,080,883	¥2,086,053	$17,714,167
Financial services	39,183	40,193	333,564
Total	2,120,067	2,126,246	18,047,731
Intersegment	1	(3,619)	9
Consolidated	¥2,120,068	¥2,122,626	$18,047,741
Operating income (loss):			
Automobiles	¥ (6,142)	¥ (104,305)	$ (52,292)
Financial services	10,418	(21,066)	88,693
Total	4,276	(125,371)	36,400
Intersegment	2,507	(3,172)	21,347
Consolidated	¥ 6,783	¥ (128,544)	$ 57,748
Total assets:			
Automobiles	¥1,453,123	¥1,601,183	$12,370,165
Financial services	127,607	273,412	1,086,302
Total	1,580,731	1,874,595	13,456,467
Corporate and eliminations	(23,161)	(285,309)	(197,166)
Consolidated	¥1,557,570	¥1,589,286	$13,259,301
Depreciation:			
Automobiles	¥ 60,944	¥ 75,258	$ 518,808
Financial services	8,541	22,226	72,713
Consolidated	¥ 69,486	¥ 97,484	$ 591,521
Capital expenditures:			
Automobiles	¥ 119,460	¥ 128,592	$ 1,016,948
Financial services	8,904	16,061	75,801
Consolidated	¥ 128,365	¥ 144,653	$ 1,092,749

Notes: 1. Segments are divided by sector and by market.
2. Major products by business segment
Automobiles . . . . Passenger cars
Financial services . . . . . Sales-finance products
3. Changes in accounting policies;
(1) Accounting Standard for Impairment of Fixed Assets
As a result of the change, the assets of the automobiles segment decreased by ¥26,176 million ($222,832 thousand) compared with using the earlier method.
(2) Accounting Standard for Retirement Benefits
The effect of the adoption of this change in accounting policy for retirement benefits was insignificant in operating income (loss) for FY2005 in the automobiles segment.

(b) Geographical segments

The geographical segment information for MMC and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are summarized as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Net sales:			
Japan	¥1,352,182	¥1,258,275	$11,510,877
North America	401,229	435,311	3,415,587
Europe	597,585	670,218	5,087,135
Asia	228,498	198,554	1,945,168
Other areas	166,247	160,677	1,415,235
Total	2,745,744	2,723,037	23,374,003
Interarea	(625,675)	(600,411)	(5,326,261)
Consolidated	¥2,120,068	¥2,122,626	$18,047,741
Operating income (loss):			
Japan	¥ (10,857)	¥ (73,561)	$ (92,426)
North America	(3,891)	(74,256)	(33,124)
Europe	9,288	(192)	79,074
Asia	15,220	21,602	129,565
Other areas	(5,031)	(11,448)	(42,832)
Total	4,728	(137,857)	40,255
Interarea	2,054	9,313	17,493
Consolidated	¥ 6,783	¥ (128,544)	$ 57,748
Total assets:			
Japan	¥1,130,673	¥1,188,913	$ 9,625,211
North America	315,155	309,933	2,682,856
Europe	198,625	194,170	1,690,859
Asia	164,609	101,681	1,401,286
Other areas	73,948	74,898	629,506
Total	1,883,011	1,869,598	16,029,720
Interarea	(325,441)	(280,312)	(2,770,419)
Consolidated	¥1,557,570	¥1,589,286	$13,259,301

Notes: 1. Geographical segments are classified by the region of the consolidated Mitsubishi Motors entity primarily involved in the transaction, both local sales and exports. The figures are not classified by the region of the wholesaler or end users. National and regional groupings are by geographical proximity and mutual relevance of business activities.
2. Main countries and regions outside Japan are grouped as follows:
(1) North America ..... United States, Puerto Rico
(2) Europe .... The Netherlands, Italy, Germany
(3) Asia .... Thailand, Malaysia, Taiwan
(4) Other .... Australia, New Zealand, U.A.E.
3. Changes in Accounting Policies;
(1) Accounting Standard for Impairment of Fixed Assets
As a result of the change, the assets in Japan decreased by ¥26,176 million ($222,832 thousand) compared with using the earlier method.
(2) Accounting Standard for Retirement Benefits
The effect of the adoption of this change in accounting policy for retirement benefits was insignificant in operating income (loss) of FY2005 in Japan.

