MITSUBISHI MOTORS CORPORATION

# ANNUAL REPORT 2008

*Year ended March 31, 2008*


## PAVING THE WAY *for* GROWTH

Drive@earth

MITSUBISHI MOTORS

## 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 satisfying 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

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

### Going the extra mile

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

### Importance of continuity

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

### Contents



## Drive@earth

First, Drive@earth means that automobiles connect us to the world. Mitsubishi's 4WD legacy has catapulted a generation of drivers to every corner of the earth, from desert dunes to city streets. Rally-tested toughness, performance and reliability make Mitsubishi Motors a trusted name on five continents. Through this trust, Mitsubishi vehicles forge a connection to customers, to communities, and ultimately to the natural world around us.

Second, Drive@earth means a new emphasis on environmental issues. It is the simple recognition that no enterprise—automotive or otherwise—makes sense without the context of a healthy planet. With climate change and dwindling oil reserves on the minds of drivers around the world, automakers have a special responsibility. MMC sets as its ideal the synergy between dynamic and environmental performance, and will continue to develop technologies—such as the zero-emissions *i MiEV* electric vehicle—that show as much care for the environment outside as for the occupants within.

**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 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.

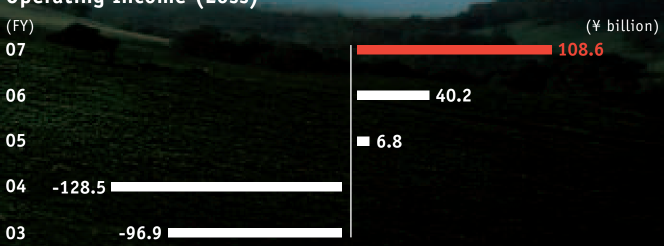
# Consolidated Financial Summary

| | FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2007 |
|---|---|---|---|---|---|---|
| | | | | | In millions of yen | In thousands of U.S. dollars |
| **For the year:** | | | | | | |
| Net sales | ¥2,519,449 | ¥2,122,626 | ¥2,120,068 | ¥2,202,869 | ¥2,682,103 | $26,770,169 |
| Operating income (loss) | (96,852) | (128,544) | 6,783 | 40,237 | 108,596 | 1,083,904 |
| Income (loss) before income taxes and minority interest | (77,173) | (460,906) | (82,745) | 23,104 | 48,151 | 480,599 |
| Net income (loss) | (215,424) | (474,785) | (92,166) | 8,745 | 34,710 | 346,447 |
| | | | | | In yen | In U.S. dollars |
| **Per share data:** | | | | | | |
| Net income | ¥(145.22) | ¥(194.36) | ¥(19.75) | ¥1.59 | ¥6.30 | $0.06 |
| Diluted | — | — | — | 0.96 | 3.81 | 0.04 |
| Cash dividends | — | — | — | — | — | — |
| | | | | | In millions of yen | In thousands of U.S. dollars |
| **At year-end:** | | | | | | |
| Total assets | ¥2,029,035 | ¥1,589,286 | ¥1,557,570 | ¥1,778,693 | ¥1,609,408 | $16,063,562 |
| Total net assets | 29,972 | 324,782 | 268,678 | 308,304 | 328,132 | 3,275,104 |

Notes: 1. U.S. dollar amounts in the accompanying consolidated financial statements are converted, solely for convenience, at a rate of ¥100.19 = U.S. $1.00, the exchange rate prevailing on March 31, 2008.
2. 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.
3. In calculating net assets, MMC and subsidiaries have applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standard Boards of Japan (ASBJ) Statement No. 5) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8) since the year ended March 31, 2007.

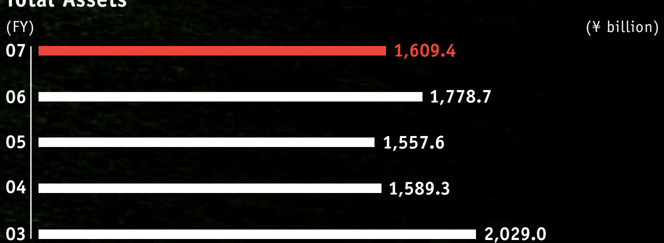
**Net Sales**


**Operating Income (Loss)**




**Net Income (Loss)**


**Total Assets**



**Mitsubishi Motors believes that it has a special responsibility to reduce the impact of automobiles on the Earth's environment. The company is stepping up efforts to refine its environmental technologies. One promising technology being developed to help prevent global warming and contribute to energy diversity is the zero-emissions *i MiEV* electric vehicle. Based on the *i* minicar platform, the *i MiEV* features a small, lightweight motor powered by high-performance lithium-ion batteries, allowing it to run clean without releasing any $CO_2$ emissions. Slated for launch in 2009, the *i MiEV* is in the final stages of development.**

## i MiEV ▷Roadmap to Launch

**2006**
▶ Joint research with electric power companies

**2007**
Tokyo Electric Power Company, Kyushu Electric Power Co., Inc. and The Chugoku Electric Power Co., Inc.
▷ Early testing

▷ Established battery company Lithium Energy Japan (December 2007)
Shareholders: GS Yuasa Corporation, Mitsubishi Corporation and Mitsubishi Motors Corporation
Business description: Development, manufacturing and sales of large lithium-ion batteries
Start of mass production: Spring 2009

**2008**
▷ Established an office to manage MiEV operations within MMC
Renamed the MiEV Business Management Office and put under the direct charge of the Executive Vice President as of August 1, 2008

**2009**
Tokyo Electric Power Company, Kyushu Electric Power Co., Inc., The Chugoku Electric Power Co., Inc., The Kansai Electric Power Co., Inc., Hokkaido Electric Power Co., Inc., Okinawa Electric Power Co., Inc. and Hokuriku Electric Power Company
▷ Fleet testing under actual driving conditions

▷ Market launch

▷ Plans for overseas fleet testing
North America: Considering joint fleet testing with electric power company
Europe and other areas: under consideration

**2010**

## Making Environmental Measures a Top Priority

Developing advanced next-generation technologies in the environmental field is one of the key priorities of the new Step Up 2010 mid-term business plan. Furthermore, in June 2008, the company unveiled a new tagline, Drive@earth. The tagline expresses our concern for the environment while underscoring our commitment to providing the "utmost driving pleasure" and "reassuring safety" to customers in every part of the world. The MMC group strives to fulfill its environmental responsibilities as one of its top business priorities.

## Pinnacle Technologies

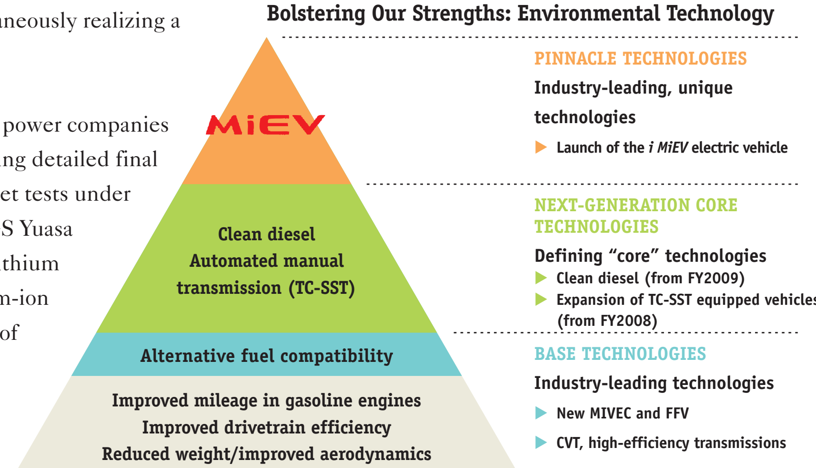
### *i MiEV* Paving the Way for a Low-$CO_2$ Society

Global warming continues unabated and the energy problem is becoming more acute. In this context, electric vehicles are drawing considerable attention. Electric vehicles emit no drive-time $CO_2$ and sharply reduce greenhouse gas emissions even when taking into account the $CO_2$ emissions generated at the power plants that provide the charge for the vehicles. Because electricity can be generated from various sources, electric vehicles could help reduce society's dependence on fossil fuels. By generating the power used to charge electric vehicles from wind, solar or other forms of renewable energy, total $CO_2$ emissions from generation to operation could be reduced to zero. By using clean electric energy as an alternative to fossil fuels, which are finite and are a primary cause of global warming, MMC believes that the convenience of automobiles can be maintained while simultaneously realizing a sustainable, low-carbon society.

### *i MiEV*: Commercialization

MMC has been conducting joint research with electric power companies since November 2006, and the *i MiEV* is now undergoing detailed final quality assurance tests at the practical level through fleet tests under actual driving conditions. In December 2007, MMC, GS Yuasa Corporation and Mitsubishi Corporation established Lithium Energy Japan as a joint venture to mass produce lithium-ion batteries. The company is accelerating the final stages of development in preparation for bringing the *i MiEV* to market in 2009.

**Bolstering Our Strengths: Environmental Technology**




TR4

Nations around the world are enforcing stricter regulations on fuel economy and $CO_2$ emissions, and a growing number of countries are moving to levy taxes on $CO_2$ emissions. For these and other reasons, environmental performance has become an urgent issue for automakers. MMC is working hard to help reduce environmental impact by equipping future vehicles with next-generation core technologies that are currently under development, such as clean diesel engines and automated manual transmissions, while striving to enhance base technologies in order to improve fuel economy and reduce vehicle weight.**

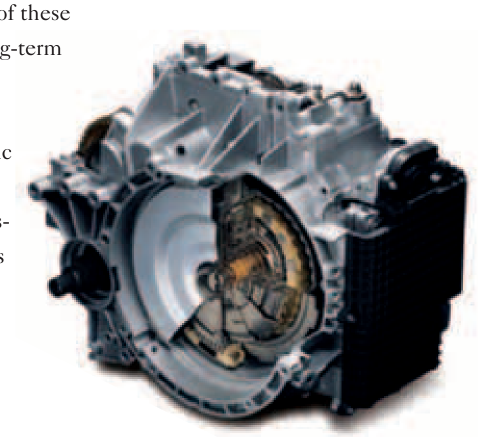
## Next-Generation Core Technologies

### Launch of clean diesel engines

MMC is developing clean diesel engines for their better fuel economy and lower $CO_2$ emissions compared to gasoline engines. Jointly developed in cooperation with Mitsubishi Heavy Industries, Ltd., 2.0-liter class models are set to launch in Europe in 2009. By utilizing the MIVEC*[1] system, which allows the variable timing of air intake valves and the stoppage of single valves for the first time in a volume production diesel engine, MMC has achieved top-tier output for this engine class while clearing Euro 5 standards. Development of these engines is also targeted at meeting Tier II Bin 5 requirements in the U.S. and the Post New Long-term Emission Regulations in Japan.

### Roll-out of automated manual transmissions

The Twin Clutch SST is a manual transmission capable of executing smooth and fast automatic gear shifts that has been fitted to the *Lancer Evolution X*, launched in 2007. The Twin Clutch SST's superior power transmission delivers vastly improved fuel economy over automatic transmissions. Because of its major contribution to reducing $CO_2$ emissions, the Twin Clutch SST is planned for adoption in a broad range of production models going forward.



**AUTOMATED MANUAL TRANSMISSION**
Twin Clutch SST

## Cutting-edge Base Technologies

### Alternative fuel compatibility

Bioethanol fuels, which are produced from plant matter, are an alternative to limited fossil fuels. Based on their carbon-neutral lifecycle,*[2] bioethanol fuels release zero net $CO_2$ emissions into the atmosphere despite undergoing combustion. MMC launched the *Pajero TR4 Flex* (photo on the left page), a flex fuel vehicle (FFV) that runs on ethanol, in Brazil in July 2007. The *Pajero TR4 Flex* is a true 4WD vehicle that can run on gasoline, ethanol or any combination of the two. Following Brazil, MMC will roll out FFVs in various markets around the world.

MIVEC SYSTEM (diagram)

### Improved mileage in gasoline engines

MMC is expanding the use of CVTs (Continuously Variable Transmission), which improves both running smoothness and fuel economy, as well as the proprietary high-performance MIVEC engine, which delivers both high output and superior fuel efficiency. MMC is also launching vehicles with an idling-stop system in Europe, where the application of tougher emissions standards are under consideration.

### Reduced weight

Reducing the weight of automobile frames greatly helps to improve fuel economy. With the help of suppliers, MMC aims to reduce vehicle weight at least 10% compared to current models in all new models to be launched from 2010.

*[1] MIVEC: Mitsubishi Innovative Valve timing Electronic Control

*[2] Carbon neutral: Neutral (zero) total carbon release achieved by offsetting $CO_2$ released into the atmosphere from burning fuel with the amount of atmospheric $CO_2$ absorbed by the plants grown to make the fuel.

# To Our Shareholders and Stakeholders

Takashi Nishioka
Chairman of the Board

Osamu Masuko
President

Fiscal year 2007 marked the final year of the three-year Mitsubishi Motors Revitalization Plan, which was implemented to ensure the company's survival. During this period, we faced various headwinds, such as falling demand in Japan, sharply higher raw materials prices, and worldwide economic turmoil triggered by the sub-prime loan issue in the U.S. Even so, supported by the expansion of global models and strong demand in emerging markets and resource-rich nations, we were able to achieve the plan's initial goal of building solid profitability. I would like to use this opportunity to express my deep appreciation to our shareholders and other stakeholders for their support.

However, these accomplishments are merely a milestone on a long road to achieving sustainable profitability at MMC. We understand that there are many outstanding issues ahead, including some that became apparent during the execution of the Mitsubishi Motors Revitalization Plan over the past three years. In **Step Up 2010**, our new mid-term business plan announced in February 2008 and running through fiscal year 2010, we aim to secure steady profits irrespective of changes in our external environment, while building a firm operating base by bolstering our strengths in each business, so that we can deliver sustained growth into the future.

September 2008

T. Nishioka
Takashi Nishioka
Chairman of the Board

O. Masuko
Osamu Masuko
President

**Step Up 2010**
**Quantitative Targets (FY10)**
(¥ billion, Thousands of units)

| | |
|---|---|
| Net sales | 2,760.0 |
| Operating income | 90.0 |
| Ordinary income | 71.0 |
| Net income | 50.0 |
| Sales volume | 1,422 |

# “STEPPING UP”

## from Revitalization to a New Stage

### Fiscal Year 2007 Performance

In fiscal year 2007, the MMC group reported higher net sales and earnings growth at all levels, including operating income, ordinary income and net income, supported by an increase in overseas sales volume, an improved model mix and the effect of a weaker yen on average during the fiscal year. Operating income and ordinary income reached new records.

Worldwide sales volume increased 130,000 units, or 10.6%, year on year to 1,360,000 units. Net sales rose ¥479.2 billion year on year to ¥2,682.1 billion on higher overseas sales volume, the start of SUV supplies to PSA Peugeot Citroën and a weaker yen against other major currencies. Operating income improved ¥68.4 billion to ¥108.6 billion, as benefits from higher sales volume, a better model mix and favorable foreign exchange rate movements outweighed higher advertising costs and other selling expenses associated with the launch of new models in North America and reduced profits in the U.S. sales finance business. Ordinary income improved ¥67.2 billion to ¥85.7 billion despite slight deterioration in non-operating income due to foreign exchange losses and other factors. Net income totaled ¥34.7 billion, an improvement of ¥26.0 billion from the previous fiscal year, despite ¥14.6 billion in charges related to the closure of the Australian plant and ¥21.3 billion asset impairment charges related to production facilities in the U.S. and others.

### Review of the Mitsubishi Motors Revitalization Plan

The MMC group implemented the three-year Mitsubishi Motors Revitalization Plan to recover customer trust and to restore earnings. Our efforts were supported mainly by Mitsubishi Heavy Industries, Ltd., Mitsubishi Corporation and Bank of Tokyo-Mitsubishi UFJ, Ltd., mainly in the form of capital reinforcement and the deployment of personnel.

The first pillar of the plan was to recover customer trust, which lies at the heart of business. Here, we worked hard to change the mindset of employees, improve quality and to enhance service from the customer’s perspective. These efforts were guided by the key words ‘Compliance First, Safety First and Customer First’ under the guidance of the Business Ethics Committee, which is made up of prominent individuals from outside the company. As a result, in May 2007, the Committee presented a report stating that the initial stage was largely complete.

As for the second pillar—restoring earnings—we have produced steady results. By bolstering our strengths in each business unit, we have cut back the number of single-market models and increased the number of global models, rationalized production overseas, strengthened our sales networks, expanded alliances and streamlined the portfolio of Group companies.

As a result, the company achieved operating profitability in fiscal year 2005, one year ahead of schedule, and in fiscal year 2006, net profitability was achieved in accordance with the initial plan. In fiscal year 2007, the final year of the Mitsubishi Motors Revitalization Plan, operating income and ordinary income both reached new records. In light of these facts, it may be said that our primary goal of building solid profitability has been achieved.

## Step Up 2010

### Positioning of the New Mid-term Business Plan and Numerical Targets

Our new mid-term business plan, Step Up 2010, is positioned as the next stage for building the foundations of growth for the future.

Step Up 2010 calls for MMC to speed up efforts to address issues that have become apparent so far, such as environmental issues and the need to improve earnings in Japan and North America. In addition, we must also redress the imbalance between demand and production capacity for specific models, as well as improve capacity utilization. Our basic policy for addressing these issues is to balance the two priorities of bolstering our strengths in each business unit and securing steady profit. Over the next three years, we will construct the solid operating base necessary for sustainable growth in the future.

In Step Up 2010, we are targeting net sales of ¥2,760.0 billion, operating income of ¥90.0 billion, ordinary income of ¥71.0 billion and net income of ¥50.0 billion for fiscal year 2010. We recognize that these numerical targets will not be easy to achieve if the business environment remains challenging in terms of high raw materials prices, a strong yen and no prospects for market expansion in industrialized nations. Still, we are confident that we can meet the plan's targets and set the stage for sustainable growth in the future.

### Step Up 2010: Key Initiatives

In Step Up 2010 we are focusing on the following key initiatives, based on our two priorities of bolstering our strengths and securing steady profit:

First, we have positioned emerging markets expected to see greater demand, including Russia, the Ukraine, the Middle East and Brazil, as "focus" markets. In these areas the MMC brand is already strong, and we will reinforce our sales base by launching products leveraging the company's strengths. At the same time, in mature markets where substantial growth in new vehicle sales cannot be expected, such as Japan, North America and Western Europe, we are taking steps to improve and strengthen the profit structure by increasing the efficiency of sales networks and upgrading after-sales services and peripheral operations.

Next, we are pursuing greater global production efficiency in line with our sales strategy and bolstering our ability to supply high-demand models. Additionally, as an automaker, we see growing environmental awareness around the world as a significant business opportunity. We believe that we can contribute to society through the environmental application of practical technologies, which are MMC's forte.

Furthermore, we are investing aggressively to secure this foundation for sustainable growth. Our capital investment program is structured to make effective use of existing assets while achieving maximum benefits. Our R&D activities are focused on enhancing distinctive MMC technologies and further developing environmental technologies.

**Positioning of New Mid-term Business Plan (FY08-FY10)**

### Bolstering Our Strengths: Regions

While continuing to pursue our basic strategy of expanding sales of global models, we are also refining our sales strategies in accordance with the characteristics of individual markets.

Among emerging markets where demand is expected to increase, we are focusing on Russia and the Ukraine, where the Mitsubishi Motors brand is strong; the Middle East, where further growth in the built-up vehicle market can be expected; Brazil, where MMC has a high share of the SUV market; and China and India, where there is considerable potential for market expansion. In these markets, among our global models, we specifically intend to boost sales of mid-sized passenger vehicles and SUVs. In May 2008, we concluded a basic agreement with PSA Peugeot Citroën for the construction of a production base in Russia, and plant construction has begun with a view to commencing operations in 2011.

In mature markets such as Japan, North America and Western Europe, we are launching minicars and small cars along with environmentally friendly vehicles in a timely fashion in accordance with customer needs in each market.

### Bolstering Our Strengths: Products

While continuing to boost sales of global models, we also aim to improve earnings and fulfill our responsibility to the environment by bolstering our strengths in product development. This will involve applying environmental technologies across all product groups, from SUVs and mid-sized vehicles to minicars and small cars, in accordance with customer needs in each market.

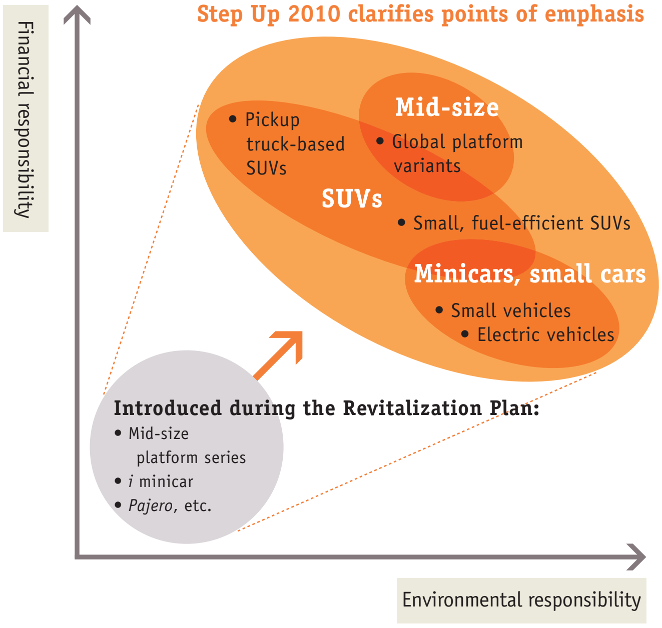
As for specific products, we are launching the *Lancer Sportback*, which shares a mid-sized platform with the *Outlander* and *Lancer* (*Galant Fortis* in Japan), starting from Europe. Additionally, we are cultivating new demand through the launch of a new *Pajero Sport** SUV based on the one-ton pickup truck, with a focus on resource-rich nations and other growth markets. We are also adding a small, fuel-efficient model to our renowned SUV series, in response to more stringent environmental regulations and growing environmental awareness on the part of customers. Moreover, we are developing new models that leverage our minicar technologies in response to worldwide interest in smaller vehicles and greater fuel efficiency, and will position them as global small strategic vehicles. This strategy involves expanding the application of accumulated minicar technologies previously reserved only for the Japanese market to global markets as global small strategic vehicles. Finally, we are accelerating development of electric vehicles, the ultimate eco-friendly vehicle, toward the goal of launch in Japan and beyond.

* The model will be called *Montero Sport* in South America, *Nativa* in Latin America and *Challenger* in Australia.

### Alliance Strategy

From the perspectives of complementary products and technologies, and cost reduction, in the future we will pursue the possibility of entering into more business alliances. We already

**Product direction**



supply passenger and commercial-use minicars to Nissan Motor Co., Ltd. on an OEM basis, and we plan to start supplying the company with the mini SUV model *Pajero Mini* on an OEM basis in autumn 2008. In addition, we have started to consider cooperation with Nissan on the development and OEM supply of small commercial vehicles built on a mini commercial vehicle platform for the domestic and overseas markets, with an emphasis on producing results in ASEAN and other Asian nations. MMC started supplying PSA Peugeot Citroën (PSA) with an SUV model in May 2007, and with this venture progressing steadily, we concluded a contract with PSA for local production in Russia. Moreover, PSA and MMC have agreed to consider collaborating in the area of electric vehicles. We will continue to broadly search for win-win collaborations and alliances on individual business ventures.

### Sales Volume Target

MMC targets sales volume of 1,422,000 units in fiscal year 2010, an increase of approximately 5%, or 62,000 units, from fiscal year 2007. Specifically, we are targeting steady increases in sales volume in high-growth markets, such as Russia and the Ukraine, and approximately 35% growth for the European market as a whole, including the aforementioned nations. We also see strong prospects for volume growth in resource-rich nations in the Middle East, Latin America and elsewhere.

### Boosting Global Production Efficiency

At the start of the Mitsubishi Motors Revitalization Plan, one of the most important issues was overcapacity in production. By fiscal year 2007, almost all of this overcapacity was eliminated. Currently, our three plants in Japan and our production facility in Thailand, which serves as an export base for one-ton pickup trucks, continue to operate at high capacity utilization rates. To make better use of overcapacity at our Netherlands Plant, we transferred production of the *Outlander* for the European market from the Okazaki Plant to that facility in August 2008, followed by the shift of production of PSA-bound SUVs from the Mizushima Plant, thereby opening up production capacity at our domestic plants. With these moves, we aim to construct a production system that is more efficient and better able to respond to changes in demand for individual models, thereby avoiding missed sales opportunities and maximizing profits.

### Measures for Improving Profits

Measures to improve profits naturally include closer cooperation among the development, production and sales divisions, as well as stronger ties with members of the MMC Group, including dealers and suppliers, and the pursuit of more improvements on a global scale.

First, we are enhancing our logistics processes so as to eliminate waste and to improve efficiency. We will do this by reducing costs through more rigorous inventory management and by upgrading functions for adjusting the supply-demand balance. Second, we are working to expand profits in peripheral businesses, mainly in mature markets. Specifically, in Japan, because the turnover period for new vehicles is becoming longer, we have positioned policies aimed at strengthening ties with customers. We will strengthen the sales companies' marketing base by offering an increased number of products and service menus that reflect customer needs. Finally, we have implemented programs to reduce materials costs. Because of persistently high crude oil prices, we must prepare for the risk of sharp increases in raw materials costs and ensure stable procurement. We are therefore working to establish a more robust procurement framework by

### Reinforcing and Expanding Alliances

**Current collaboration**

**Models supplied**
- Nissan: commercial minicars, minicars
- PSA Peugeot Citroën: SUVs
- Daimler: gasoline engines

**Models procured**
- [Japan] Mazda: commercial vehicles
- [North America] Chrysler: Pickups
- [Indonesia] Suzuki: passenger vehicles

**Components procured**
- PSA Peugeot Citroën: diesel engines
- Daimler: diesel engines, gasoline engines
- Volkswagen: diesel engines

**Environmental technologies**
- Joint development of diesel engine with Mitsubishi Heavy Industries
- Founded lithium-ion battery venture with GS Yuasa and Mitsubishi Corporation

+

**FY2008 and beyond**

**Models to supply**
- [Japan] Nissan: minicars (fall 2008 onwards) (Pajero Mini)

**Models procured**
- [Japan] Nissan: small commercial vehicles (fall 2008 onwards) (Nissan model name: AD/AD Expert)

**Production**
- [Russia] PSA Peugeot Citroën: joint venture for local production (start production in 2011)

**Under consideration**
- Nissan: cooperation regarding light commercial vehicles based on minicar-class commercial vehicles in Japan and overseas

**Future**
- Expand OEM exchange models
- Mutual supply of components
- PSA Peugeot Citroën: collaboration on powertrains for electric vehicles

→

**Alliance benefits**
- Better able to meet customer needs thanks to procured technology and products
- Improved productivity including better capacity utilization
- Cut costs (R&D expenses, fixed expenses, equipment investment)

strengthening relationships with business partners and standardizing more parts and components across vehicle models. Along with this, we are stepping up efforts to reduce costs from the initial development stage onwards.

### Capital Investment and R&D Expenditures

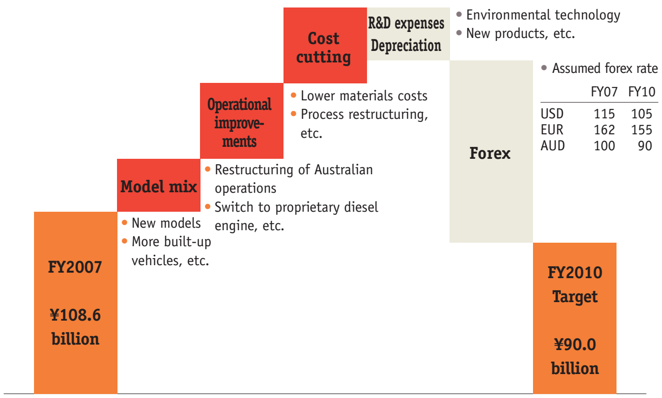
MMC aggressively invests in fields expected to become sources of sustainable growth in the future, including environmental technologies and emerging markets.

Our policy on capital expenditures is to maximize benefits by utilizing existing assets to hold down new investment. To illustrate, we are reinforcing our product lineup by, among other things, expanding the rollout of vehicles built on our mid-sized platform, which has won consumer confidence with the *Outlander*, *Delica D:5* and *Lancer*. Additionally, we will secure necessary production capacity without heavy new investment by utilizing the existing facilities of our Netherlands plant. Furthermore, we are constructing a new painting facility at our Okazaki Plant to boost productivity and to further reduce the environmental impact of our manufacturing processes. We are also increasing investment in upgrading our production framework, increasing both vehicle and component production capacity to meet rising demand.

Regarding R&D, we are focusing on strengthening MMC's unique technologies. Measures include expanding our SUV and super all-wheel control (S-AWC)* technologies. We are boosting development efficiency by applying existing technologies while focusing development efforts on electric vehicles, clean diesel engines and other environmentally friendly technologies.

* S-AWC: An advanced vehicle dynamics control system that regulates drive torque and braking force at each wheel

### Factors Behind Changes in Operating Income (FY2007 Versus FY2010)




### Financial Strategy

In terms of financial strategy, MMC will efficiently procure funds needed for proactive capital investment and R&D. We will rely on loans as our primary fund raising method, but will work at the same time to improve cash flow. As a result, interest-bearing debt at the end of fiscal year 2010 is projected at mostly the same level as at the end of fiscal year 2007. As for capital strategy, which is a particularly important issue for the company at this time, we will follow the Step Up 2010 plan with a view to resuming dividend payments in the future.

We expect the initiatives that have already been executed under Step Up 2010 to steadily bear fruit. Looking at fiscal year 2008 alone, the business environment is shaping up to be challenging, including adverse foreign exchange rate movements and further increases in raw materials costs. Consequently, we are forecasting lower sales and earnings for the full fiscal year. Over the medium and long term, however, we are confident that the steady execution of these programs will make MMC more resilient to changes in the operating environment and enhance its ability to generate steady profits, thereby realizing the construction of a foundation for sustainable growth over the long term.

September 2008

Osamu Masuko
President

# Interview With the Executive Vice President

**The new Step Up 2010 Office was established with the launch of the new mid-term business plan in April 2008. Here, Mr. Makoto Maeda, Executive Vice President and Corporate General Manager of the Step Up 2010 Office, discusses policies and his ambitions for the plan.**

## "Whole-company" Reforms

The Step Up 2010 Office is responsible for rigorously building and rolling out a solid earnings structure into all divisions. We aim to embed a whole-company perspective to each department, to achieve optimal results for the company as a whole. I am confident that we can overcome the current challenging business environment by enabling the company to move quickly on the issues with a shared sense of direction. This means implementing reforms in manufacturing, costs and operations that pose solutions from a "whole-company," rather than a departmental, perspective.

## Supporting Ambitious Employees

Manufacturing reforms are aimed at eliminating overburdening, redundancy and inefficiency through tighter integration of all stages from product planning to development, purchasing, production and logistics to sales. When I was in charge of the production division, I initiated a program called the *"Monozukuri Dojo." Monozukuri* means craftsmanship and a *dojo* refers to a traditional training hall.

The theme of this program was to transmit manufacturing skills to up-and-coming ambitious employees. I also started a similar program called *"Monozukuri juku,"* which taught about the spectrum of processes and technologies from product planning to after-sales service, for the purpose of adding the whole-company perspective mentioned earlier to reform plans. My goal is to spread these activities throughout the entire company.

## Enhancement of Earnings Structure

We are working to expand volume per platform, achieve further standardization of parts with fewer categories, and boost global production efficiency. We want to bring together the company's collective expertise to optimize costs.

Additionally, to generate stable profits, in mature markets where future growth cannot be expected we are looking beyond new-vehicle sales to expanding profits from peripheral businesses such as after-sales services.

We will make progress toward our goals by breaking down barriers between divisions and bolstering our capabilities on the factory floor with improved manufacturing techniques. We will overcome the issues before us one by one. Our goal for fiscal year 2010 is to make MMC a stronger company that can achieve sustainable growth in the years to come.

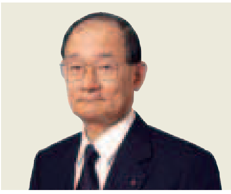
September 2008

Makoto Maeda
Executive Vice President,
Corporate General Manager of
Step Up 2010 Office

# Management

As of August 1, 2008

## Members of the Board



Takashi Nishioka*
Chairman of the Board

Osamu Masuko*
President

Makoto Maeda*
Executive Vice President
Corporate General Manager of Step Up 2010 Office
In Charge of Russian Project & MiEV Business Management

Hiizu Ichikawa*
Managing Director
In Charge of CSR, Corporate Affairs & Finance Group Headquarters
Chief Business Ethics Officer

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

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

Mitsuo Hashimoto
Managing Director
In Charge of Domestic Sales Office & After sales Service Group Headquarters

Kazuyuki Kikuchi
Managing Director
In Charge of Overseas Operations Group Headquarters
Corporate General Manager of Oceania, Latin America, Middle East and Africa Office

Shuichi Aoto
Director
In Charge of Corporate Planning, Controlling & Accounting Group Headquarters
Corporate General Manager of Controlling & Accounting Office

Osamu Matsumoto
Director
In Charge of Production Group Headquarters

Seiichi Ohta
Director
In Charge of Quality Affairs Group Headquarters

Hiroshi Kuroda
Director
In Charge of Procurement Group Headquarters

Mikio Sasaki
Director
(Non-Executive Director)

Hidetoshi Yajima
Director
(Non-Executive 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

Shuma Uchino
Senior Executive Officer
Corporate General Manager of Corporate Planning Office and Vice Corporate General Manager of Step Up 2010 Office

Shinichi Kurihara
Senior Executive Officer
Corporate General Manager of Product Strategy Office

Katsuo Terao
Senior Executive Officer
Assistant to Managing Director and Corporate General Manager of Domestic Sales Innovation Office

Masahide Konishi
Senior Executive Officer
Assistant to Managing Director

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

Yoshikazu Nakamura
Executive Officer
Corporate General Manager of CSR Promotion Office

Masao Ohmichi
Executive Officer
Assistant to President and Vice Corporate General Manager of CSR Promotion Office

Keizo Fuchita
Executive Officer
Corporate General Manager of Corporate Affairs Office

Kazuya Matsushita
Executive Officer
Corporate General Manager of Finance Office and General Manager of Financial Planning Department

Masao Uesugi
Executive Officer
Product Executive (RV1)

Ryugo Nakao
Executive Officer
Corporate General Manager of Development Engineering Office and General Manager of Cost Reduction Activity Promoting Office

Akinori Nakanishi
Executive Officer
Corporate General Manager of Design Office

Yasuo Ohyama
Executive Officer
Plant General Manager of Nagoya Plant

Shuzo Muramoto
Executive Officer
Plant General Manager of Powertrain Plant

Hisayoshi Kumai
Executive Officer
Corporate General Manager of Domestic Sales Office

Yoichi Yokozawa
Executive Officer
Corporate General Manager of Overseas Business Management Office, General Manager of Overseas Business Management Department and Assistant to Executive Vice President [Step Up 2010 Office]

Toshifumi Sudo
Executive Officer
Corporate General Manager of Europe Office

Toshihiko Hattori
Executive Officer
Corporate General Manager of Asia & ASEAN Office

Michiro Imai
Executive Officer
President–Mitsubishi Motors Thailand Co., Ltd.

* Representative Director

# Special Feature II: Focus Markets

**Under the new mid-term business plan, Step Up 2010, MMC aims to build the foundations for growth. As part of this plan, among markets expected to see greater demand, MMC calls those where the strength of the Mitsubishi Motors brand can be leveraged "focus" markets. The company is working to strengthen its model lineup while taking steps to boost sales volume.**

PHOTO ON LEFT PAGE:
SHOWROOM AT DEALERSHIP
OPERATED BY RUSSIAN SALES
COMPANY ROLF IMPORT

PHOTO ON RIGHT PAGE:
EXTERIOR VIEW OF A ROLF
IMPORT DEALERSHIP

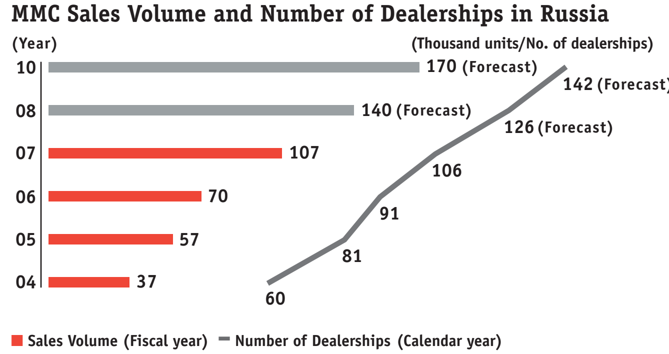
## Russia

In resource-rich Russia, consumers enjoy strong purchasing power, and Mitsubishi vehicles have garnered a strong reputation, as testified by its three local Car of the Year awards. As a result, Russia is positioned as a focus market for driving growth in the larger European region.

### Targeting 60% Growth in Sales Volume in 2010 Through Expansion of Local Sales Network

MMC is bolstering its lineup of SUVs and mid-sized passenger vehicles, which are expected to remain in strong demand in Russia. Meanwhile, the company plans to increase the number of sales bases in Russia from 106 at the end of 2007 to 142 at the end of 2010. Efforts are also focused on expanding sales by strengthening ties with local sales company Rolf Import. Target sales volume is expected to hit 170,000 units in fiscal year 2010, up approximately 60% from fiscal year 2007.

**MMC Sales Volume and Number of Dealerships in Russia**




### Began Construction of New Plant for Local Production Via Joint Venture With PSA Peugeot Citroën

In May 2008, in order to stably produce and supply vehicles to the Russian market for long term, MMC concluded a joint venture agreement with PSA Peugeot Citroën concerning local vehicle production, which carries import tariff benefits. A groundbreaking ceremony for the local plant was conducted in June 2008. Currently, preparations are steadily under way for the start of operations in 2011.

## Ukraine

Ukraine has experienced sustained strong economic growth since 2000, and demand for automobiles, especially overseas brands, has continued to expand. Total vehicle demand is expected to reach approximately 940,000 units in 2010. Mitsubishi vehicles benefit from a strong reputation in the Ukrainian market, having achieved the top sales volume among imported brands for four consecutive years since 2004.

### Driving Sales Growth With an Expanding Dealership Network

To further expand sales in the Ukrainian market, MMC is upgrading and expanding its lineup centered on SUVs, as in Russia. In parallel, the company is expanding its dealer network, targeting 85 sales bases in the Ukraine by the end of 2010, up from 51 bases at the end of 2007.

In April 2008, as in Russia, MMC began directly managing its operations in the Ukrainian market, which had previously been overseen by Mitsubishi Motors Europe B.V. (MME), a Netherlands-based sales subsidiary overseeing Europe. This move will allow MMC to establish a support system for the sales company that rapidly and precisely takes into account market needs, as it works to further strengthen sales activities.


ALQUDRA
REAL COLA TASTE
SUGAR

PHOTO ON LEFT PAGE:
DUBAI IS NOT ONLY ONE OF THE U.A.E.'S KEY BUSINESS CENTERS, BUT ALSO ONE OF THE FASTEST GROWING CITIES IN THE WORLD. LINED WITH SKYSCRAPERS, SHEIKH ZAYED ROAD IS ONE OF THE CITY'S MAIN THOROUGHFARES.

PHOTO ON RIGHT PAGE:
EXTERIOR AND INTERIOR VIEWS OF SHOWROOM ON SHEIKH ZAYED ROAD OPERATED BY MMC SALES COMPANY AL HABTOOR MOTORS

## The Middle East

The Middle East, a resource-rich region, is now experiencing accelerated growth. New vehicle sales volume is also growing rapidly, supported by demand for high-value-added products. Total demand for Japanese-brand vehicles is expected to reach approximately 900,000 units in fiscal year 2010.

### Growing Demand for Mitsubishi Brand Vehicles in the Strong Middle East Market

Due to the regional characteristics of the Middle East market, there is high demand for SUVs, pickup trucks and C-segment vehicles. MMC has established an advantageous market position in this region with its formidable lineup of models in each category. Following the launch of its new *Lancer* sedan in 2007, MMC is working to further expand sales by aggressively introducing new models from 2008, including the *Lancer Evolution*, a high-performance 4WD sports sedan, and the sporty *Eclipse* coupe.

### Establishing a Centralized Sales Company in Dubai

During fiscal year 2008, MMC plans to combine its Dubai liaison office with Mitsubishi Motor Parts Sales of Gulf FZE (MMGF), located in Dubai, UAE. This merger will form Mitsubishi Motors Middle East & Africa FZE (tentative name), a sales company overseeing sales, marketing, parts, R&D and service functions. By strengthening vehicle marketing, and parts and service in a "three-in-one" structure at the new company, MMC aims to foster closer cooperation in each field.

Additionally, the new company will represent MMC in the Middle East and assist with the formulation of regional business plans, as well as product, price and volume targets. Further, it will provide comprehensive support for sales and trading companies by, among other things, working to strengthen communication through visits to sales companies and constructing a value chain.

### Raising the Profile of the Mitsubishi Brand

MMC will also use the new company as a foothold to cultivate new markets, such as Iraq, the CIS and emerging African nations, while taking steps to accelerate the creation of new business opportunities in existing local markets, including Saudi Arabia, Iran, Egypt and Algeria. Our goal is to strengthen the Mitsubishi brand by heightening the presence of Mitsubishi vehicles throughout the Middle East and Africa.


Sistema Enchimento Radiador
P-LF 80
P-LF 70
FLEX

PHOTO ON LEFT PAGE:
ASSEMBLY PLANT OF LOCAL
BRAZILIAN PARTNER MMCB

PHOTO ON RIGHT PAGE:
AN ANNUAL SERIES OF MOTOR
SPORTS EVENTS HELD BY MMCB
(PHOTO BY THOMAS KREMER)


## Brazil

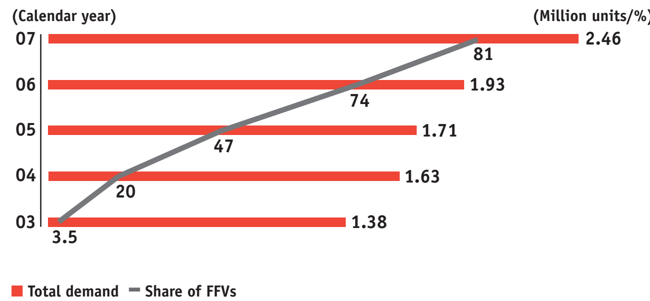
Brazil expects stable economic growth going forward, supported by sharply higher prices for minerals and other resources. Total vehicle demand grew 27.8% year on year to 2.46 million units in 2007, surpassing the 2 million unit level for the first time in the nation's history, and thereby resulting in Brazil emerging as Latin America's largest automobile market.