(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, 2006 and 2005 are summarized as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	2006
Overseas sales:			
North America	¥ 415,614	¥ 441,441	$ 3,538,045
Europe	586,167	667,778	4,989,931
Asia	235,775	258,331	2,007,114
Other areas	378,357	342,184	3,220,887
Total	¥1,615,914	¥1,709,736	$13,755,978
Consolidated sales	¥2,120,068	¥2,122,626	$18,047,741

	2006	2005
Overseas sales as a percentage of consolidated sales:		
North America	19.6%	20.8%
Europe	27.7	31.4
Asia	11.1	12.2
Other areas	17.8	16.1
Total	76.2	80.5

Notes: 1. National and regional groupings are by geographical proximity and mutual relevance of business activities.
2. Main countries and regions outside Japan are grouped as follows;
(1) North America ..... United States, Puerto Rico
(2) Europe .... The Netherlands, Italy, Germany
(3) Asia .... Thailand, Malaysia, Taiwan
(4) Other .... Australia, New Zealand, U.A.E
3. Overseas sales are classified by the region of the wholesaler or end users. The figures consist of sales outside of Japan of MMC and its consolidated subsidiaries.

22. Related Party Transactions

MMC entered into the following transactions with related parties during the years ended March 31, 2006 and 2005:

	March 31, 2006	
	(a)	(b)
Party type:	Main stockholder	Main stockholder
Party name:	DaimlerChrysler AG	Mitsubishi Corporation
Address:	Stuttgart, Germany	Chiyoda-Ku, Tokyo, Japan
Capital:	Euro 2,649 million	¥197,817 million
Business:	Manufacturing and sales of passenger cars and other transportation equipment	Wholesale trading
% of voting stock held:	—	Direct 14.1
Concurrent board appointment:	—	1 concurrent member, 2 permanently transferred to MMC
Business relationship:	International alliances for research, development, production, sales and similar for passenger cars	Trading partner
Detail of transaction:	Loss compensation based on Mitsubishi Fuso Truck and Bus Corporation stock transfer contract	Capital injection
Transaction amount:	—	¥30,000 million ($255,384 thousand)
Account title:	Accrued expenses, accounts payable and deferred income (see (ii)and (iii) below)	Preferred stock and Capital surplus (see (i) below)

(i) The capital injection was a third party allocation of preferred stock and decided by negotiation.
The balances at year end were ¥15,000 million ($127,692 thousand) in preferred stock and ¥15,000 million ($127,692 thousand) in capital surplus.

(ii) The loss compensation based on stock transfer contract was decided by negotiation based on Mitsubishi Fuso Truck and Bus Corporation's net assets.

(iii) DaimlerChrysler AG no longer qualifies as a related party as of November 11, 2005. The transaction amount above is based on the period when DaimlerChrysler AG qualified as a related party, and the ending balance at the time of DaimlerChrysler's withdrawal was ¥23,858 million ($203,103 thousand).

	March 31, 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 management board member
Business relationship:	International alliances for research, development, production, sales and similar for passenger cars
Detail of transaction:	Loss compensation based on Mitsubishi Fuso Truck and Bus Corporation stock transfer contract
Transaction amount:	¥64,212 million
Account title:	Accrued expenses, accounts payable and deferred income (see (i) below)

(i) The terms and conditions of the above transaction were decided by negotiation based on Mitsubishi Fuso Truck and Bus Corporation's net assets.
The balance at year end was ¥23,249 million.

23. Losses and Equity Per Share

Net loss and equity per share of common stock for the years ended March 31, 2006 and 2005 are summarized as follows:

	In yen		In U.S. dollars
	2006	2005	**2006**
Net loss per share of common stock			
Basic	**¥(19.75)**	¥(194.36)	**$(0.17)**
Diluted	**—**	—	**—**
Stockholders' equity per share of common stock	**(31.67)**	(47.34)	**(0.27)**

Diluted amounts per share of common stock are not included for the year ended March 31, 2006 and 2005 due to the net loss recorded.

The computations of net loss per share of common stock for the year ended March 31, 2006 and 2005 are as follows:

	In millions of yen		In thousands of U.S. dollars
	2006	2005	**2006**
Numerator for basic net loss per share of common stock:			
Net loss	**¥(92,166)**	¥(474,785)	**$(784,596)**
Income not available to common stockholders	**—**	—	**—**
Loss available to common stockholders	**¥(92,166)**	¥(474,785)	**$(784,596)**
Denominator for net loss per share of common stock:			
Weighted average number of shares (in thousands)	**4,666,018**	2,442,865	**4,666,018**

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, 2006 and 2005, 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, 2006 and 2005, 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

(1) As described in Note 1, Going Concern, the Company recorded large net consolidated losses of ¥215,424 million and ¥474,785 million in fiscal years ("FY") 2003 and 2004. In FY2005, the MMC group has also recorded a net loss of ¥92,166 million ($784,596 thousand). 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.

(2) As described in Note 3, Changes in Accounting Policies, the accounting standard for impairment of fixed assets, which was effective this fiscal year, was adopted for the year ended March 31, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 5.

Tokyo, Japan
June 23, 2006

Consolidated Subsidiaries and Affiliates

(As of March 31, 2006)

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.	150	Automobile sales	100.0
Iwate Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Fukushima 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.	100	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
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	100.0
Shin Yamaguchi Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Iyo Mitsubishi Motors Sales Co., Ltd.	204	Automobile sales	99.9
Uwajima Mitsubishi Motors Sales Co., Ltd.	30	Automobile sales	100.0 (46.7)
Matsuyama Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Miyazaki Chuo Mitsubishi Motors Sales Co., Ltd.	40	Automobile sales	100.0
Nagasaki Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Kagoshima Chuo Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	99.4
Hokkaido Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	90.0 (45.0)
Tohoku Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	64.3 (15.9)
Kita Kanto Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	75.0 (25.0)
Kanto Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	96.8 (36.2)
Higashi Kanto Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	56.0 (10.0)
Shinetsu Mitsubishi Motors Parts Sales Co., Ltd.**	100	Automobile parts sales	50.0 (15.0)
Hokuriku Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	65.8 (21.5)
Chugoku Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	73.1 (29.6)
Shikoku Mitsubishi Motors Parts Sales Co., Ltd.**	100	Automobile parts sales	50.0 (8.0)
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 (%)*
Mitsubishi Motors North America, Inc. (MMNA)	U.S.A.	USD	398.8	Automobile importing, manufacturing, sales	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 Motor Sales of Canada, Inc. (MMSCAN)	Canada	USD	1.3	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motors Credit of America, Inc. (MMCA)	U.S.A.	USD	260.0	Automobile financing, leasing	100.0 (100.0)
Mitsubishi Motor Sales of Caribbean, Inc. (MMSC)	Puerto Rico	USD	47.5	Automobile importing, sales	100.0
Mitsubishi Motors Europe B.V. (MME)	Netherlands	EUR	1,282.9	Importing, 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)
MMC Automoviles Espana S.A.	Spain	EUR	1.2	Automobile importing, sales	75.0 (75.0)
Mitsubishi Motors France S.A.S.	France	EUR	60.7	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motors Belgium nv	Belgium	EUR	3.0	Automobile importing, sales	100.0 (100.0)
MME Vertriebsgesellshaft Schweiz AG	Switzerland	EUR	0.1	Automobile importing, sales	100.0 (100.0)
MMC International Finance (Netherlands) B.V.	Netherlands	EUR	0.1	Procurement of funds, group company financing	100.0
Netherlands Car B.V. (NedCar)	Netherlands	EUR	250.0	Manufacturing, sales of automobiles and parts	100.0 (15.0)
Mitsubishi Motors Australia, Ltd. (MMAL)	Australia	AUD	1,239.9	Automobile importing, assembly, 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 (Thailand) Co., Ltd. (MMTh)	Thailand	THB	7,000.0	Automobile importing, assembly, sales	99.8
MMTH Engine Co., Ltd.	Thailand	THB	20.0	Manufacturing of automobile engines	100.0 (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	Manufacturing of automobile transmissions	84.7 (79.4)
Mitsubishi Motor Parts Sales of Gulf FZE	UAE	UAD	10.0	Importing, sales of automobile panels	100.0

Note: MMC has 27 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
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 Corporation	Vietnam	USD	16.0	Manufacture and marketing of automobiles and parts	25.0

Note: MMC has 10 other equity method affiliates outside Japan in addition to the above.