### Establishing Mitsubishi Motors as a Premium Brand by Focusing on SUVs and Pickup Trucks

In the Brazilian market, MMC sells imported built-up vehicles and locally produced models through MMC Automotores do Brasil Ltda. (MMCB). MMC has established itself as a premium brand through a product strategy focused on SUVs and pickup trucks in parallel with participation in various motor sports using these same models.

MMC will continue to position Brazil as a core market for business in Latin America. Following the new *L200 (Triton)* one-ton pickup truck, for which local production commenced in October 2007, MMC will augment its lineup with attractive models for a broader range of customers, mainly by rolling out more variations of locally produced models and launching new imported built-up vehicles. Furthermore, the company is carrying out a strategy of enhancing support for the local production and sales company with the aim of sustaining and enhancing its brand image and further expanding sales.

**Total Vehicle Demand in Brazil and Share of FFVs**

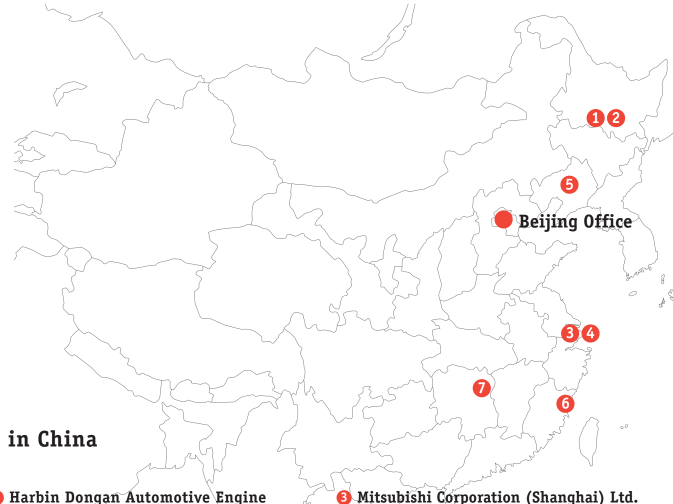



### Enhancing the FFV Lineup to Capitalize on Rapid Growth in the FFV Market

Specifically, MMC is accelerating the development and production of flex-fuel vehicles (FFVs) that run on gasoline, ethanol or any combination of these fuels, as our top priority in the Brazil market. FFVs accounted for 81% of total new vehicle sales in Brazil in 2007, up from 3.5% in 2003. The *Pajero TR4 Flex FFV*, jointly developed with MMCB, went on sale in July 2007, becoming Brazil's first "true 4WD" FFV. Boasting a sales volume of 7,500 units in its first year on the market, the *Pajero TR4 Flex FFV* went on to achieve 25% year-on-year growth in fiscal year 2007. Having proactively captured this market opportunity, MMC will continue to upgrade and enhance its FFV lineup.


MITSUBISHI MOTORS

MITSUBISHI MOTORS BOOTH
AT THE 2008 BEIJING
INTERNATIONAL AUTOMOTIVE
EXHIBITION HELD IN APRIL 2008




### Principal Operational Facilities in China

**1 Harbin Hafei Motor Co., Ltd.**
Production and sales of Mirage Dingo (Saima)
Capitalization: CNY 410 million
Shareholder: Harbin Air-Craft Industry 100% (MMC holds no equity stake)

**2 Harbin Dongan Automotive Engine Manufacturing Co., Ltd.**
Manufacturing and sales of engines (1300–2000cc) and transmissions
Capitalization: CNY 500 million
Shareholders: Harbin Dongan 55.0%, Harbin Hafei 15.0%, MMC 15.3%, MC 5.7%, others 9.0%

**3 Mitsubishi Corporation (Shanghai) Ltd.**
Distributor of built-up vehicles
Shareholder: Mitsubishi Corporation (China) Investment Co., Ltd. 100.0%

**4 Lingfa Car Technical Consulting (Shanghai) Ltd.**
R&D Center
Capitalization: JPY 30 million
Shareholder: MMC 100%

**5 Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.**
Production and sales of engines (2000cc–2400cc)
Capitalization: CNY 738 million
Shareholders: China Aerospace Automotive 30.0%, Shenyang Jianhua Motors Engine 21.0%, MMC 25.0%, MC 9.3%, others 14.7%

**6 South East (Fujian) Motor Corporation, Ltd.**
Production and sales of Galant, Lancer, etc.
Capitalization: USD 138 million
Shareholders: Local 50%, MMC 25.0%, Taiwan China Motors 25%

**7 Hunan Changfeng Motor Co., Ltd.**
Production and sales of Pajero
Capitalization: CNY 401 million
Shareholders: Changfeng Group 50.61%, MMC 14.59%, others 34.80%

## China

In China, vehicle demand is projected at around 12 million units in 2010 due to growth in personal income levels as the economy is energized by the Summer Olympic Games in Beijing and the World Expo in Shanghai. For this reason, MMC has positioned China as one of its most important markets in Asia.

### Establishing New Company in 2009 to Enhance Local Sales Network

Over the next three years through fiscal year 2010, MMC plans to launch six models in China, consisting of both locally produced automobiles and imported built-up vehicles, including the *Lancer Evolution*, *Lancer* and *Eclipse*. At the same time, the company is bolstering its earnings base by focusing on its local production and sales business, which includes South East (Fujian) Motor Co., Ltd., and Hunan Changfeng Motor Co., Ltd., as well as its engine business, which includes Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd., and Harbin Dongan Automotive Engine Manufacturing Co., Ltd.

Strengthening the sales network for Mitsubishi brand vehicles, including locally produced models, is also important. To this end, MMC plans to establish a new company in 2009. The new company will work to achieve greater uniformity in terms of sales and service quality, as well as to combine sales operations of locally produced Mitsubishi brand vehicles and imported built-up vehicles at the dealership level and enhance the brand image of Mitsubishi Motors throughout China.

## India

In India, where rapid motorization is currently under way, vehicle sales volume (excluding trucks and buses) reached 1.58 million units in fiscal year 2007. Moreover, total vehicle demand (excluding trucks and buses) is expected to reach approximately 2.60 million units in fiscal year 2010. Demand for cars and SUVs in the premium-price band, which MMC is targeting, is projected to reach 350,000 units.

### Heightening Our Presence as a Premium Brand by Harnessing the Advantages of Mitsubishi Cars and SUVs

In this market, MMC aims to heighten its presence as a premium brand. Based on this strategy, in addition to launching the new *Outlander* SUV in fiscal year 2008, we are accelerating efforts to enhance the marketability of existing models, including those produced locally. Our goal is to achieve steady volume growth in the premium car and SUV segments, which are our strong suit.

We are also working to bolster our sales capabilities by expanding and upgrading our sales networks, particularly in major cities such as Delhi and Mumbai.

# Japan

In the mature Japanese market, MMC is meeting customer expectations by supplying products that are 'uniquely Mitsubishi,' along with high-quality service. Our new mid-term business plan, Step Up 2010, targets a return to profitability for the domestic business. Toward this end, the company is striving to supply services that fully address customer needs and enhance customer satisfaction so that MMC products remain the vehicles of choice for customers over the years to come. Simultaneously, steps are being taken to boost dealership sales, based on sales negotiations as a proportion of total sales volume. The company is also maintaining a profit-oriented sales strategy and pursuing greater operational efficiency, including the restructuring of its domestic sales network.

## Overview of Fiscal Year 2007 and Outlook for Fiscal Year 2008

Retail sales in the Japanese market totaled 219,000 units in fiscal year 2007, decreasing 11.3% year on year.

In Japan's challenging domestic climate, total automobile demand for the market as a whole showed no signs of a rebound, falling 4.8% year on year. Despite these circumstances, in addition to strong sales of the *Delica D:5* model (launched in January 2007), the new *Galant Fortis* sedan (introduced in August 2007) achieved sales three times higher than its monthly target only three weeks after launch. Additionally, *the Lancer Evolution X* was awarded a special prize (Most Fun) by the Final Selection Committee of Car of the Year Japan 2007-2008. These factors supported a 9.9% year-on-year increase in registered vehicle sales. However, MMC was unable to achieve an increase in total sales for the full fiscal year because of a large drop in minicar sales, which reflected its decision to refrain from low-margin transactions.

As a result, Japanese sales in fiscal year 2007 declined 3.5% year on year to ¥488.5 billion. However, the operating loss narrowed by ¥24.9 billion from the previous fiscal year to ¥18.9 billion. This improvement reflected higher sales of registered vehicles with high profit margins, penetration of our profit-oriented sales policy, and benefits from the regional integration of consolidated sales companies.

In fiscal year 2008, MMC is targeting Japanese retail sales of 207,000 units, down 5.5% from fiscal year 2007, factoring in weak total demand in Japan.

## Initiatives Under the New Mid-term Business Plan

Step Up 2010 targets a return to profitability for the domestic business by fiscal year 2010. Specifically, because the prospects for an increase in total demand are dim and the operating environment is expected to remain harsh, the plan calls for the steady acceleration of efforts to build the foundations for growth through the pursuit of greater operating efficiency and the continuation of a profit-oriented sales strategy. The key measures and policies for the fiscal year 2008 are: to improve the profitability of new vehicles; build brand loyalty and lifelong relationships with customers; make the sales system more efficient; and bolster the vehicle lineup by introducing new models.

### Improving New Vehicle Profitability

Along with the reassessment of transactions with relatively low profit margins, including fleet sales, MMC is working to improve new vehicle profitability by increasing the ratio of dealership sales. At the core of these efforts is the full-scale extension of a sales capability program, which has proved highly effective at our consolidated sales companies, to independent dealerships.

### Building Brand Loyalty and Establishing Lifelong Relationships With Customers

Exhibitions tied to sales and service, improvements and expansion of after-sales services are expected to increase dealer traffic.

**Galant Fortis**

**Step Up 2010 Regional Strategies**

| Profit-oriented sales and maximized business efficiency | **Bolstering Lineup by Introducing New Models**<br>• New *Toppo* minicar (autumn 2008)<br>• *Galant Fortis* sports hatchback (winter 2008)<br>• Compact commercial vehicle (autumn 2008)<br>**Improving Profit Margin of New Vehicle Sales**<br>• Increase the ratio of dealership sales | **Building Brand Loyalty and Establishing Lifelong Relationships with Customers**<br>• Expanding and upgrading after-sales service products<br>• Improving customer satisfaction by bolstering service capabilities<br>**Making the Sales System More Efficient**<br>• Construct a sales network with high operational efficiency<br>• Create outlets that attract customers from a broader area |
|---|---|---|

In conjunction, MMC is working to turn buyers of MMC vehicles into repeat customers by enhancing the quality of customer service.

**Making the Sales System More Efficient**

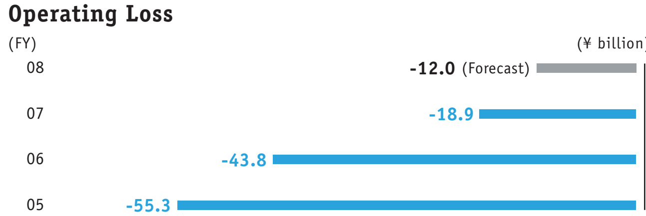
MMC is constructing a highly efficient sales network by realigning its sales bases to eliminate redundancies and gaps and by accelerating the deployment of a dealership network that attracts customers spread out over larger areas. In conjunction, efforts to reduce fixed costs are under way through the streamlining of back-office departments at MMC and at consolidated sales companies, thus boosting the operational efficiency of the sales framework.

**Bolstering the Lineup by Introducing New Models**

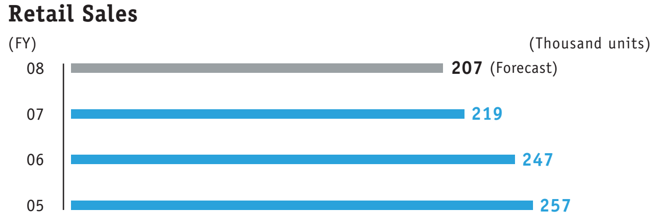
In fiscal year 2008, MMC will be introducing products that are 'uniquely Mitsubishi,' including a new minicar, *Toppo*, and a sports hatchback version of *Galant Fortis*. Along with this, the product lineup will be bolstered by selling small commercial vehicles sourced from Nissan Motor Co., Ltd. on an OEM basis.

**Net Sales**


**Operating Loss**




**Retail Sales**





**Toppo**

# North America

In fiscal year 2006, MMC appointed a new management team at Mitsubishi Motors North America, Inc. (MMNA). While working to put in place an organizational structure that is strongly linked to Head Office, the company reinforced sales support and worked to forge stronger relationships of trust with dealers. As a result, the North American operation had been improving, but the direction of the overall American market has become increasingly murky due to the sub-prime mortgage crisis in the U.S.

Under our new mid-term business plan, Step Up 2010, MMC is working to stabilize operations by further reinforcing the sales network and bolstering the image of the Mitsubishi Motors brand.

## Overview of Fiscal Year 2007 and Outlook for Fiscal Year 2008

Retail sales in the North American market totaled 172,000 units in fiscal year 2007, increasing 4.7% year on year.

In the U.S., sales of the new *Outlander*, launched in November 2006, and the new *Lancer*, which made its global debut in the U.S. in March 2007, posted strong sales. This supported faster sales growth than in fiscal year 2006, which marked the first year-on-year sales growth in five fiscal years. However, from the second half of fiscal year 2007, falling demand stemming from the sub-prime mortgage crisis and escalating sales competition resulted in slower sales growth. As a result of this and the impact of a change in the model mix, U.S. sales for the full fiscal year were largely the same as the previous fiscal year. Meanwhile, Canadian sales rose 50% year on year due to strong sales of new models.

As a result of the above, net sales in North America declined 4.9% year on year to ¥402.7 billion. Operating income deteriorated ¥18.4 billion to an operating loss of ¥17.8 billion due to higher selling expenses, including advertising costs, associated with the launch of new models in North America, and to lower earnings from the U.S. sales finance business.

In fiscal year 2008, MMC is targeting North American sales of 145,000 units, down 15.7% compared with fiscal year 2007, including the impact of transferring sales figures for Puerto Rico from the North American total to the Asia, ASEAN and Other regions total.

## Initiatives Under the New Mid-term Business Plan

In North America, stabilizing operations is one of the main themes of the new Step Up 2010 mid-term business plan.

Sales of the new *Lancer*, which were fully launched in April 2007, made a strong start and remained healthy throughout the full fiscal year, contributing to higher sales volume. The new *Lancer Evolution*, rolled out in January 2008, became available with an optional automated manual transmission “Twin Clutch SST” in June of fiscal year 2008. Plans are to launch the turbocharged *Lancer Ralliart* in autumn as part of a program to further strengthen the new *Lancer* series. In this way, the *Lancer* is fulfilling its role as a driver of the North American business.

### United States: Start *Eclipse* Exports to the Middle East, China and Korea

In the United States, as part of its efforts to ‘build the foundations for growth,’ MMC has started exporting the *Eclipse*, which is produced at MMNA’s plant in Illinois, to the growth markets of

**Outlander**

## Step Up 2010 Regional Strategies

**Strengthening of the Mitsubishi Motors brand over the medium and long terms**

**Bolstering Lineup by Introducing New Models in the *Lancer* Series**
- *Lancer Evolution* SST model (June 2008)
- *Lancer Ralliart* (autumn 2008)

**United States**
- Continuation of plan to energize the dealership network
- Ongoing efforts to reduce costs and streamline MMNA's plant
- Expand exports of the *Eclipse*, produced at MMNA's plant in Illinois, to the Middle East, China, and Korea

**Canada**
- Expand sales network: from 68 outlets (end-FY2007) to 85 outlets (end-FY2008)
- Construct new parts warehouse in Toronto to strengthen after-sales operation

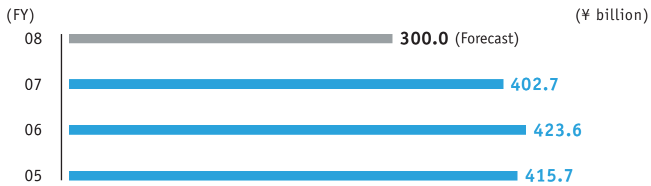
the Middle East and China, as well as to Korea, a market expected to present greater sales opportunities to Japanese automakers. Additionally, we are taking steps to enhance the MMC brand over the medium and long terms by building strong relationships of trust with existing dealers while steadfastly continuing to provide services to customers together with the dealers. On the cost side, we are working to reduce costs in all areas of production and sales and thereby achieve greater operational efficiency.

### Canada: Targeting Sales Volume of 20,000+ Units

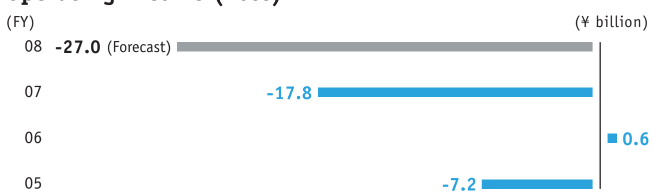
In Canada, in addition to sustaining growth centered on the new *Lancer* and *Outlander*, we will further strengthen the lineup with the first-ever launch of the *Lancer Evolution*. We will also expand and reinforce our sales network. Backed by these enhancements, we are targeting annual sales of over 20,000 units. Moreover, we are constructing a new parts warehouse in Toronto to reduce lead-times for the supply of repair parts, and thus heighten customer satisfaction. In conjunction, we are working to reduce distribution costs as part of an overall effort to bolster our after-sales operation.

Lancer Evolution

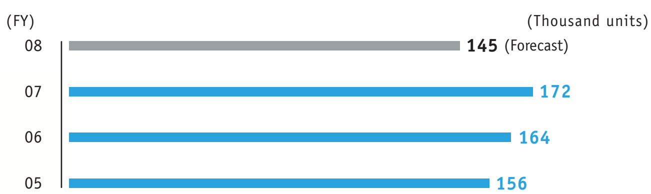
### Net Sales




### Operating Income (Loss)




### Retail Sales



# Europe

In Europe, MMC is pursuing sales growth initiatives in accordance with the degree of maturity of the markets of Western Europe, Central Europe, Russia and the Ukraine. Mitsubishi vehicles have won high marks in European markets for their attractiveness and performance and for MMC's strong track record in motor sports events such as the Dakar Rally. Going forward, MMC will aggressively introduce environmentally friendly technologies and thereby engender greater trust in the Mitsubishi Motors brand.

## Overview of Fiscal Year 2007 and Outlook for Fiscal Year 2008

Retail sales in the European market totaled 341,000 units in fiscal year 2007, rising 20.6% year on year.

By country, sales volumes were down in the mature markets of the U.K. and Germany, but volumes increased 44% in Central European countries. This, coupled with sharp volume growth in Russia and the Ukraine, lifted retail sales higher for Europe as a whole. In Russia specifically, sales in fiscal year 2007 increased 54% year on year to break the 100,000 unit-per-year mark. Moreover, the pace of growth has been very rapid over the past four years, with sales volume increasingly roughly three-fold over the period. In the Ukraine, sales were up 99% to 32,000 units in fiscal year 2007, marking the second straight year that sales have doubled. Furthermore, MMC vehicles have been the top-selling foreign brand in the Ukraine for four consecutive years (calendar years 2005 through 2007).

The *Lancer* model, launched in 2007, has received the Car of the Year Award in Russia three times. The Thai-built one-ton pickup truck *L200* and our SUV lineup, which was reinforced by the successive rollout of the new *Outlander* and the new *Pajero*, also contributed greatly to higher sales volume in Europe.

As a result, in fiscal year 2007, sales in Europe increased 40.6% year on year to ¥931.6 billion and operating income rose 87.1% to ¥79.7 billion.

In fiscal year 2008, MMC is targeting European retail sales of 388,000 units, or a gain of 13.8% year on year. This target is based on expectations of continued strong sales growth centered on Russia and the Ukraine.

## Initiatives Under the New Mid-term Business Plan

In fiscal year 2008, MMC is working to strengthen the new *Lancer* series in each European market. Following the start of full-scale sales of the *Lancer* sedan from spring, MMC will introduce the *Lancer Sportback* and *Lancer Evolution* in autumn.

Additionally, MMC is steadily working to 'build the foundations for growth' by implementing the proper strategies in accordance with the degree of maturity of the respective markets, whether in the mature markets of Western Europe or the growth markets of Central Europe, Russia and the Ukraine.