OTHER ASSOCIATED COMPANIES

Company	Capitalization (In millions of yen)	Business Lines	Share of Voting Rights in MMC (%)*	Relationship
Mitsubishi Heavy Industries, Ltd.	265,608	Shipbuilding & ocean systems development, power systems, machinery & steel structures, aerospace, mass and medium-lot manufactured machinery and others	15.8 (0.5)	Supplier of parts for MMC products

* 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.

Investor Information

(As of March 31, 2006)

Company Name	MITSUBISHI MOTORS CORPORATION
Head Office	2-16-4, Konan, Minato-ku, Tokyo 108-8410, Japan (Scheduled to relocate to 5-33-8, Shiba, Minato-ku, Tokyo in January 2007) Telephone: +81-3-6719-2111 Fax: +81-3-6719-0014
Established	April 22, 1970
Capital	¥657,336,963,926
Number of Employees	34,911 (Consolidated) 12,109 (Non-consolidated)
Stock Listings	Tokyo Stock Exchange and Osaka Securities Exchange
Securities Code	7211
Share Trading Unit	1,000
Number of Shares Outstanding	5,491,895,137
Number of Shareholders	427,415

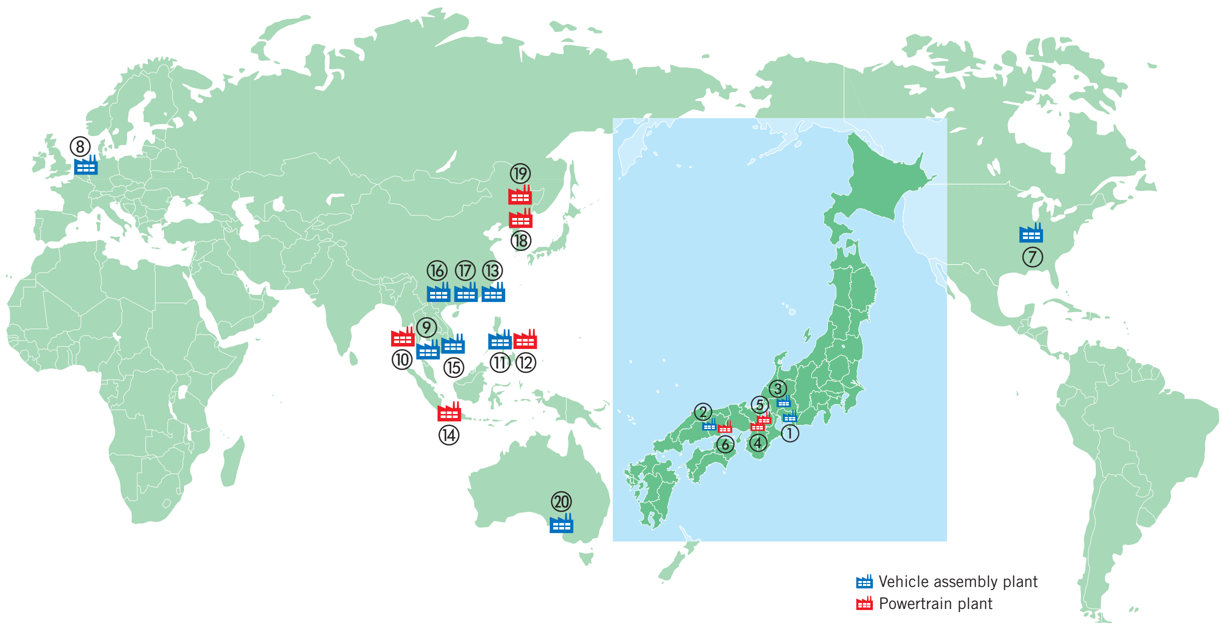
Type	Number of issued shares	Number of stockholders
COMMON SHARES	5,491,452,544	427,395
PREFERRED SHARES		
First Series Class A	73,000	4
Second Series Class A	30,000	8
Third Series Class A	1,000	1
First Series Class G	130,000	2
Second Series Class G	168,393	3
Third Series Class G	10,200	1
Fourth Series Class G	30,000	1
Total	5,491,895,137	427,415