### Building Appeal for the Mitsubishi Brand in Western Europe by Offering Environmentally Friendly Passenger Vehicles

In Western Europe, where total demand is not expected to grow, the company will reinforce its after-sales service strategy. Also, in response to rising environmental consciousness and the coming implementation of new $CO_2$ emissions regulations, MMC will add a low-emission stop-start (idling-stop) engine model to the *Colt* series. The *Colt* series is produced at NedCar in the Netherlands. Additionally, 2009 will see the launch of models with next-generation clean diesel engines, which MMC is currently developing jointly with Mitsubishi Heavy Industries, Ltd. Preparations are also being made for the full-scale launch of electric vehicles. With these efforts, we are promoting the deployment of technologies that boost fuel economy and respond to environmental issues, thereby making the Mitsubishi brand more synonymous with eco-friendly vehicles.

**Pajero**

## Step Up 2010 Regional Strategies

| Region | | |
|---|---|---|
| 1. Western/Central Europe<br>Expand sales and respond to environmental regulations through the launch of new vehicles | **Strengthen Lineup of New Lancer Series**<br>• New *Lancer Evolution* (September 2008)<br>• *Lancer Sportback* (September 2008)<br>**Western Europe**<br>• Launch low $CO_2$ emissions model of the *Colt* (engine with idling stop mode) | **Central Europe**<br>• Expand sales of SUV models<br>**Transfer Production to and Boost Capacity Utilization of the Netherlands Plant**<br>• *Outlander* for the European market (shift production from the Okazaki Plant)<br>• SUVs supplied to PSA Peugeot Citroën (shift production from the Mizushima Plant) |
| 2. Russia, Ukraine<br>Strengthen foundation by introducing new models and expanding sales network | **Bolster Model Lineup through the Introduction of New Vehicles**<br>• Strengthen and expand sales of the mainstay *Lancer* series<br>*Lancer Evolution* (August 2008)<br>*Lancer Sportback* (September 2008)<br>• Launch of new SUV *Pajero Sport* (October 2008) | **Expansion of Sales Network**<br>• Russia: from 106 outlets (CY2007) to 142 outlets (CY2010)<br>• Ukraine: from 51 outlets (CY2007) to 85 outlets (CY2010) |

### Production of *Outlander* for the European Market at NedCar

In the various nations of Central Europe, where total demand is steadily expanding, we are implementing sales initiatives based on growth strategies. In conjunction with the full rollout of models already launched in Western Europe, centered on MMC's historically successful SUV models, we are working to increase sales by supporting the reinforcement and expansion of sales networks. Moreover, to boost capacity utilization, we are transferring production of (1) the *Outlander* for the European market from the Okazaki Plant and (2) SUVs supplied to PSA Peugeot Citroën from the Mizushima Plant to NedCar.

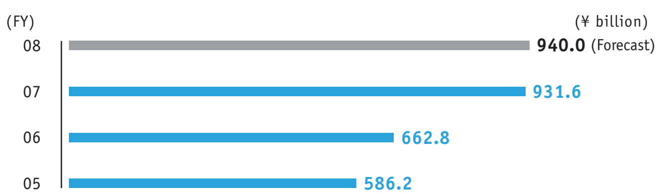
### MMC Concludes Joint Venture Agreement With PSA Peugeot Citroën on New Plant in Russia

In May 2008, MMC concluded a joint venture agreement with PSA Peugeot Citroën for local production of vehicles, which enjoy import tax advantages. MMC and PSA Peugeot Citroën are working together with a view to starting production in 2011.

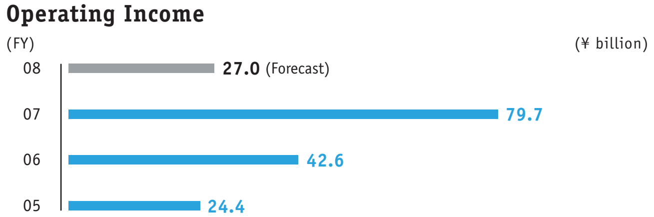
### Bolstering Sales in Russia and the Ukraine

In Russia and the Ukraine, we aim to boost sales through lineup enhancements, including the introduction of the new *Pajero Sport* SUV. To this end, we plan to increase the number of sales bases in Russia from 106 (as of end-CY2007) to 142 by the end of 2010. In the Ukraine, we are targeting an increase from 51 bases to 85 bases over the same timeframe.

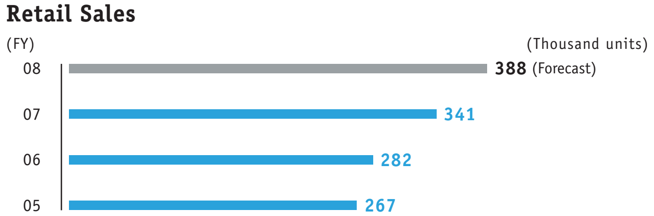
### Net Sales




### Operating Income




### Retail Sales




Lancer Sportback

# Asia, ASEAN and Other Regions

MMC continues to ambitiously pursue business activities in the Asia and ASEAN regions, where it was an early entrant and has a long history. Along with engendering strong trust in these markets, MMC has established a unique presence centered on its strong range of SUVs in Latin America, the Middle East, Africa and Australia. The new mid-term business plan, Step Up 2010, positions the markets of Latin America, the Middle East, Brazil, China, and India, which offer strong growth prospects, as key markets and calls for further penetration of the Mitsubishi Motors brand in each region. In addition, the company is entering new markets as part of a sustained effort to 'build the foundations for growth.'

## Overview of Fiscal Year 2007 and Outlook for Fiscal Year 2008

In the past fiscal year, retail sales volume in Asia, ASEAN and other regions increased 17.1% year on year to 628,000 units.

Retail sales volume in Latin America, the Middle East and Africa rose 55,000 units on brisk sales of the *Triton* pickup truck and SUVs, including the *Pajero*. In the ASEAN region, retail sales volume rose 22,000 units, reflecting a recovery in the Indonesian market and year-on-year increases in key nations, including Thailand, the Philippines, and Malaysia. Retail sales in Australia and New Zealand rose 9,000 units on brisk sales of imported built-up vehicles, while in China sales of imported built-up SUV models were up sharply. As a consequence, sales in all regions exceeded prior fiscal year levels.

Mitsubishi Motors (Thailand) Co., Ltd. (MMTh), a global production and export base for one-ton pickup trucks, surpassed one million units in cumulative export volume in June 2007, and achieved one million units in export volume for pickup trucks in October of the same year.

Under these conditions, sales in fiscal year 2007 climbed 40.8% year on year to ¥859.3 billion and operating income increased 60.8% to ¥65.6 billion.

In fiscal year 2008, MMC expects sales volume in Asia, ASEAN and other regions to decline 9% year on year to 569,000 units due to a reduction in the supply of parts sold overseas in conjunction with the end of production of models on contract for Perusahaan Otomobil Nasional Bhd. (Proton).

## Initiatives Under the New Mid-term Business Plan

In fiscal year 2008, the first year of the new mid-term business plan Step Up 2010, MMC is steadily accelerating efforts to 'build the foundations for growth' while bolstering sales capabilities in key markets. MMC will work to broaden its presence by implementing initiatives in various fields, including production, sales and alliances, in each region.

### China

In China, efforts are aimed at further expansion of the imported built-up vehicle business, which makes major contributions to earnings. On top of the new *Pajero*, launched in 2007, and the addition of a 2.4-liter model of the *Outlander*, plans include the introduction of three more models: *Lancer Evolution*, *Lancer* and *Eclipse*.

Furthermore, MMC is making progress in reinforcing the sales network for Mitsubishi Motors brand vehicles, including locally produced models. The company also plans to establish a new company in 2009 to heighten the brand image of existing Mitsubishi Motors sales outlets and to standardize sales and service quality.

**Pajero**

### Step Up 2010 Regional Strategies

**1. Achieve greater penetration of the Mitsubishi Motors brand through an expanded presence**

**China**
- Expand imported built-up vehicle business
  Launch three models—*Lancer Evolution*, *Lancer* and *Eclipse*
  Reinforce the sales network for Mitsubishi Motors brand vehicles

**Korea**
- Make initial entry

**Thailand**
- Strengthen local framework as global production base, including construction of a new engine plant
- Produce the new *Pajero Sport* SUV model and start exports

**India**
- Further strengthen presence in the SUV segment by introducing *Outlander*

#### Korea

MMC has decided to enter the market for sales of built-up vehicles in Korea, where the imported vehicle market is experiencing rapid growth. Plans are to successively launch the *Lancer Evolution*, *Outlander* and other models starting from October 2008.

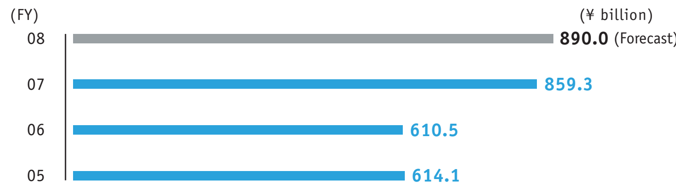
#### Thailand

Having positioned Thailand as a key production base in its global strategy, MMC has started production of a new SUV and is rolling out these vehicles globally. Additionally, a new engine plant has been built on a site adjacent to MMTh's plant in Laem Chabang, with operations commencing from April 2008.

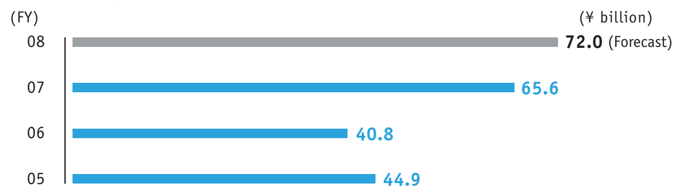
#### India

In addition to introducing the new *Outlander* in our strong SUV segment in autumn 2008, MMC aims to establish Mitsubishi Motors as a premium brand by reinforcing our lineup of existing models. Moreover, the company is aggressively expanding the range of locally produced models, including a new SUV, and upgrading our sales network, particularly in major cities.

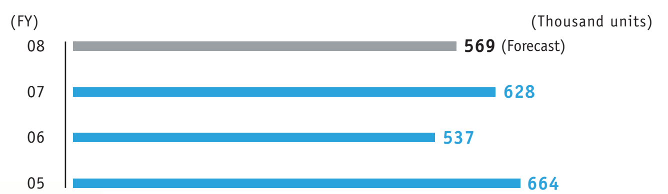
#### Net Sales




#### Operating Income




#### Retail Sales





**Pajero Sport**

## Step Up 2010 Regional Strategies

**2. Broaden the range of models launched in growth markets**

**Latin America, Middle East and Africa**
- Expand sales through the launch of new vehicles in markets with strong economies
  New *Pajero Sport* SUV (September 2008)
  *Lancer Evolution* in the Middle East (October 2008)
- Establish centralized sales company overseeing the Middle East (second half of FY2008)
  Cover functions, including sales, marketing, parts, and service, and establish foundation for growth

**Australia**
- Expand lineup of strong-selling imported built-up vehicles
  New *Lancer Evolution* (July 2008)
  *Lancer Sportback* (November 2008)
- Concentrate resources on sales of imported built-up vehicles

### Brazil
MMC's SUVs and pickup trucks have won strong reputations in the Brazilian market. Moving forward, MMC intends to heighten the company's presence in the Brazilian market by introducing new products and variations on existing models, with a focus on SUVs and pickup trucks. Moreover, the company is addressing needs specific to the Brazilian market by upgrading its lineup of flex-fuel vehicles (FFVs), which first went on sale in Brazil in July 2007. These vehicles run any combination of gasoline and (bio-) ethanol.

### Middle East
MMC is combining its Dubai liaison office and consolidated parts sales company to establish a single company that will centrally oversee sales and marketing, as well as parts and service functions in the Middle East. The new company is scheduled for inauguration in the second half of fiscal year 2008. With this move, MMC will work to comprehensively strengthen the distributors.

### Australia
MMC closed its local production facility in Australia in March 2008. Looking ahead, the company will instead specialize in sales of imported built-up vehicles. The new *Lancer Evolution* was launched in July 2008, and now the *Lancer Sportback* will be introduced in November 2008. MMC's goal is to expand its product lineup and concentrate resources on the sales of imported built-up vehicles.

Triton

# Motor Sports

For more than 40 years, MMC has continuously embraced the challenges of various motor sports events, including the Dakar Rally, with the aims of pushing its vehicles to the limit in pursuit of superior drivability and safety and realizing "utmost driving pleasure" and "reassuring safety"—key elements of the Mitsubishi Motors corporate philosophy. MMC feeds back the technology and expertise derived from these activities, along with numerous victories, into its product development and manufacturing operations in support of the development of new-generation technologies in the performance as well as environmental fields.

MMC has recently established a new corporate slogan called "Drive@earth" in order to reinforce its commitment to providing the "utmost driving pleasure" to customers in various regions around the world, while maintaining a focus on environmental concerns. Going forward, the Mitsubishi Motors team will play an increasingly important role than before as an integral part of the process of developing innovative cars.

## Strong Performance in the Dakar Series 2008 (Central Europe Rally)

The Mitsubishi Motors team participated in the Central Europe Rally, which was held in place of the Dakar Rally 2008. The Dakar Rally was cancelled on short notice due to concerns about course safety.

Stéphane Peterhansel of France (Mitsubishi *Pajero Evolution*) fought to a second place overall finish in the rally, which started on April 20 and covered approximately 2,600 kilometers over a span of seven days. Fellow countryman Luc Alphand of France (Mitsubishi *Pajero Evolution*) claimed an overall fourth-place finish. This performance leaves a strong impression of the collective capabilities of the Mitsubishi Motors team.


## New Competition Car *Racing Lancer* for the 2009 Dakar Rally

MMC has developed a new competition car, the *Racing Lancer*, whose mission is to clinch victory in the 2009 Dakar Rally, as the race opens a new chapter in its history. For MMC, the Dakar Rally provides a unique proving ground for its powertrains and 4WD transmission systems. Because MMC has decided to focus its cross-country rallying activities on developing diesel engines, the company has chosen to compete in the Dakar Rally using the *Lancer* model (known in Japan as the *Galant Fortis*). The technological expertise accumulated through the firm's cross-country rally program will be applied to developing diesel engines, including MMC's new-generation clean diesel engine for production models. Meanwhile, various 4WD systems technologies developed in a similar manner will also be carried over to production models after their configuration has been optimized to the end use of each model.


**Racing Lancer**

The *Racing Lancer* is a Super Production Cross-Country Rally car that has been developed in compliance with the FIA's Group T1 regulations. The model features a newly designed multi-tubular steel frame which has been optimized using advanced CAE analysis and is powered by a 3.0-liter V6 turbocharged diesel engine. The carbon-fiber bodywork of the model is based on the *Lancer Sportback*, which is due to be successively released in various European countries from the summer of 2008.

# Quality

MMC has made concerted efforts to improve quality as the top priority of the Mitsubishi Motors Revitalization Plan, which was completed in fiscal year 2007. Additionally, the Quality Affairs Office has held meetings of the Post-market Measure Committee, attended by the Business Ethics Committee, which is made up of external experts, as well as the CSR Promotion Office, labor unions, and other related groups both inside and outside the company.

Through these and other measures, MMC has constructed a system that ensures transparency and guarantees that vital information is reported to top management. This system has resulted in a reduction in the number of customer complaints (as of fiscal 2007) to approximately one-third the level in fiscal 2004.

## New Quality Information Management System (SQM)

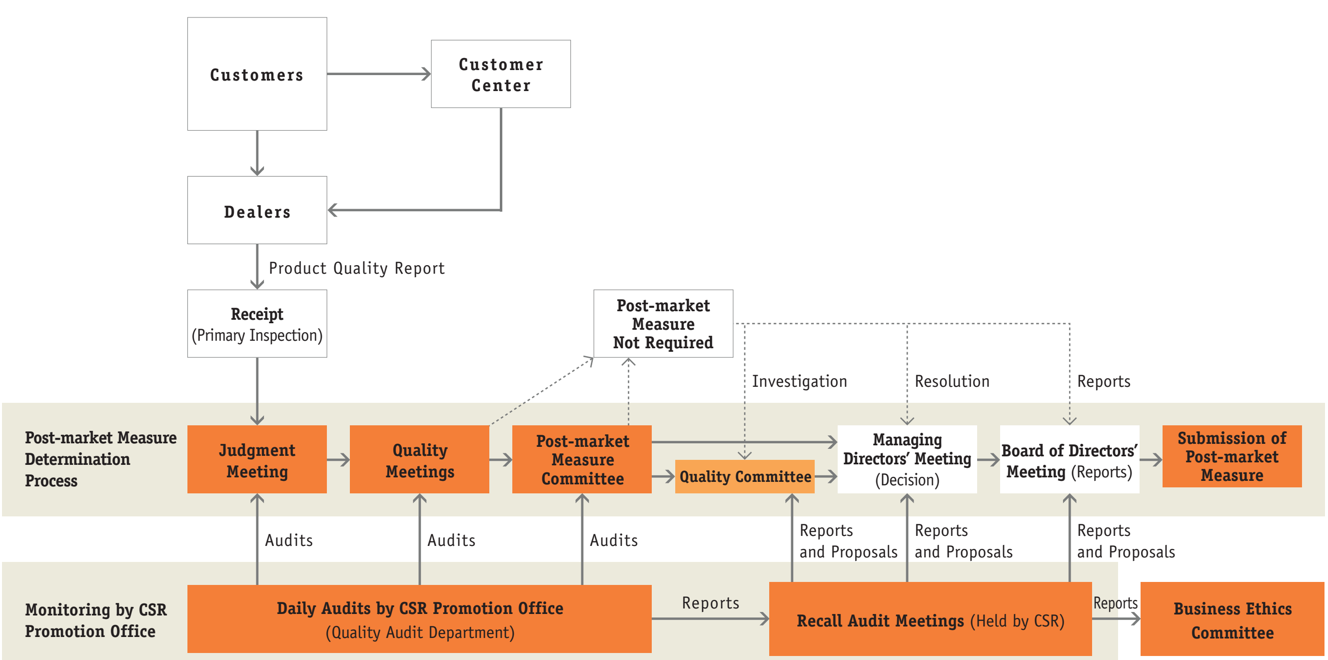
In 2007, as part of the deployment of SQM (Strategic Quality Management), MMC constructed a quality management system (QMS) and a warranty claim analysis system (WAS). These systems enable complaints made by customers at dealerships and other such locations to be immediately recorded in a database and global quality to be assessed in real time, including information about the kinds of issues that are arising as well as the parts involved and the frequency of replacement.

These systems naturally expedite post-market measures, and for all other responses, they also enable the latest quality data to be shared across the entire MMC Group, from development to production. This reduces the time required for quality improvements and for addressing customer concerns, including appropriate market responses.

## Enhancing Development and Manufacturing Quality

MMC is working to enhance quality in order to produce automobiles that satisfy customers. For instance, we are reinforcing training programs for engineers focused on quality engineering, Failure Mode and Effects Analysis (FMEA) and other areas; fostering personnel by passing on manufacturing expertise to younger employees through manufacturing workshops; enhancing processes by utilizing ISO 9001 quality management systems; and ensuring reliable quality in various work stages based on our In Stage Quality Creation (ISQC) approach.

### Flow of Quality Information from Customers



## Committed to Product Safety

MMC has introduced the Mitsubishi Motors Development System (MMDS), a comprehensive quality management system designed to ensure and continually enhance quality at each stage, from product development to production and sales. To ensure the effectiveness of each quality gate, the company has adopted a three-part system, consisting of the Engineering Verification Department and the Quality Administration and Audit Department within the Quality Affairs Office, and product managers for each product.

All MMC vehicles, including those produced overseas, are certified through MMDS, first at the point of mass production, then on through the process, culminating with sales.

Additionally, Step Up 2010 promotes quality management as a key issue at parts makers who are suppliers.

## Preparing for Launch of the *i-MiEV* New-Generation Electric Vehicle

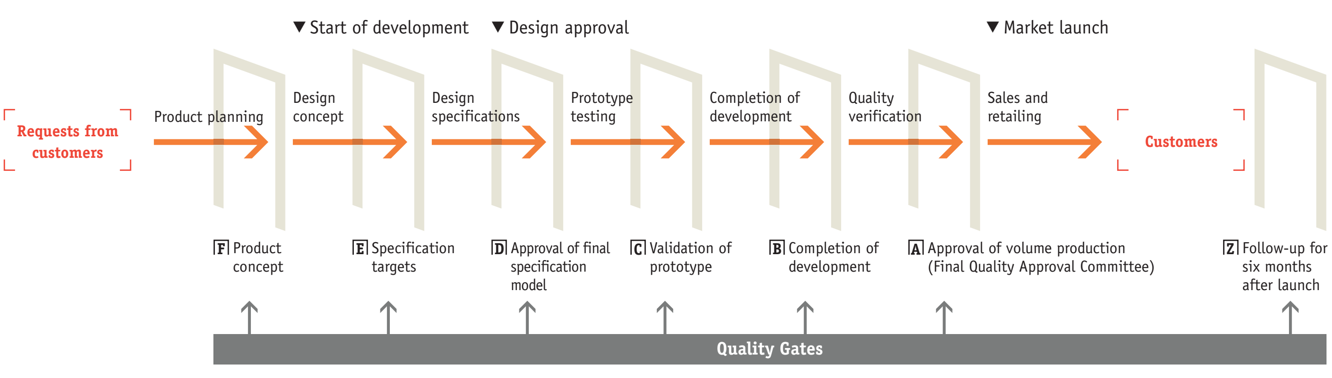
MMC is making steady progress with mass production development work aimed at the launch of the *i MiEV* in 2009. The company is also moving forward with confirming battery quality and checks aimed at the mass production of control parts unique to electric vehicles. The prototype vehicle is already being put through fleet test runs under actual driving conditions in partnership with electric power companies around Japan, and challenges are steadily being overcome.