Major Shareholders

Name	Number of shares held (thousands)	% of total
Mitsubishi Heavy Industries, Ltd.	839,942	15.3
Mitsubishi Corporation	774,768	14.11
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	268,763	4.89
The Master Trust Bank of Japan, Ltd. (Trust account)	44,639	0.81
Japan Trustee Services Bank, Ltd. (Trust account)	42,041	0.76
Mitsubishi UFJ Trust and Banking Corporation (Trust account)	33,755	0.61
Mitsubishi UFJ Trust and Banking Corporation	32,106	0.58
Citibank Hong Kong BBG Client Hong Kong	26,652	0.49
Nomura Securities Co., Ltd.	20,464	0.37
Daiwa Securities Co., Ltd.	18,898	0.34
Total	2,102,028	38.26

Transfer Agent and Register	Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo, Japan (Contact) Mitsubishi UFJ Trust and Banking Corporation Transfer Agent 1-7-7, Nishi-Ikebukuro, Toshima-ku, Tokyo, Japan Toll-free telephone 0120-707-696

Principal Plants



Country/Region	Name	Major Products
Japan	① Nagoya Plant–Okazaki	Colt, Colt Plus, Grandis
	② Mizushima Plant	Outlander, Lancer, i, eK Wagon, Minicab
	③ Pajero Manufacturing Co., Ltd.	Pajero (Montero)
	④ Powertrain Plant–Kyoto	Engines
	⑤ Powertrain Plant–Shiga	Engines
	⑥ Powertrain Plant–Mizushima	Engines, transmissions
U.S.A.	⑦ Mitsubishi Motors North America, Inc. (MMNA)	Eclipse, Galant, Endeavor, Eclipse Spyder
Netherlands	⑧ Netherlands Car B.V. (NedCar)	Colt (European model)
Thailand	⑨ Mitsubishi Motors (Thailand) Co., Ltd. (MMTh)	Triton, Strada, Lancer, Spacewagon (Grandis)
	⑩ MMTH Engine Co., Ltd. (MEC)	Engines
Philippines	⑪ Mitsubishi Motors Philippines Corporation (MMPC)	Adventure, Delica, Pajero (Montero)
	⑫ Asian Transmission Corporation (ATC)	Transmissions
Taiwan	⑬ China Motor Corporation (CMC)	Galant, Lancer, Savrin (Chariot Grandis), Zinger, Grunder
Indonesia	⑭ P.T. Mitsubishi Krama Yudha Motors and Manufacturing (MKM)	Engines, parts
Vietnam	⑮ Vina Star Motors Corporation (VSM)	Pajero (Montero), Lancer, Joly, Grandis
China	⑯ Hunan Changfeng Motor Co., Ltd. (CFA)	Pajero (Montero), Liebao (old Pajero), Liebao Feiteng (Pajero iO)
	⑰ South East (Fujian) Motor Co., Ltd. (SEM)	Lancer, Spacewagon (Chariot Grandis), Delica, Freeca, Veryca
	⑱ Shenyang Aerospace Mitsubishi Motors Engine Manufacturing, Co., Ltd. (SAME)	Engines
	⑲ Harbin Dongan Automotive Engine Manufacturing, Co., Ltd. (HDMC)	Engines, transmissions
Australia	⑳ Mitsubishi Motors Australia, Ltd. (MMAL)	380

MITSUBISHI MOTORS

MITSUBISHI MOTORS CORPORATION
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Printed in Japan