## Aiming for Ever-higher Levels of Customer Satisfaction

In November 2005, based on the Mitsubishi Motors Revitalization Plan, the company consolidated all operations regarding after-sales services into the Quality Affairs Office and worked to enhance quality through measures including not only monitoring of market information but also provision of information on service to sales companies. Recognizing that this move produced a measure of success, in April 2008 MMC consolidated after-sales service operations into the sales divisions, which are closest to the customer, to pursue business more in line with a customer perspective. The opening of a broad channel of communication between sales and quality divisions has provided a system for sales divisions to provide feedback to quality divisions in the form of information from the frontlines that cannot be gleaned from WAS- and QMS-generated quantitative data, and we believe this will further enhance quality.

MMC believes that it is essential to improve the quality of vehicles leaving its plants every day, every month, and every year; we are committed to making that happen. There has been no alteration from this course in Step Up 2010, our new mid-term business plan initiated in April 2008. Staying true to our commitment to putting compliance first, safety first, and customers first, we are working to achieve even higher levels of quality.

**MMDS (Mitsubishi Motors Development System)**



# Corporate Governance

MMC is strengthening its corporate governance primarily by implementing compliance in practice, improving transparency through proactive information disclosure to stakeholders, and clarifying management responsibility.

## Corporate Governance Framework

MMC employs the Statutory Auditor System pursuant to the Japanese Companies Act. In addition to mandatory organizations and governance systems, the company is improving its corporate governance by adding an executive officer system and advisory committees.

MMC's Board of Directors is responsible for making decisions concerning important management issues and overseeing execution. In addition, the executive officer system clarifies the roles and responsibilities of directors and executive officers. Managing directors' meetings composed of directors, executive officers, and statutory auditors make speedy decisions in bi-weekly meetings.

## Status of Internal Audits and Statutory Audits

Statutory audits of MMC and its subsidiaries are carried out by attending important meetings such as the Board of Directors Meeting. Also, key internal documents and internal audit reports from groups, subsidiaries and accounting auditors are reviewed.

In addition to the statutory auditors, MMC has established two departments within the CSR Promotion Office: the Quality Audit Dept. and the Internal Audit Dept. Both are independent from operating units and conduct internal audits from an objective perspective.

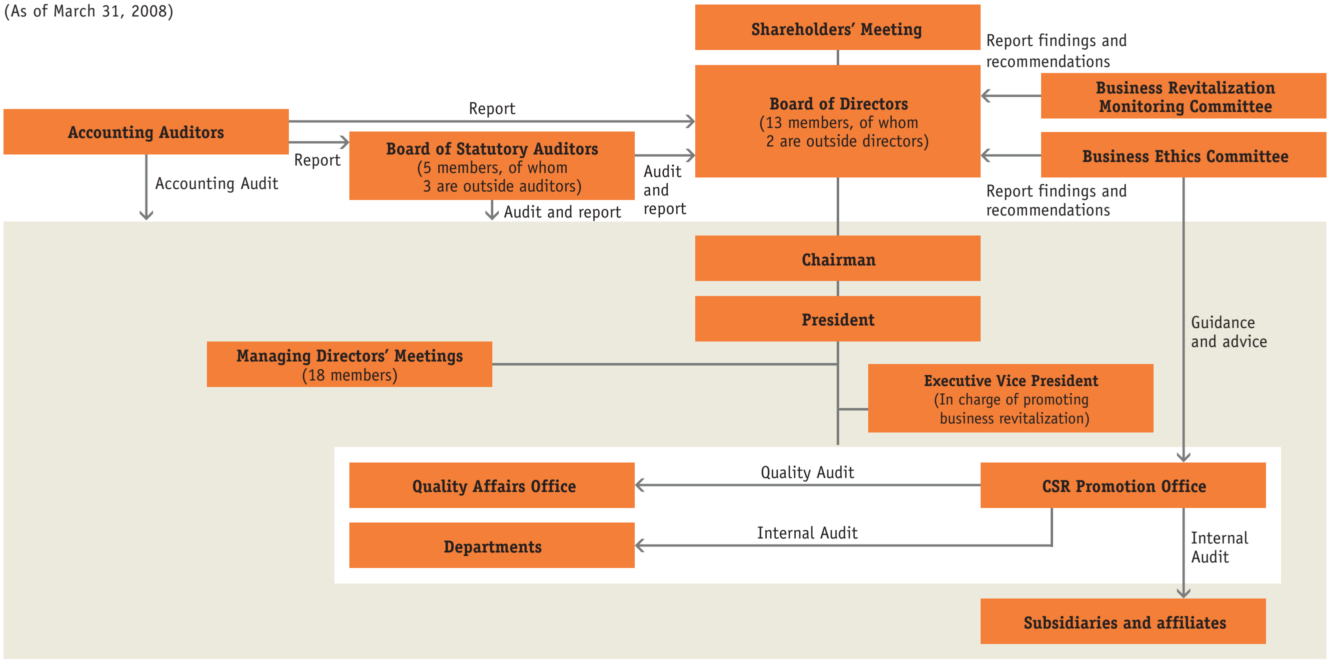
The Quality Audit Dept. monitors whether the Quality Affairs Office is appropriately carrying out operations related to vehicle development and manufacturing based on laws and regulations in various countries. The department conducted a total of 80 audits in fiscal year 2007. The audit results are successively reported to top management and to the Business Ethics Committee twice a year.

The Internal Audit Dept. conducts regular company-wide audits, covering areas including subsidiaries and affiliates in Japan and overseas, to verify the appropriateness and effectiveness of internal control systems including compliance and risk management. The results are reported to the top management at MMC, its subsidiaries and affiliates.

The Internal Audit Dept. is actively working to strengthen corporate governance and internal controls throughout the MMC group both in Japan and overseas. In fiscal year 2005, it established internal auditing divisions at all major overseas subsidiaries. In fiscal year 2007, the department used the regional integration of consolidated domestic sales companies to establish CSR divisions at each company.

The statutory auditors, Internal Audit Dept., Quality Audit Dept., Compliance Dept. and accounting auditors regularly exchange information to strengthen cooperation.

**Corporate Governance Framework**
(As of March 31, 2008)




Note: The Business Revitalization Monitoring Committee was dissolved on March 31, 2008 following the completion of the Mitsubishi Motors Revitalization Plan, the company's previous mid-term business plan. As with this committee, the Executive Vice President was put in charge of the Step Up 2010 Office from April 2008. There are 14 directors as of June 19, 2008.

## Guidance From Advisory Committees

The Business Ethics Committee is an advisory body to the Board of Directors made up of six outside experts. The committee works to spread an awareness of compliance, and it provides MMC directors with guidance and advice from an objective perspective.

Prior to its dissolution on March 31, 2008 following the achievement of its initial aims, the Business Revitalization Monitoring Committee monitored MMC's progress against the aims of the Mitsubishi Motors Revitalization Plan. The Committee was made up of outside experts including Chairman Tomoo Tasaku and representatives of major shareholders (total of six members).

MMC directors received advice from the Committee starting in April 2005. The committee held a total of 31 meetings, providing important opinions and advice from an outside perspective.

## Development of Internal Control Systems

Based on the "Basic Policy on the Establishment of Internal Control Systems," MMC is continually working to improve and upgrade systems to ensure compliance with laws and regulations and to promote proper, effective business execution, in line with changes in the domestic or overseas environment, in a drive to further strengthen corporate governance.

In April 2008, MMC augmented this Basic Policy with policies concerning financial reporting and the elimination of criminal or unethical organizations. With regards to ensuring the reliability of financial reporting pursuant to the Financial Instruments and Exchange Act, which came into force from fiscal year 2008, MMC is implementing company-wide measures led by the Group Controlling & Accounting Department, Internal Audit Department, and Risk Management Promotion Team under the leadership of the Internal Control Promotion Committee (renamed the Internal Control Committee from fiscal year 2008).

## Development of Risk Management Framework

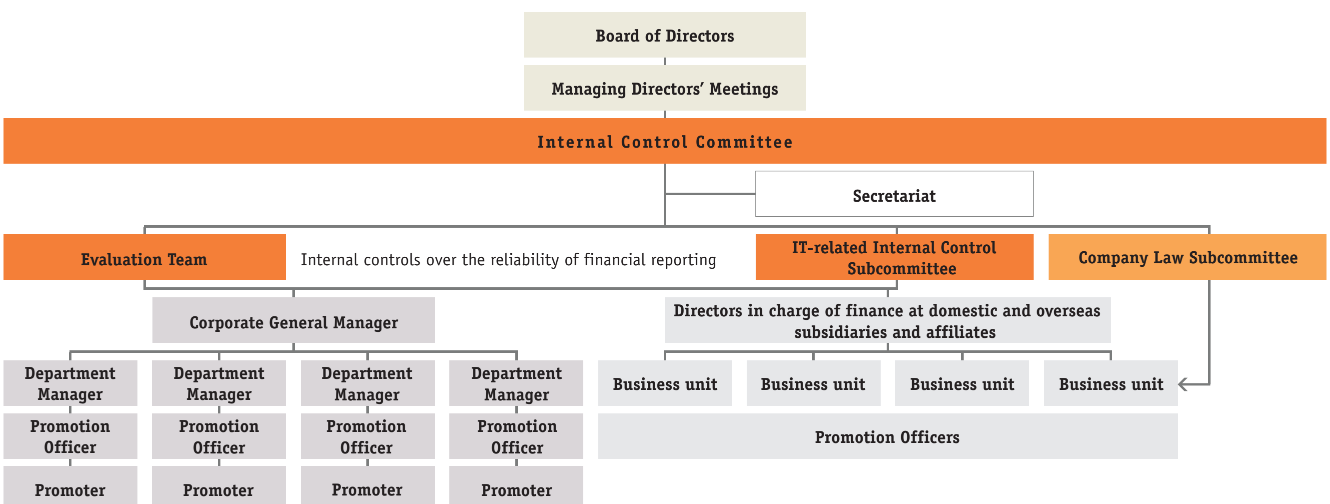
MMC is establishing infrastructure for company-wide risk management systems centered on the Risk Management Promotion Team in the Corporate Affairs Office, and is also promoting the sharing of risk information within the company.

To promote systematic risk management and more frequent initiatives, MMC formulated the "Risk Management Rules" and appointed a total of 19 risk management officers (as of August 31, 2008) to each operational group.

Based on the core role of these officers, MMC is working to establish and bolster its risk management systems.

In addition, to prepare for unforeseen contingencies, MMC has developed systems that enable the rapid communication of information to directors and other key personnel, as well as a swift and accurate response.

### Internal Control Promotion Framework



## Data Security Management

MMC recognizes that the protection of data assets (information as well as information systems, machines, media, and equipment used to handle that information) is vital to fulfilling its social responsibility and earning the trust of stakeholders. Accordingly, MMC maintains a high level of data security.

In April 2006, MMC established an information security policy and internal rules that conform to ISO 27001. The company also provides employee education through regular training sessions, e-learning and other methods, in an effort to achieve progressive improvements.

## Protection of Personal Information

MMC formulated a policy for the protection of personal information in April 2005, and built a management framework to establish internal rules. The company also appointed a person responsible for personal information management at each department under the direction of the Personal Information Officer. MMC educates staff on the subject through ongoing e-learning seminars and other programs, and makes efforts to safeguard personal information in practice.

## Security Trade Control

From the viewpoint of maintaining international peace and security, MMC profoundly believes in the importance of strict trade controls to prevent the proliferation of weapons of mass destruction and the excessive accumulation of conventional weapons.

In order to ensure the appropriate trade control, MMC has established an Internal Security Trade Control Standard as a management regulation. In accordance with the standard and in order to ensure compliance with laws and regulations regarding security trade control the "Supervisory Committee for Security Trade Control" was established under the direction of the president, who acts as Chief Security Trade Control Officer. Legality of export transactions is guaranteed by a management system centered on the committee.

## Compliance

In order to restore society's trust in the company and to be recognized as an enterprise with integrity, MMC believes it is essential to ensure that all staff members adopt a strong sense of business ethics.

### Development of an Organizational Framework for Promoting Business Ethics

In June 2004, MMC established the CSR Promotion Office to ensure thorough compliance and promote a new corporate culture, while restructuring the compliance framework. MMC has strengthened the organization to ensure that awareness of compliance spreads to each and every employee. The company appointed 19 compliance officers (as of fiscal year 2007) at each department, under the direction of the Chief Business Ethics Officer (CBEO), and appointed department managers as code leaders in each department under the compliance officers.

### Initiatives to Implement Compliance

In fiscal year 2007, in order to shift the focus from revitalization to the future, MMC worked to encourage voluntary activities grounded in the workplace as well as individual initiatives, while holding training sessions and other events with the aim of sharing information within the group.

### Awareness-raising Activities

In fiscal year 2007, MMC held training sessions on compliance led by instructors from outside the company as part of a training program for directors and corporate auditors, with a total of 24 full-time directors at the executive officer level or above and statutory auditors taking part.

Meetings are held three times a year in each workplace at which familiar business ethics problems are examined and solutions are discussed. These meetings provide a good opportunity to enhance ethical awareness and improve communication through discussion using actual examples.

In addition to these types of discussions at each workplace, compliance measures specific to each department were formulated and implemented under the direction of compliance officers. In these and other ways, MMC worked to promote compliance with business ethics.

### Establishment and Dissemination of Regulations

MMC is giving priority to its internal reporting system in order to create a highly transparent workplace environment that is not conducive to scandals and promotes their early detection as well as self-correction. MMC has already established the Employee Counseling Office and external counseling channels through outside attorneys. In April 2006, in line with the enforcement of the Whistleblower Protection Act, MMC established operational criteria related to the internal reporting system, as well as internal regulations, including those prohibiting the disadvantageous treatment of whistleblowers. Furthermore, to create a framework that facilitates internal reporting, MMC is endeavoring to disseminate regulatory information within the company by holding briefings, including information in the company newsletter, and adopting other measures.

In April 2007, MMC fully revised its "Business Ethics of Mitsubishi Motors Corporation"—MMC's corporate ethics standards—to turn them into more practical guidelines for informing employees' actions. The company is using opportunities such as meetings on business ethics issues at each workplace to help employees gain a full understanding of its content. At the same time, all employees and directors have signed an oath of compliance with these standards. Furthermore, in January 2008, we revised the "Behavioral Standards of Mitsubishi Motors Corporation," a set of guidelines for behavior that all employees must keep in mind at all times. We distributed these booklets to all staff members, and by making use of it on a daily basis, we aim to ensure thorough compliance with business ethics.

**Activities to Spread Compliance Among MMC Group Companies**

Restoring trust in MMC requires a concerted effort by the entire MMC Group. To this end, domestic Group companies (including exclusive dealers) have taken the lead in carrying out initiatives since fiscal 2005. In fiscal 2006, almost all companies completed the establishment of systems to ensure compliance with business ethics. They regularly conduct training on resolving corporate ethics problems and the development of precedents.

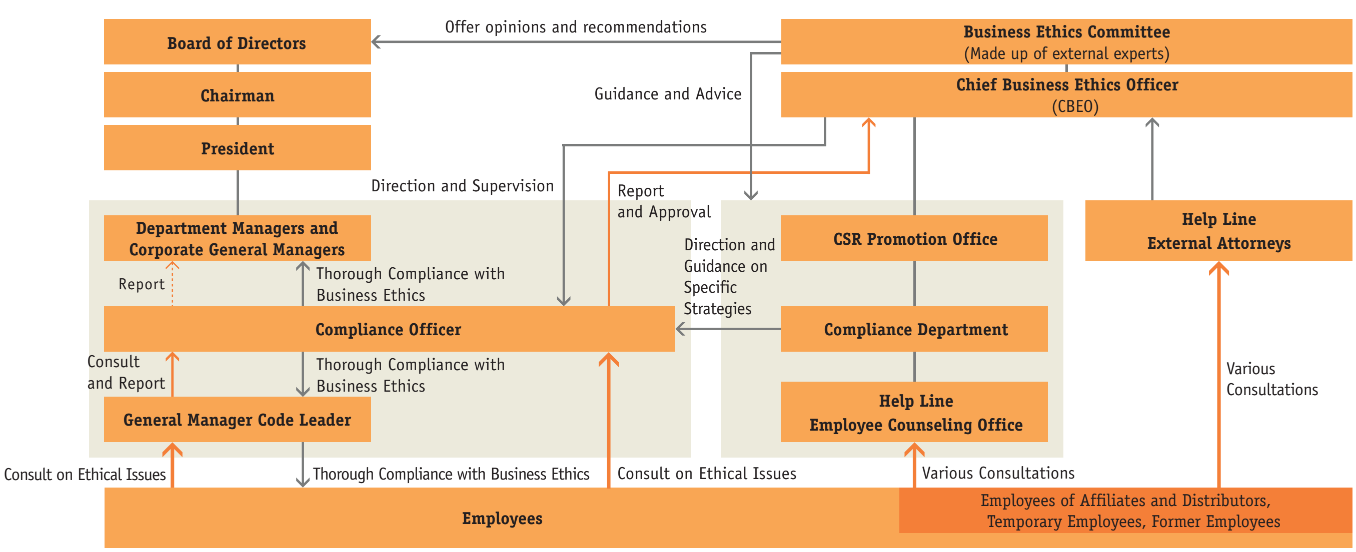
**Other Initiatives**

To prevent past errors such as the regrettable recall problems from being forgotten over time, January 10 and October 19 have been designated "Safety Pledge Days," since two fatal accidents occurred on those days involving large trucks manufactured by Mitsubishi Fuso, a former MMC division. All employees observe a moment of silence on these days, and the previously mentioned meetings to review business ethics problems are held around these times.

MMC reports on the status of these activities to the Business Ethics Committee, which acts as an advisory body to the Board of Directors and is made up of external experts. MMC directors receive objective, common-sense guidance and advice regarding these matters.

In fiscal year 2008 onward, MMC will continue to further develop and promote initiatives to ensure compliance based on the theme of "building a sustainable relationship with society."

**Organizational Framework for Promoting Business Ethics**



# Activity Report by the Business Ethics Committee

The Mitsubishi Motors Business Ethics Committee was established in June 2004 as an advisory body to the Board of Directors of MMC. At that time, the so-called recall scandal had reignited, and MMC faced a crisis concerning the company's survival due to a loss of consumer confidence and trust in MMC. The Business Ethics Committee was established as one of the critical steps to restore trust in MMC and ensure its revitalization. The aims of this committee, which is made up solely of external experts, are to conduct monitoring, guidance and consultation from the viewpoint of external oversight and common sense with respect to MMC's overall activities to restore trust, especially in terms of compliance. The scope of the committee's activity is not limited to business ethics but also includes matters broadly related to quality problems and corporate culture.

## Review of the Committee's Activities Since its Establishment

Since the committee convened its first meeting in July 2004 through to June 2008, it has held a total of 47 meetings and has considered as many as 112 issues in total. During this period, the members of the committee have raised frank questions and expressed candid opinions regarding each of these issues from the standpoint of external oversight and common sense. The general categories of topics considered by the committee are shown below. A variety of issues were considered based on each topic (the figures in brackets indicate the number or frequency of these issues).

1. Response to recall problems [23]
2. Recall process reform and quality improvement initiatives [15]
3. Initiatives to entrench compliance [31]
4. Other initiatives, including corporate culture reforms [38]
5. Fact-finding visits to plants and dealers [5]

## Overview of Activities in Fiscal Year 2007

On May 21, 2007, the Board of Directors of MMC received a report from the committee comprising a summary of MMC's activities toward restoring trust in the company, as well as an evaluation and proposals regarding these activities. The report generally gives high marks to MMC activities in this regard. For example, looking back on the measures that MMC had taken, the report concluded that earnest and steady progress had been made, based on the unwavering stance of top executives, and that the initial goals had been accomplished. At the same time, the report also pointed out issues and made proposals aimed at providing further support for MMC's revitalization, indicating the following: "the job of restoring trust in MMC is still only half complete. It is still necessary to stay fully committed to activities to restore trust."

MMC's initiatives in response to the report's evaluations and proposals are explained to the committee on a case-by-case basis, with opportunity for the committee to respond as needed. All departments will continue to implement specific measures in the future based on the committee's advice.

The committee convened 12 times during fiscal year 2007, considering 31 issues including the company's response to the aforementioned report, a review of "Business Ethics of Mitsubishi Motors Corporation," and the fiscal year 2007 business ethics compliance promotion program. Committee members attend formal committee meetings, plus the Compliance Officers Meeting in July and the Quality Meeting in September. During a visit to the Okazaki district, the committee gained an appreciation of MMC's environmental initiatives through an explanation of electric vehicles and test drive of the *i MiEV*. In addition, the committee's views and guidance is requested on any urgent issues, which are explained to the committee on a case-by-case basis.

**Members of the Business Ethics Committee**

Nobuyuki Yamamoto | Kazuko Miyamoto | Konoe Kawagishi | Noboru Matsuda (Chairman) | Takahiro Fujimoto | Kazuo Mura

# Responsibility to Society

MMC remains committed to its valued customers and society at large by supplying safe, high-quality products and services. The company will also work to resolve community issues voluntarily and proactively, so as to contribute to the development of a sound and sustainable society.

**Corporate Citizenship Activity Policy**

**MMC is tackling four key themes with respect to corporate citizenship activities: Support for the next generation, Traffic safety, Environmental preservation, and Participation in local communities. These are being promoted as MMC's "STEP" corporate citizenship activities based on our corporate philosophy.**

1. **Support for the next generation** — Supporting the education of the next generation to create a prosperous future.
2. **Traffic safety** — Contributing to traffic safety education and the spread of safe driving to realize a zero-accident society.
3. **Environment preservation** — Contributing to preservation of our precious global environment.
4. **Participation in local communities** — Contributing to the revitalization and development of regional communities.

## Establishment of Corporate Citizenship Promotion Office

MMC has been involved in corporate citizenship activities in various regions for some time, and in April 2008 a Corporate Citizenship Promotion Office was established within the CSR Promotion Office to promote activities at the company-wide level. In June 2008, a Corporate Citizenship Activity Policy was enacted, covering the results of the activities that have been carried out so far as well as the future direction.

Going forward, the company plans to establish an internal promotion structure based on the Corporate Citizenship Activity Policy, and to gradually extend these activities to domestic and overseas affiliates.

## Main Activities

### 1. Support for the next generation

Mitsubishi Motors Hands-on Lesson Program

In this program, MMC employees actually visit elementary schools and elsewhere to give lessons that enable children to enjoying learning by experiencing the "real thing." The children learn about issues such as the environment (including test rides in the *i MiEV* electric vehicle) and design, with guidance from designers and modellers.

KidZania

MMC has been exhibiting at KidZania Tokyo since October 2006. KidZania is the first facility in Japan where children can get a taste of working life and being a full member of society. The concept of KidZania Tokyo is to provide children—society's next generation—with a place and opportunity to discover their dreams and goals, and somewhere to enjoy working to realize those goals. MMC also plans to exhibit at KidZania Koshien, which is scheduled to open in March 2009.

### 2. Traffic safety

Car School

MMC has been running a Car School since 1995 as part of its safe driving educational activities. Car School is a driving program in which the instructors think, learn and enjoy driving together with all the participants.

### 3. Environment preservation

The Pajero Forest

MMC named an area of mountain forest "Pajero Forest", and we have been working to preserve and cultivate the forest while deepening exchanges with local residents through volunteer activities. The forest is situated at Hayakawa-cho, Yamanashi Prefecture, and covers an area of about three hectares.

### 4. Participation in local communities

Factory tours

The Okazaki Plant, Kyoto Plant, Shiga Plant, Mizushima Plant and Pajero Manufacturing Co., Ltd. have opened up their production lines to local elementary schools and other residents as a place for social study.

# Environmental Activities

Through our vehicle manufacturing operations, we aim to provide the utmost driving pleasure to customers around the world, while also maintaining a focus on environmental concerns. This philosophy is expressed by our slogan “Drive@Earth.” MMC considers environmental conservation a key management priority. As the connection between cars, society and the environment becomes clearer, the company is committed to helping clear a path to a new era in sustainable partnership.

MMC is developing and commercializing a range of environmentally friendly technologies. The company also ensures environmental factors are taken into account in business operations including manufacturing and sales, and works to support society through external activities.

### Mitsubishi Motors Corporation Environmental Policy

**Basic Guidelines**

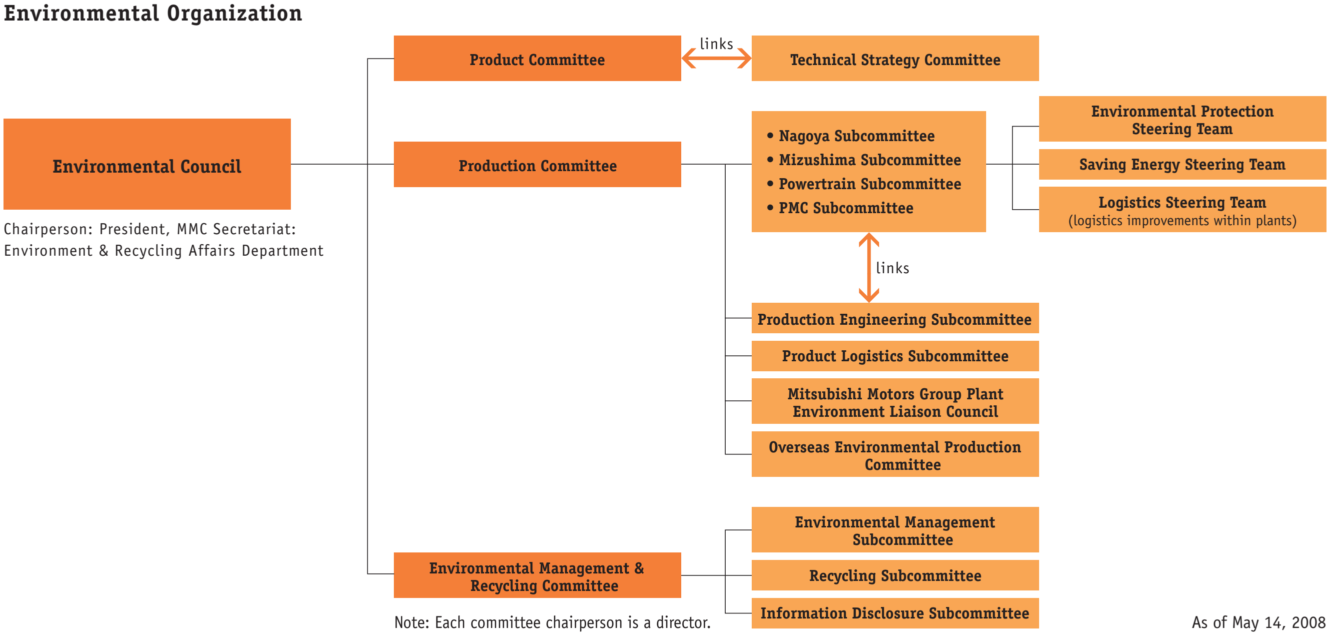
**Mitsubishi Motors recognizes that protection of the global environment is a priority for humanity and as such makes the following pledges:**

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.**

### Environmental Organization




Note: Each committee chairperson is a director.

As of May 14, 2008

# Financial Section


## Contents

# Financial Results and Discussion

## Operational Review

In fiscal year 2007, although the Japanese economy was buoyed by the strength of newly emerging economies and resource-rich countries such as Brazil, Russia, India and China, there was minimal economic expansion. This was due to turmoil in financial markets stemming from the sub-prime loan crisis in the United States and drastic increases in the price of raw materials such as crude oil. Despite these challenging conditions, Mitsubishi Motors Corporation and its group of related companies (hereafter "MMC" or "the company") were able to exceed previous fiscal-year results in all areas including sales, operating income, ordinary income and net income. This was due to an increased number of units sold outside Japan, as well as a favorable model mix and the effect of the yen's depreciation in terms of average exchange rates for the fiscal year.

## Results of Operations

### Retail Sales Volume

In terms of retail sales volume, retail volume in Japan decreased year on year, reflecting a contraction of 4.8% in the Japanese market. However, in overseas markets, global models such as the new *Pajero*, *Outlander* and *Lancer* models launched (regionally) since the second half of the previous fiscal year contributed to sales, resulting in higher retail sales volume in all regions, including North America, Europe, Asia and other areas. As a result, the overseas consolidated retail volume reached 1,141,000 units, an increase of 158,000 units, or 16.0%, from the previous fiscal year. Consolidated retail volume worldwide was 1,360,000 units, an increase of 130,000 units, or 10.6% year on year.

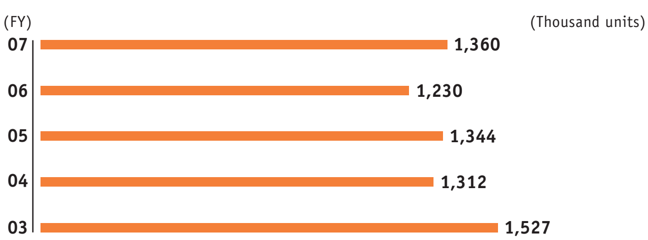
In Japan, retail sales dropped 28,000 units, or 11.3%, year on year, to 219,000 units. MMC's sales of registered vehicles rose 9.9% year on year due largely to the new *Delica D:5* minivan, *Galant Fortis*, and *Lancer Evolution X*. Total market demand for registered vehicles decreased 3.5% year on year. However, sales of minicars declined by 20.7% compared to the previous fiscal year. Total market demand for minicars decreased 6.8%.

In North America, the introduction of new *Lancer* and *Outlander* models helped sales to grow 8,000 units from the previous fiscal year (up 4.7%), to 172,000 units.

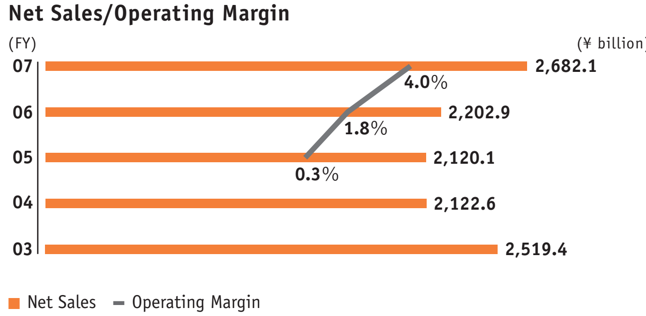
In Europe, Russia and Ukraine propped up the market, while Germany and the U.K. were down. As a result, the overall volume was 341,000 units, up 59,000 units, or 20.6%, year on year.

In Asia and other areas, in addition to steady growth in the Latin American, the Middle East and African regions, the increased import of finished vehicles in China and Australia, and increased sales in ASEAN countries including Indonesia, where the market is recovering, helped to raise sales. Total vehicles sold in these areas increased by 91,000 units, or 17.1% over the previous fiscal year, to 628,000 vehicles.

**Retail Sales**




**Net Sales/Operating Margin**



## Net Sales and Income

In fiscal year 2007, consolidated net sales were ¥2,682.1 billion, an increase of ¥479.2 billion (21.8%) year on year. This increase reflected higher sales in overseas markets, the commencement of SUV supply for PSA Peugeot Citroën, and foreign exchange gains. In Japan, where retail volume has declined, and in North America, where the model mix has changed, sales dropped ¥17.5 billion and ¥20.9 billion, respectively. However, sales in Europe, and Asia and other areas rose by ¥268.8 billion and ¥248.8 billion, respectively.

MMC attained its highest profitability ever; reported operating income was ¥108.6 billion, a year-on-year improvement of ¥68.4 billion. Key factors behind this improvement were as follows: a contribution of ¥54.3 billion from improving sales volumes, a more profitable model mix, and ¥14.6 billion due to favorable exchange rate movements. The major negative factors were an increase of ¥6.4 billion in cost of sales resulting from higher advertising costs for new launches in North America, and a drop of ¥9.5 billion in earnings on the U.S. sales finance business.

Ordinary income improved ¥67.2 billion to ¥85.7 billion, likewise reaching a new record, although non-operating losses edged up ¥1.2 billion from the previous fiscal year, mainly due to foreign exchange losses.

Net income improved ¥26.0 billion from the previous fiscal year to ¥34.7 billion. This was mainly the result of closure costs of ¥14.6 billion for the Australian factory and asset impairment charges of ¥21.3 billion.

Notes:
1. The above retail sales volume and net sales are explained in “geographical segment information,” which is a classification used by the company for management accounting purposes.
2. The following is an explanation of retail sales, net sales and operating profitability as shown in the “17. Segment Information” of the notes to consolidated financial statements.

## Segment Analysis

### Business Segment Information

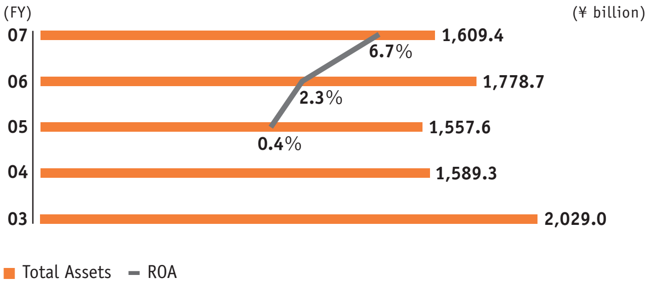
#### Automobiles

In fiscal year 2007, sales in the automotive business rose 23.3% year on year to ¥2,657.5 billion. MMC recorded operating income of ¥95.8 billion, a ¥78.1 billion improvement over the previous fiscal year.

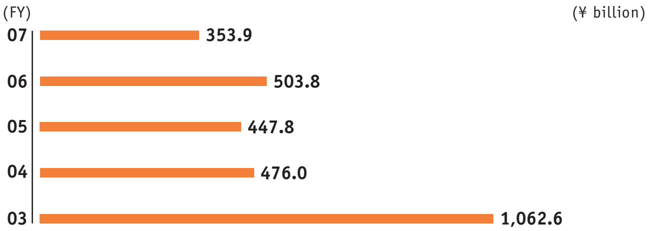
#### Financial Services

In fiscal year 2007, revenues from financial services decreased 48.7% year on year to ¥24.6 billion, and operating income was ¥12.8 billion, down ¥9.5 billion year on year.

**Total Assets/ROA**




**Interest-bearing Debt**



## Geographical Segment Information

### Japan

As the result of an increase in export volume, sales in Japan totaled ¥2,021.5 billion, a 33.4% increase year on year and operating income was ¥82.9 billion, an improvement on the ¥5.1 billion operating loss in the previous fiscal year.

### North America

Sales in North America were ¥392.8 billion, a 7.4% decrease from the previous year, mainly as the result of a decrease in sales financial assets. The operating loss totaled ¥10.6 billion, down from ¥5.5 billion in operating income in the previous fiscal year.

### Europe

Net sales in Europe were ¥657.2 billion, a 3.5% decrease from the previous year, mainly due to lower retail sales. Operating income was ¥20.3 billion, a decrease of 20.0% year on year.

### Asia and Other Areas

As the result of an increase in retail sales, sales in Asia and other areas were ¥565.5 billion, a 23.8% increase year on year. However, due to an increase in cost of sales related to the closure of the Australian factory, operating income totaled ¥15.2 billion, a decrease of 9.1%.

## Financial Position

### Assets, Liabilities and Net Assets

Total assets as of March 31, 2008 were ¥1,609.4 billion, a decrease of ¥169.3 billion from the end of fiscal year 2006. Interest-bearing debt decreased ¥149.9 billion from a year earlier to ¥353.9 billion. Total net assets increased ¥19.8 billion from a year ago to ¥328.1 billion.

### Cash flows

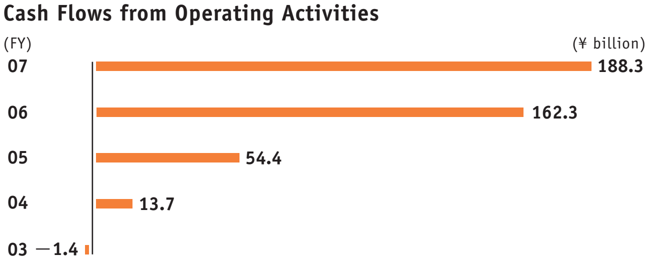
Net cash provided by operating activities totaled ¥188.3 billion, ¥26.0 billion more than in fiscal year 2006.

Net cash used in investing activities was ¥48.9 billion, ¥2.9 billion more than in the previous fiscal year.

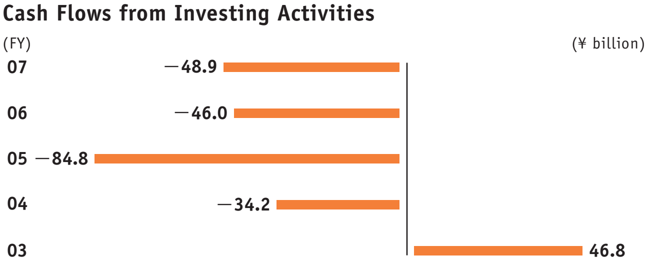
Net cash used in financing activities totaled ¥132.6 billion, ¥121.3 billion more than in the previous fiscal year.

As a result, the year-end balance of cash and cash equivalents was ¥360.9 billion, a decrease of ¥3.4 billion from the beginning of the fiscal year.

**Cash Flows from Operating Activities**




**Cash Flows from Investing Activities**



## Business-related Risks

Risks related to the company's operations and financial status are as follows:

Forward-looking statements are based on the judgment of the MMC Group as of the end of fiscal year 2007.

**Leasing, financial services and sales incentives**

Overcapacity in the auto industry, and fierce competition, especially price competition in the North American market, has led to the necessity of sales incentives in sales promotion efforts.

The sales incentives the company uses in promotions reduce the selling price of new vehicles. It is possible that the use of incentives will lower residual values, which will affect both residual values in the used car market and that of vehicles returned at the end of leases. If vehicle residual values decrease, there could be a negative impact on future business performance. The decline in residual values could also put downward pressure on car and lease assets held as collateral in the sales-finance unit.

**Issuance of common and preferred shares and effect on share price**

In June and July 2004, March 2005, and January 2006 the company issued several classes of convertible preferred shares. The conversion of all Class B shares, series 1 – 3 (issued July 2004), has already been completed, but the possible conversion of the remaining Class A & G shares to common shares in the future will dilute the value of existing common shares, and thus possibly influence the market price of common shares.

**Effect of foreign exchange rate fluctuations**

Overseas sales accounted for 81.8% of the consolidated sales of MMC for the period. The company endeavors to minimize the risk involved in foreign currency receivables and payables through foreign currency derivative contracts. However, fluctuations in the foreign exchange markets still may have an impact on MMC results.

**Effect of socioeconomic situations**

The breakdown of the above ratio for overseas sales is 15.0% for North America, 34.7% for Europe, and 32.1% for Asia and other areas. There is a possibility that changes in the socioeconomic situation in Japan or any of these regions will impact MMC results.

**Effect of interest rate fluctuations on borrowings**

The balance of MMC's consolidated interest-bearing liabilities stood at ¥353.9 billion at the end of March 2008. There is a possibility that fluctuations in interest rates on borrowings resulting from a change in financial market conditions in the future will impact MMC results.

**Effect of fluctuations in materials prices**

The MMC group purchases materials and finished parts and components from many partners. Increased demand and other changes in market conditions may cause materials and components prices to increase, thus raising the company's manufacturing costs and resulting in an impact on MMC results.

**Natural and other disasters**

The company maintains production and other facilities in many parts of the world. The occurrence of a major natural or other disaster, such as an earthquake or typhoon, or accidents such as fire, may result in large operational halts, etc. and thus have an impact on MMC results.

**Changes in laws and regulations**

MMC abides by laws and regulations regarding the environment, product safety, etc. in its various markets of operation. If any laws and regulations were to be changed, or new rules issued, costs associated with implementing these changes would have an impact on MMC results.

# Consolidated Balance Sheets

Mitsubishi Motors Corporation and Consolidated Subsidiaries
As of March 31, 2008 and 2007

| | In millions of yen | | In thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| **Assets** | 2008 | 2007 | 2008 |
| Current assets: | | | |
| Cash and cash equivalents (Notes 7 and 12) | ¥ 360,902 | ¥ 364,268 | $ 3,602,184 |
| Trade notes and accounts receivable (Notes 3 and 7) | 174,076 | 195,021 | 1,737,468 |
| Finance receivables (Notes 3 and 7) | 14,722 | 40,480 | 146,942 |
| Inventories (Note 7) | 299,644 | 351,991 | 2,990,765 |
| Short-term loans receivable | 113 | 3,277 | 1,135 |
| Deferred tax assets (Note 16) | 1,040 | 846 | 10,384 |
| Prepaid expenses and other current assets (Note 7) | 124,529 | 130,840 | 1,242,938 |
| Allowance for doubtful accounts | (10,897) | (27,092) | (108,770) |
| Total current assets | 964,133 | 1,059,633 | 9,623,050 |
| Property, plant and equipment, net (Notes 4 and 7) | 453,453 | 517,464 | 4,525,931 |
| Intangible assets (Note 7) | 31,825 | 38,530 | 317,654 |
| Investments and other assets: | | | |
| Investments (Notes 5 and 7) | 93,021 | 90,138 | 928,446 |
| Long-term finance receivables (Notes 3 and 7) | 5,580 | 18,872 | 55,700 |
| Long-term loans receivable (Note 7) | 11,195 | 13,262 | 111,742 |
| Deferred tax assets (Note 16) | 9,842 | 8,468 | 98,241 |
| Retained interests in securitized assets and others (Note 7) | 54,907 | 50,226 | 548,029 |
| Allowance for doubtful accounts | (14,551) | (17,903) | (145,234) |
| Investments and other assets, net | 159,996 | 163,065 | 1,596,926 |
| Total assets | ¥1,609,408 | ¥1,778,693 | $16,063,562 |

| Liabilities and net assets | In millions of yen 2008 | 2007 | In thousands of U.S. dollars (Note 2) 2008 |
|---|---|---|---|
| Current liabilities: | | | |
| Trade notes and accounts payable | ¥ 423,729 | ¥ 451,053 | $ 4,229,255 |
| Short-term borrowings (Note 7) | 219,597 | 215,036 | 2,191,811 |
| Current portion of long-term debt (Note 7) | 76,705 | 137,008 | 765,595 |
| Accrued expenses, accounts payable and deferred income (Note 6) | 230,750 | 250,722 | 2,303,132 |
| Accrued income taxes (Note 16) | 8,115 | 7,220 | 80,997 |
| Other current liabilities (Note 16) | 72,015 | 49,832 | 718,789 |
| Total current liabilities | 1,030,913 | 1,110,874 | 10,289,581 |
| Long-term debt (Note 7) | 57,606 | 151,806 | 574,974 |
| Deferred tax liabilities (Note 16) | 27,967 | 24,259 | 279,141 |
| Accrued retirement benefits (Note 15) | 103,295 | 105,881 | 1,030,992 |
| Other non-current liabilities | 61,493 | 77,567 | 613,769 |
| Total liabilities | 1,281,275 | 1,470,389 | 12,788,458 |
| **Net assets:** | | | |
| Stockholders' equity (Notes 8 and 19): | | | |
| Preferred stock: | | | |
| Authorized: 3,312,000 shares | | | |
| Issued or converted: | | | |
| 442,593 shares in 2007 | | | |
| 437,593 shares in 2008 | 218,796 | 221,296 | 2,183,815 |
| Common stock: | | | |
| Authorized: 9,958,285,000 shares | | | |
| Issued or converted: | | | |
| 5,491,516,544 shares in 2007 | | | |
| 5,537,897,840 shares in 2008 | 438,553 | 436,046 | 4,377,217 |
| Capital surplus | 432,661 | 432,654 | 4,318,408 |
| Accumulated deficit | (702,432) | (740,454) | (7,011,004) |
| Treasury stock — 76,934 shares at March 31, 2007 | | | |
| Treasury stock — 80,373 shares at March 31, 2008 | (14) | (13) | (142) |
| Total stockholders' equity | 387,564 | 349,528 | 3,868,295 |
| Valuation, translation adjustments and others: | | | |
| Unrealized holding gain on securities | 10,676 | 10,132 | 106,565 |
| Deferred gains/losses on hedging activities | 3,157 | 1,393 | 31,512 |
| Translation adjustments | (84,584) | (65,272) | (844,237) |
| Total valuation, translation adjustments and others | (70,750) | (53,746) | (706,159) |
| Minority interest | 11,318 | 12,522 | 112,967 |
| Total net assets | 328,132 | 308,304 | 3,275,104 |
| Contingent liabilities (Note 9) | | | |
| Total liabilities and net assets | ¥1,609,408 | ¥1,778,693 | $16,063,562 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Operations

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

| | In millions of yen | | In thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Net sales | ¥2,682,103 | ¥2,202,869 | $26,770,169 |
| Cost of sales | 2,194,741 | 1,788,897 | 21,905,796 |
| Reversal of deferred profit on installment sales, net | 0 | 0 | 0 |
| Gross profit | 487,361 | 413,972 | 4,864,373 |
| Selling, general and administrative expenses (Note 10) | 378,765 | 373,735 | 3,780,468 |
| Operating income | 108,596 | 40,237 | 1,083,904 |
| Interest and dividend income | 9,633 | 8,098 | 96,147 |
| Interest expense | 20,468 | 20,777 | 204,292 |
| Loss on impairment of fixed assets (Note 4) | 21,318 | 7,465 | 212,783 |
| Other gain (loss), net (Notes 5 and 11) | (28,291) | 3,011 | (282,377) |
| Income before income taxes and minority interest | 48,151 | 23,104 | 480,599 |
| Income taxes (Note 16): | | | |
| Current | 10,929 | 7,236 | 109,088 |
| Deferred | 1,558 | 5,066 | 15,560 |
| | 12,488 | 12,303 | 124,648 |
| Minority interest | 952 | 2,055 | 9,502 |
| Net income (Note 19) | ¥ 34,710 | ¥ 8,745 | $ 346,447 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

| | In millions of yen | | In thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| **Stockholders' equity** | | | |
| **Preferred stock:** | | | |
| Balance at beginning of year | ¥ 221,296 | ¥ 221,296 | $ 2,208,768 |
| Preferred stock issued or converted | (2,500) | — | (24,952) |
| Balance at end of year | 218,796 | 221,296 | 2,183,815 |
| **Common stock:** | | | |
| Balance at beginning of year | 436,046 | 436,040 | 4,352,191 |
| Common stock issued or converted | 2,507 | 5 | 25,026 |
| Balance at end of year | 438,553 | 436,046 | 4,377,217 |
| **Capital surplus:** | | | |
| Balance at beginning of year | 432,654 | 432,648 | 4,318,336 |
| Issuance or conversion of common and preferred stock | 7 | 5 | 72 |
| Balance at end of year | 432,661 | 432,654 | 4,318,408 |
| **Accumulated deficit:** | | | |
| Balance at beginning of year | (740,454) | (749,198) | (7,390,503) |
| Net income | 34,710 | 8,745 | 346,447 |
| Effect of affiliates which the equity method was newly applied | 3,311 | — | 33,051 |
| Effect of deconsolidation of subsidiaries | — | (1) | — |
| Balance at end of year | (702,432) | (740,454) | (7,011,004) |
| **Treasury stock:** | | | |
| Balance at beginning of year | (13) | (12) | (135) |
| Net change | (0) | (0) | (6) |
| Balance at end of year | (14) | (13) | (142) |
| **Total stockholders' equity** | 387,564 | 349,528 | 3,868,295 |
| **Valuation, translation adjustments and others** | | | |
| **Unrealized holding gain on securities:** | | | |
| Balance at beginning of year | 10,132 | 9,046 | 101,133 |
| Net change | 544 | 1,085 | 5,431 |
| Balance at end of year | 10,676 | 10,132 | 106,565 |
| **Deferred gains/losses on hedging activities:** | | | |
| Balance at beginning of year | 1,393 | — | 13,911 |
| Net change | 1,763 | 1,393 | 17,600 |
| Balance at end of year | 3,157 | 1,393 | 31,512 |
| **Translation adjustments:** | | | |
| Balance at beginning of year | (65,272) | (81,142) | (651,489) |
| Net change | (19,311) | 15,869 | (192,747) |
| Balance at end of year | (84,584) | (65,272) | (844,237) |
| **Total valuation, translation adjustments and others** | (70,750) | (53,746) | (706,159) |
| **Minority interest:** | | | |
| Balance at beginning of year | 12,522 | 12,580 | 124,983 |
| Net change | (1,203) | (58) | (12,015) |
| Balance at end of year | 11,318 | 12,522 | 112,967 |
| **Total net assets** | ¥ 328,132 | ¥ 308,304 | $ 3,275,104 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

| | In millions of yen | | In thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| **Operating activities:** | | | |
| Net income | ¥ 34,710 | ¥ 8,745 | $ 346,447 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 75,090 | 75,330 | 749,482 |
| Allowance for doubtful accounts, net of reversal | (14,664) | (15,201) | (146,369) |
| Accrued retirement benefits, net of reversal | 2,485 | (650) | 24,810 |
| Gain from affiliates accounted for by the equity method, net | (4,447) | (2,166) | (44,389) |
| Deferred income taxes | 1,558 | 5,066 | 15,560 |
| Minority interest | 952 | 2,055 | 9,502 |
| Loss on sales and disposal of property, plant and equipment, net | 2,602 | 2,003 | 25,976 |
| Loss on impairment of fixed assets | 21,318 | 7,465 | 212,783 |
| Gain on sales of investments in securities, net | (74) | (5,036) | (741) |
| Loss on impairment of investments in securities | 508 | 451 | 5,077 |
| Gain on liquidation of anonymous association | (4,655) | (13,885) | (46,461) |
| Early retirement expense | 10,154 | 3,073 | 101,354 |
| Change in trade notes and accounts receivable | 5,348 | 5,618 | 53,384 |
| Change in inventories | 52,955 | (55,334) | 528,549 |
| Change in finance receivables (Note 12) | 31,368 | 58,249 | 313,088 |
| Change in retained interests in securitized assets | — | (1,717) | — |
| Change in trade notes and accounts payable | (24,114) | 69,297 | (240,686) |
| Other | (2,819) | 18,978 | (28,142) |
| Net cash provided by operating activities | 188,279 | 162,345 | 1,879,227 |
| **Investing activities:** | | | |
| Decrease in investments in term deposits | 5,523 | 12,085 | 55,127 |
| Purchase of property, plant and equipment (Note 12) | (86,622) | (111,594) | (864,580) |
| Proceeds from sales of property, plant and equipment (Note 12) | 28,549 | 40,274 | 284,950 |
| Net decrease in investments in securities | 1,289 | 9,294 | 12,872 |
| Acquisition of capital investments in affiliates | — | (8,750) | — |
| Decrease (increase) in short-term loans receivable | 2,613 | (2,646) | 26,090 |
| Loans made | (1,738) | (68) | (17,351) |
| Collection of loans receivable | 1,076 | 1,974 | 10,744 |
| Proceeds from liquidation of anonymous association | 5,035 | 19,451 | 50,256 |
| Other | (4,592) | (6,039) | (45,841) |
| Net cash used in investing activities | (48,865) | (46,017) | (487,731) |
| **Financing activities:** | | | |
| Increase (decrease) in short-term borrowings | 508 | (13,564) | 5,078 |
| Proceeds from issuance of long-term debt | 4,542 | 68,823 | 45,333 |
| Repayment or redemption of long-term debt | (136,634) | (66,464) | (1,363,755) |
| Dividend paid to minority interest | (98) | (79) | (984) |
| Other | (911) | (3) | (9,094) |
| Net cash used in financing activities | (132,593) | (11,287) | (1,323,422) |
| **Effect of exchange rate changes on cash and cash equivalents** | (10,186) | 11,326 | (101,667) |
| **Net change in cash and cash equivalents** | (3,365) | 116,367 | (33,593) |
| **Cash and cash equivalents at beginning of year** | 364,268 | 248,069 | 3,635,778 |
| **Change in cash and cash equivalents due to inclusion and exclusion of subsidiaries in consolidation** | — | (167) | — |
| **Cash and cash equivalents at end of year** (Note 12) | ¥ 360,902 | ¥ 364,268 | $ 3,602,184 |

See accompanying notes to consolidated financial statements.

## 1. Significant Accounting Policies

### (a) Going concern

The financial statements of the Mitsubishi Motors Corporation (MMC) group for the year ended March 31, 2007 included a note describing the basis on which the going concern premise had been applied due to the existence of significant doubts as to going concern. Due to the resolution of the significant doubts as to going concern, the MMC group has not presented that note in these financial statements.

### (b) 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 with the Financial Services Agency as required by the Financial Instruments 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.

### (c) 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 between 3 to 7 years.

### (d) 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.

### (e) 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.

### (f) Investments

Investments in securities are classified either as held-to-maturity, investments in unconsolidated subsidiaries and affiliated companies, or other securities. Held-to-maturity securities are stated at their amortized cost. No investments classified as held-to-maturity were held during the years ended March 31, 2008 and 2007. Other securities with a readily determinable market value are stated at fair value and the cost of such securities sold is computed based on the moving average method. 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. Other securities without a readily determinable market value are stated at cost determined by the moving average method.

**(g) 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 useful lives of the assets at MMC are based on estimated life of assets and its domestic consolidated subsidiaries are as provided for in the Corporate Tax Law.

[Additional information]

Until March 31, 2006, to determine the useful lives of fixed assets for accounting purposes, MMC used the same useful lives that are provided for in the Corporate Tax Law. However, due to effective manufacturing integration based on the "Mitsubishi Motors Revitalization Plan" and by reducing the number of platforms and sharing existing platforms, the estimated actual useful lives of dies, which are classified under tooling and furniture, and their useful lives under the Corporate Tax Law are now substantially different.

Hence, from April 1, 2006, instead of the useful lives dictated by the Corporate Tax Law, estimated actual useful lives are used to determine the useful lives of MMC's fixed assets. As a result, operating income, ordinary income and net income for the year ended March 31, 2007 have increased by ¥7,585 million. (The effects on the segment information are described in Note 17).

Intangible fixed assets are amortized by the straight line method primarily over their respective estimated useful lives. Software intended for use by MMC and its domestic consolidated subsidiaries is amortized by the straight line method over a period of 5 years. Goodwill and negative goodwill are amortized immediately or on a straight line basis over periods of 3 to 7 years depending on the period of effectiveness estimated by each investment.

**(h) 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.

**(i) 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.

**(j) Retirement benefits**

Accrued retirement benefits for employees at March 31, 2008 and 2007 are calculated based on the retirement benefits obligation and the fair value of the pension plan assets estimated at year end.

Prior service cost is being amortized using the straight line method over periods of 1 to 21 years. 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. These periods are within the estimated average remaining service years of the employees.

**(k) Accrual for retirement benefits for directors and corporate auditors**

Before the termination of the retirement benefits plan for directors and corporate auditors during the previous fiscal year, certain directors and corporate auditors of MMC and its domestic consolidated subsidiaries had been customarily entitled to lump-sum payments under their respective unfunded severance benefit plans subject to the stockholders' approval. Due to the termination of the plan and partial deduction of the provision, further provision has been no longer needed and the outstanding balance of the provision represents only a portion of benefit payments reserved before the plan's termination.

**(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 "Net assets".

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

The computation of basic net 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 options.

**(n) 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.

**(o) 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 loans and bonds. 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, within certain limits, MMC and its consolidated subsidiaries hedge 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.

## 2. U.S. Dollar Amounts

The U.S. dollar amounts in the accompanying consolidated financial statements are included, solely for convenience, at ¥100.19 = U.S.$1.00, the exchange rate prevailing on March 31, 2008. This 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.

## 3. Trade Notes and Accounts Receivable, and Finance Receivables

The outstanding balances of trade notes and accounts receivable sold to others which have been deducted from the respective accounts amounted to ¥8,000 million ($79,848 thousand) and ¥6,614 million as of March 31, 2008 and 2007, respectively. Such amounts deducted from finance receivables were ¥29,646 million ($295,900 thousand) and ¥27,836 million as of March 31, 2008 and 2007, respectively.

## 4. Property, Plant and Equipment

Accumulated depreciation of property, plant and equipment at March 31, 2008 and 2007 was ¥1,280,402 million ($12,779,745 thousand) and ¥1,282,155 million respectively.

Impairment losses were recognized in the following asset groups for the year ended March 31, 2008 and March 31, 2007:

| | | | In millions of yen | In thousands of U.S. dollars |
|---|---|---|---|---|
| **2008** | | | | |
| Location | Application | Assets | Impairment loss amount | |
| Nagasaki, Nagasaki and Sapporo, Hokkaido and others (49 sites) | Assets used in sales operations | Land, buildings and others | ¥ 4,345 | $ 43,374 |
| Koufu, Yamanashi and Nagoya, Aichi and others (28 sites) | Idle assets | Land, buildings and others | 802 | 8,010 |
| Illinois, U.S.A. and South Australia, Australia (2 sites) | Production facilities | Machinery and equipment, furniture and fixtures and others | 16,170 | 161,398 |
| | | | ¥21,318 | $212,783 |

| | | | In millions of yen |
|---|---|---|---|
| **2007** | | | |
| Location | Application | Assets | Impairment loss amount |
| Shioya, Tochigi and Okaya, Nagano and others (78 sites) | Assets used in sales operations | Land, buildings and others | ¥6,379 |
| Niigata, Niigata and Sendai, Miyagi and others (29 sites) | Idle assets | Land, buildings and others | 1,085 |
| | | | ¥7,465 |

The groupings of assets are determined as follows:

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

As a result of worsening market environment and other factors, 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 higher of: value in use, which is determined by estimating future cash flow with a 5% discount rate; and net realizable value, which is based on an appraisal value obtained from a professional real estate appraiser or 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 ¥21,318 million ($212,783 thousand) and ¥7,465 million for the year ended March 31, 2008 and 2007, respectively. Losses on land at March 31, 2008 and 2007 amounted to ¥2,948 million ($29,432 thousand) and ¥3,102 million, respectively. Losses on buildings at March 31, 2008 and 2007 amounted to ¥2,211 million ($22,068 thousand) and ¥2,340 million, respectively.

Losses on other assets at March 31, 2008 and 2007 amounted to ¥16,158 million ($161,282 thousand) and ¥2,022 million, respectively.

## 5. Investments

Other securities at March 31, 2008 and 2007 were as follows:

| | In millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | | | 2007 | | | |
| | Acquisition cost | Carrying amount | Unrealized gains | Unrealized (losses) | Acquisition cost | Carrying amount | Unrealized gains | Unrealized (losses) |
| Other securities: | | | | | | | | |
| Securities with market value | ¥10,730 | ¥29,071 | ¥18,394 | ¥(53) | ¥10,682 | ¥27,892 | ¥17,218 | ¥(8) |
| Securities without market value | 14,254 | 14,254 | — | — | 32,577 | 32,577 | — | — |
| Total other securities | ¥24,985 | ¥43,326 | ¥18,394 | ¥(53) | ¥43,259 | ¥60,469 | ¥17,218 | ¥(8) |

| | In thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2008 | | | |
| | Acquisition cost | Carrying amount | Unrealized gains | Unrealized (losses) |
| Other securities: | | | | |
| Securities with market value | $107,103 | $290,162 | $183,594 | $(535) |
| Securities without market value | 142,276 | 142,276 | — | — |
| Total other securities | $249,379 | $432,439 | $183,594 | $(535) |

Proceeds from sales of other securities and the corresponding gross gains and losses that are included in other gain (loss), net in the accompanying consolidated statements of operations for the years ended March 31, 2008 and 2007 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Proceeds | ¥482 | ¥4,501 | $4,819 |
| Gross gains | 183 | 2,040 | 1,827 |
| Gross losses | (0) | 157 | (3) |

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. Similarly, 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 ¥45 million ($455 thousand) and ¥334 million for the years ended March 31, 2008 and 2007, respectively.

Investments in unconsolidated subsidiaries and affiliated companies, and investments in securities at March 31, 2008 and 2007 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Investments in unconsolidated subsidiaries and affiliated companies | ¥55,450 | ¥41,894 | $553,450 |
| Investments in securities | 37,570 | 48,244 | 374,996 |
| | ¥93,021 | ¥90,138 | $928,446 |

## 6. Accrued Expenses, Accounts Payable and Deferred Income

Accrued expenses, accounts payable and deferred income at March 31, 2008 and 2007 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Accrued expenses and accounts payable | ¥178,508 | ¥194,941 | $1,781,702 |
| Allowance for product warranties | 50,320 | 53,213 | 502,253 |
| Deferred income | 1,921 | 2,567 | 19,176 |
| | ¥230,750 | ¥250,722 | $2,303,132 |

## 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Loans, principally from banks | ¥219,597 | ¥215,036 | $2,191,811 |

The weighted average interest rates on short-term borrowings at March 31, 2008 and 2007 were 4.8% and 5.6%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Loans, principally from banks and insurance companies, due through 2023 at interest rates averaging 4.7% in 2008 and 4.5% in 2007: | | | |
| Secured | ¥ 75,569 | ¥ 141,694 | $ 754,258 |
| Unsecured | 8,682 | 84,930 | 86,660 |
| 3.1% bonds due May 28, 2007 (issued May 28, 1997) | — | 8,700 | — |
| 3.3% bonds due May 28, 2009 (issued May 28, 1997) | 25,600 | 25,600 | 255,514 |
| 3.3% Euro medium-term notes due July 15, 2008 (issued July 15, 2003) | 2,000 | 2,000 | 19,962 |
| 5.7% to 6.0% bonds due 2008 through 2009 (issued 2005 through 2006) | 22,260 | 25,690 | 222,177 |
| 1.1% bonds due September 24, 2010 (issued September 26, 2005) | 200 | 200 | 1,996 |
| | 134,311 | 288,814 | 1,340,569 |
| Less current portion | (76,705) | (137,008) | (765,595) |
| | ¥ 57,606 | ¥ 151,806 | $ 574,974 |

(a) 3.1% bonds due May 28, 2007, 3.3% bonds due May 28, 2009, and 3.3% Euro medium-term notes due July 15, 2008 were issued by MMC.

(b) 5.7% to 6.0% bonds due 2008 through 2009 consist of notes issued by an overseas subsidiary, Mitsubishi Motors (Thailand) Company Limited. (The balances at March 31, 2008 and March 31, 2007 were ฿7,000,000 thousand).

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

The maturities of long-term debt are as follows:

| Year ending March 31, | In millions of yen | In thousands of U.S. dollars |
|---|---|---|
| 2009 | ¥ 76,705 | $ 765,595 |
| 2010 | 54,763 | 546,597 |
| 2011 | 2,079 | 20,757 |
| 2012 | 374 | 3,733 |
| 2013 | 282 | 2,822 |
| Thereafter | 106 | 1,062 |
| Total | ¥134,311 | $1,340,569 |

Assets pledged as collateral for short-term borrowings, long-term debt and guarantees (excluding factory related groups of assets) at March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Trade notes and accounts receivable | ¥ 8,215 | ¥ 15,845 | $ 82,002 |
| Finance receivables | 14,594 | 39,155 | 145,667 |
| Inventories | 59,378 | 93,409 | 592,655 |
| Property, plant and equipment, net | 134,315 | 182,224 | 1,340,609 |
| Retained interests in securitized assets | 10,551 | 9,358 | 105,311 |
| Other (see (i) below) | 67,774 | 79,185 | 676,458 |
| | ¥294,829 | ¥419,178 | $2,942,703 |

(i) ¥875 million ($8,739 thousand) and ¥864 million of other current assets were pledged based on a liability in a term lease contract relating to a building with Murata Medical Services, Ltd. at March 31, 2008 and 2007, respectively. ¥46 million ($459 thousand) of investments were pledged as collateral for debt from Mizushima Eco-Works Co., Ltd at March 31, 2008.

The following groups of assets of MMC, the Okazaki factory, were pledged as collateral at March 31, 2008 and 2007, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Buildings and structures | ¥11,215 | ¥11,754 | $111,938 |
| Machinery and equipment | 9,304 | 5,438 | 92,871 |
| Land | 985 | 985 | 9,840 |
| Other | 820 | 297 | 8,194 |
| | ¥22,326 | ¥18,476 | $222,845 |

The following groups of assets of MMC, the Mizushima factory, were pledged as collateral for the loan from The Japan Bank for International Cooperation to EQUUS Leasing B.V., a counterparty of a consolidated subsidiary, Netherlands Car B.V., at March 31, 2008 and 2007, respectively. The amounts guaranteed to EQUUS were ¥12,183 million ($121,604 thousand) and ¥13,567 million at March 31, 2008 and 2007, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Buildings and structures | ¥ 8,653 | ¥ 9,127 | $ 86,371 |
| Machinery and equipment | 36,964 | 41,347 | 368,941 |
| Land | 2,008 | 2,008 | 20,050 |
| Other | 1,320 | 1,771 | 13,184 |
| | ¥48,947 | ¥54,255 | $488,547 |

The following groups of assets of MMC, the Kyoto factory, were pledged as collateral at March 31, 2008 and 2007, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Buildings and structures | ¥ 6,691 | ¥ 6,870 | $ 66,790 |
| Machinery and equipment | 12,468 | 11,440 | 124,447 |
| Land | 2,235 | 2,235 | 22,309 |
| Other | 587 | 689 | 5,868 |
| | ¥21,983 | ¥21,235 | $219,415 |

The following groups of assets of MMC, the Shiga factory, were pledged as collateral at March 31, 2008 and 2007, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Buildings and structures | ¥ 2,853 | ¥ 3,039 | $ 28,476 |
| Machinery and equipment | 14,966 | 15,031 | 149,377 |
| Land | 3,859 | 3,859 | 38,521 |
| | ¥21,678 | ¥21,930 | $216,376 |

The following groups of assets of a consolidated subsidiary, Pajero Manufacturing Corporation, were pledged as collateral at March 31, 2008 and 2007, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Buildings and structures | ¥2,879 | ¥2,998 | $28,740 |
| Machinery and equipment | 4,002 | 4,314 | 39,950 |
| Land | 1,540 | 1,540 | 15,371 |
| | ¥8,422 | ¥8,853 | $84,061 |

The following groups of assets of a consolidated subsidiary, Suiryo Plastics Co., Ltd., were pledged as collateral at March 31, 2008 and 2007, respectively.

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Buildings and structures | ¥ 994 | ¥1,007 | $ 9,926 |
| Machinery and equipment | 1,210 | 1,349 | 12,086 |
| Land | 194 | 194 | 1,941 |
| | ¥2,399 | ¥2,551 | $23,954 |

The obligations secured by such collateral at March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Short-term borrowings | ¥ 75,341 | ¥112,962 | $ 751,983 |
| Current portion of long-term debt | 48,466 | 65,034 | 483,748 |
| Long-term debt | 27,102 | 76,659 | 270,509 |
| | ¥150,910 | ¥254,657 | $1,506,242 |

## 8. Net Assets

The Corporate Law provides that an amount equal to 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. MMC and its domestic subsidiaries have provided these amounts in accordance with the Corporate Law.

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 437,593 shares outstanding at March 31, 2008.

The holders of each series of convertible preferred stock do not have 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.

## 9. Contingent Liabilities

Loan guarantees given in the ordinary course of business amounted to ¥4,699 million ($46,901 thousand) and ¥4,192 million at March 31, 2008 and 2007, respectively. Agreements similar to guarantees given in the ordinary course of business amounted to ¥2,028 million ($20,250 thousand) and ¥2,626 million at March 31, 2008 and 2007, respectively.

## 10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Sales promotion and advertising | ¥126,790 | ¥116,584 | $1,265,503 |
| Freight | 44,510 | 27,596 | 444,257 |
| Bad debts expense | — | 471 | — |
| Salaries and wages | 74,294 | 77,302 | 741,540 |
| Pension expenses | 4,975 | 5,346 | 49,662 |
| Depreciation | 13,991 | 15,767 | 139,651 |
| Research and development | 34,586 | 41,325 | 345,213 |
| Other | 79,614 | 89,339 | 794,638 |
| Total | ¥378,765 | ¥373,735 | $3,780,468 |

## 11. Other Gain (Loss), Net

Other gain (loss), net for the years ended March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Gain on sales of investments in securities | ¥ 193 | ¥ 5,202 | $ 1,935 |
| Loss on sales and disposal of property, plant and equipment, net | (2,602) | (2,003) | (25,976) |
| Reversal of allowance for doubtful accounts | 2,248 | — | 22,439 |
| Gain from affiliates accounted for by the equity method, net | 4,447 | 2,166 | 44,389 |
| Early retirement expense | (731) | (3,073) | (7,302) |
| Cost related to the closure of the production facility of Australian subsidiary | (14,641) | — | (146,136) |
| Litigation expenses | (5,152) | (4,856) | (51,423) |
| Foreign exchange losses | (9,926) | (1,264) | (99,077) |
| Gain on liquidation of anonymous association | 4,655 | 13,885 | 46,461 |
| Other | (6,781) | (7,043) | (67,686) |
| Total | ¥(28,291) | ¥ 3,011 | $(282,377) |

Cost related to the closure of the production facility of Australian subsidiary consists of ¥9,423 million ($94,051 thousand) of early retirement expense, ¥4,185 million ($41,778 thousand) of vendor claims, and ¥1,032 million ($10,306 thousand) of environmental expenses.

## 12. Cash Flow Information

Cash and cash equivalents at March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Cash and bank deposits | ¥355,896 | ¥358,058 | $3,552,214 |
| Time deposits with maturities of more than three months | (747) | (6,005) | (7,464) |
| Short-term investments maturing within three months from the acquisition date | 5,754 | 12,215 | 57,435 |
| Cash and cash equivalents | ¥360,902 | ¥364,268 | $3,602,184 |

Interest paid less interest received and dividends received within operating activities in the consolidated statements of cash flows for the years ended March 31, 2008 and 2007 amounted to a net expense of ¥10,480 million ($104,608 thousand) and ¥10,779 million, respectively. Income taxes paid for the years ended March 31, 2008 and 2007 amounted to ¥9,301 million ($92,835 thousand) and ¥7,881 million, respectively.

Purchases of property, plant and equipment within investing activities in the consolidated statements of cash flows for the years ended March 31, 2008 and 2007 include payments for the acquisition of lease vehicles of ¥20,277 million ($202,393 thousand) and ¥16,799 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, 2008 and 2007 include proceeds from sale of lease vehicles of ¥17,435 million ($174,026 thousand) and ¥18,909 million, respectively.

Changes in finance receivables within operating activities in the consolidated statements of cash flows for the years ended March 31, 2008 and 2007 are primarily the net of payments amounting to ¥95,514 million ($953,334 thousand) and ¥161,005 million, respectively, and proceeds from collections amounting to ¥126,882 million ($1,266,423 thousand) and ¥208,805 million, respectively.

## 13. Leases

### *As lessee*

The following pro forma amounts represent acquisition costs, accumulated depreciation, impairment losses, and net book value of the leased assets as of March 31, 2008 and 2007, which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to finance lease transactions except for lease arrangements that 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:**

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| In millions of yen | 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 impairment loss | Notional equivalent net book value |
| Tools and equipment | ¥24,659 | ¥14,865 | ¥18 | ¥ 9,776 | ¥29,960 | ¥16,011 | ¥18 | ¥13,930 |
| Others | 10,167 | 4,507 | 16 | 5,643 | 6,011 | 3,769 | 20 | 2,222 |
| Total | ¥34,827 | ¥19,372 | ¥34 | ¥15,420 | ¥35,972 | ¥19,780 | ¥38 | ¥16,152 |

| | 2008 | | | |
|---|---|---|---|---|
| In thousands of U.S. dollars | Notional equivalent acquisition cost | Notional equivalent accumulated depreciation | Notional equivalent impairment loss | Notional equivalent net book value |
| Tools and equipment | $246,130 | $148,371 | $179 | $ 97,579 |
| Others | 101,481 | 44,989 | 163 | 56,328 |
| Total | $347,612 | $193,360 | $343 | $153,908 |

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

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Due within 1 year | ¥ 6,103 | ¥ 6,782 | $ 60,921 |
| Due after 1 year | 15,289 | 13,778 | 152,600 |
| Total | ¥21,392 | ¥20,560 | $213,521 |

The balance of the impairment provisions relating to leased assets amounted to ¥8 million ($87 thousand) and ¥23 million at March 31, 2008 and 2007, respectively.

**(c) Lease payment expense, reversal of impairment provisions 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 |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Lease payment expense | ¥7,978 | ¥7,904 | $79,634 |
| Reversal of impairment provisions relating to leased assets | 14 | 13 | 142 |
| Notional depreciation expense | 9,039 | 6,907 | 90,225 |
| Notional interest expense | 919 | 630 | 9,176 |
| Impairment loss | — | 12 | — |

**(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.

### *As lessor*

Future minimum lease payments required under operating lease transactions entered into by MMC and its consolidated subsidiaries at March 31, 2008 and 2007 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Due within 1 year | ¥ 5,337 | ¥ 4,664 | $ 53,274 |
| Due after 1 year | 17,377 | 17,070 | 173,443 |
| Total | ¥22,714 | ¥21,734 | $226,717 |

Future minimum lease revenues from operating lease transactions entered into by MMC and its consolidated subsidiaries as lessor at March 31, 2008 and 2007 were as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Due within 1 year | ¥ 7,513 | ¥10,825 | $ 74,993 |
| Due after 1 year | 12,295 | 12,307 | 122,724 |
| Total | ¥19,809 | ¥23,133 | $197,717 |

## 14. 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, cross currency swaps, interest rate swaps and interest rate options 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 and its consolidated subsidiaries enter 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. MMC and its consolidated subsidiaries do not enter into derivative contracts for which significant volatility would have any significant influence on its operations.

**(c) Control**

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

Summarized below are the notional amounts and the estimated fair values (based on the prices provided by counterparty financial institutions) of the derivative positions, other than those accounted under the special hedge provisions, at March 31, 2008 and 2007:

**Forward foreign exchange contracts**

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2008 | | | 2007 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | | | |
| Sell: | | | | | | |
| US $ | ¥ 9,456 | ¥ 8,846 | ¥ 610 | ¥14,330 | ¥13,787 | ¥ 543 |
| Euro | 37,885 | 38,200 | (315) | 59,951 | 57,008 | 2,943 |
| £ stg | 8,148 | 7,648 | 499 | — | — | — |
| Australian $ | 5,703 | 5,458 | 245 | — | — | — |
| Japanese ¥ | 48,764 | 49,884 | (1,119) | 13,880 | 13,095 | 785 |
| Others | 6,825 | 6,880 | (54) | — | — | — |
| Buy: | | | | | | |
| Japanese ¥ | 171 | 175 | 3 | 11,630 | 11,628 | (1) |
| Total | | | ¥ (130) | | | ¥4,270 |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2008 |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | |
| Sell: | | | |
| US $ | $ 94,390 | $ 88,299 | $ 6,090 |
| Euro | 378,131 | 381,284 | (3,153) |
| £ stg | 81,329 | 76,339 | 4,990 |
| Australian $ | 56,927 | 54,481 | 2,446 |
| Japanese ¥ | 486,721 | 497,898 | (11,176) |
| Others | 68,129 | 68,670 | (540) |
| Buy: | | | |
| Japanese ¥ | 1,711 | 1,749 | 37 |
| Total | | | $ (1,304) |

### Cross currency swaps

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2008 | | | 2007 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Cross currency swaps: | | | | | | |
| US $ | ¥4,206 | ¥1 | ¥1 | ¥— | ¥— | ¥— |
| £ stg | 337 | 0 | 0 | — | — | — |
| Total | | | ¥1 | | | ¥— |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2008 |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Cross currency swaps: | | | |
| US $ | $41,981 | $11 | $11 |
| £ stg | 3,364 | 0 | 0 |
| Total | | | $12 |

All cross currency swaps have maturities within one year.

### Interest rate options

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2008 | | | 2007 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Interest rate options: | | | | | | |
| Buy: | ¥17,119 | ¥18 | ¥18 | ¥— | ¥— | ¥— |
| Total | | | ¥18 | | | ¥— |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2008 |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Interest rate options: | | | |
| Buy: | $170,870 | $187 | $187 |
| Total | | | $187 |

**Interest rate swaps**

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2008 | | | 2007 |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Interest rate swaps: | | | | | | |
| Pay-fixed, receive-floating | ¥3,605 | ¥(62) | ¥(62) | ¥— | ¥— | ¥— |
| Total | | | ¥(62) | | | ¥— |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2008 |
| | Notional amount | Fair value | Unrealized gain (loss) |
| Interest rate swaps: | | | |
| Pay-fixed, receive-floating | $35,990 | $(628) | $(628) |
| Total | | | $(628) |

| | In millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | | 2008 | | | 2007 |
| | 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 | ¥204 | ¥3,401 | ¥— | ¥— | ¥— | ¥— |
| Average pay-fixed rate (%) | 5.3 | 4.5 | — | — | — | — |
| Average receive-floating rate (%) | 4.3 | 4.3 | — | — | — | — |

| | In thousands of U.S. dollars | | |
|---|---|---|---|
| | | | 2008 |
| | Within 1 year | From 1 year to 3 | Over 3 years |
| Pay-fixed, receive-floating | | | |
| Notional amount | $2,037 | $33,593 | $— |
| Average pay-fixed rate (%) | 5.3 | 4.5 | — |
| Average receive-floating rate (%) | 4.3 | 4.3 | — |

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

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

## 15. 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, 2008, MMC and its consolidated subsidiaries have 1 fund for contributory plans in accordance with the Welfare Pension Insurance Law, and 13 funds for tax-qualified plans. MMC and its consolidated subsidiaries have 15 non-contributory severance plans.

The funded status of multi-employer pension plans included in the above plans which are accounted for as defined contribution schemes as of March 31, 2008 was as follows:

| | In millions of yen | In thousands of U.S. dollars |
|---|---|---|
| Pension Plan assets | ¥36,138 | $360,694 |
| Benefit obligations under pension plan rules | 24,625 | 245,783 |
| Difference | 11,513 | 114,911 |

The ratio of MMC and its consolidated subsidiaries' payments to total contributions of the multi-employer plans as of March 31, 2008 was 42.7%. This ratio does not equal to the ratio of the amount actually contributed by the MMC group.

Defined Benefit Plans

The discount rates used to determine the retirement benefit obligation were 1.5% – 2.5% for MMC and its domestic consolidated subsidiaries, 5.1% – 7.8% for its foreign consolidated subsidiaries, and 1.5% – 2.5% for MMC and its domestic consolidated subsidiaries, 4.0% – 5.8% for its foreign consolidated subsidiaries at March 31, 2008 and 2007, respectively. The rates of return on plan assets assumed were 0.8% – 4.0% for MMC and its domestic consolidated subsidiaries, 4.9% – 8.0% for its foreign consolidated subsidiaries, and 0.8% – 4.0% for MMC and its domestic consolidated subsidiaries, 4.0% – 8.0% for its foreign consolidated subsidiaries for the year ended March 31, 2008 and 2007, respectively.

Prior service cost is amortized using the straight line method over periods of 1 to 21 years, and 5 to 21 years for the years ended March 31, 2008 and 2007. These periods are within the estimated average remaining service years of the employees, respectively.

The amortization period for actuarial gains and losses starts from the subsequent fiscal year and actuarial gains and losses are amortized by the straight line method over the periods of 5 to 21 years for the years ended March 31, 2008 and 2007. These periods are within the estimated average remaining service years of the employees.

Unrecognized net obligations and assets at the date of initial application are amortized within one year.

The retirement benefit obligation for MMC and its consolidated subsidiaries' employees' defined benefit plans at March 31, 2008 and 2007 are summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Retirement benefits obligation | ¥(184,183) | ¥(191,009) | $(1,838,341) |
| Pension plan assets at fair value | 67,122 | 76,310 | 669,955 |
| Unfunded status | (117,060) | (114,698) | (1,168,385) |
| Unrecognized actuarial losses | 17,327 | 11,557 | 172,945 |
| Unrecognized prior service costs | 3,304 | 2,812 | 32,980 |
| Net recognized retirement benefits obligation | (96,428) | (100,329) | (962,460) |
| Prepaid pension premiums | 6,866 | 5,552 | 68,532 |
| Accrued retirement benefits | ¥(103,295) | ¥(105,881) | $(1,030,992) |

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, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Service cost | ¥ 9,265 | ¥ 9,437 | $ 92,479 |
| Interest cost | 4,724 | 4,644 | 47,151 |
| Expected return on plan assets | (4,079) | (3,686) | (40,721) |
| Amortization of actuarial losses | 2,335 | 2,712 | 23,309 |
| Amortization of prior service costs | 692 | 66 | 6,912 |
| Others | 1,871 | 604 | 18,681 |
| Pension expenses | ¥14,809 | ¥13,778 | $147,813 |

In addition to the above pension expenses, additional retirement benefits of ¥10,154 million ($101,354 thousand) and ¥3,073 million were paid and recorded as other gain (loss), net for the years ended March 31, 2008 and 2007, respectively.

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

Effective for the year ended March 31, 2008, *Partial Amendments to Accounting Standard for Retirement Benefits (Part2)* (Accounting Standards Board of Japan (ASBJ) statement No. 14, May 15, 2007) has been adopted.

## 16. 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, 2008 and 2007.

The effective tax rates reflected in the accompanying consolidated statements of operations for the year ended March 31, 2008 differ from the statutory tax rate for the following reasons:

| | (%) | |
|---|---|---|
| | 2008 | 2007 |
| Statutory income tax rate for MMC | 40.3 | 40.3 |
| Change in valuation allowance, effect of using loss carry forwards and similar items | (13.5) | 18.5 |
| Dividends received (exclusion from gross income) | (0.1) | (5.7) |
| Others | (0.8) | 0.2 |
| Income taxes as a percentage of income before income taxes and minority interest | 25.9 | 53.3 |

The significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 consisted of the following:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Deferred tax assets: | | | |
| Net operating loss carry forward | ¥ 184,835 | ¥ 205,940 | $ 1,844,854 |
| Accrued retirement benefits | 44,899 | 46,029 | 448,141 |
| Allowance for doubtful accounts | 7,925 | 11,294 | 79,108 |
| Allowance for product warranties | 19,078 | 19,815 | 190,422 |
| Accounts payable—warranties | 15,451 | 12,342 | 154,216 |
| Fixed assets (incl. impairment losses) | 38,107 | 39,686 | 380,349 |
| Others | 84,725 | 74,702 | 845,644 |
| Less valuation allowance | (351,833) | (362,074) | (3,511,659) |
| Total deferred tax assets | 43,189 | 47,738 | 431,077 |
| Deferred tax liabilities: | | | |
| Reserves under the Special Taxation Measures Law | (399) | (412) | (3,983) |
| Unrealized holding gain on securities | (7,166) | (6,797) | (71,527) |
| Fair value adjustments relating to land | (4,552) | (5,047) | (45,441) |
| Accelerated depreciation in overseas consolidated subsidiaries | (28,885) | (34,637) | (288,305) |
| Other | (22,489) | (16,242) | (224,466) |
| Total deferred tax liabilities | (63,492) | (63,136) | (633,723) |
| Net deferred tax liabilities | ¥ (20,303) | ¥ (15,398) | $ (202,645) |

Deferred tax assets and liabilities at March 31, 2008 and 2007 are included in the accompanying consolidated balance sheets as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Current assets | ¥ 1,040 | ¥ 846 | $ 10,384 |
| Non-current assets | 9,842 | 8,468 | 98,241 |
| Current liabilities | (3,219) | (453) | (32,130) |
| Non-current liabilities | (27,967) | (24,259) | (279,141) |
| Net deferred tax liabilities | ¥(20,303) | ¥(15,398) | $(202,645) |

## 17. Segment Information

### (a) Business segments

The business segment information for MMC and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Net sales: | | | |
| Automobiles | ¥2,657,457 | ¥2,154,672 | $26,524,182 |
| Financial services | 24,590 | 47,947 | 245,434 |
| Total | 2,682,047 | 2,202,619 | 26,769,616 |
| Intersegment | 55 | 249 | 553 |
| Consolidated | ¥2,682,103 | ¥2,202,869 | $26,770,169 |
| Operating income (loss): | | | |
| Automobiles | ¥ 95,777 | ¥ 17,682 | $ 955,957 |
| Financial services | 12,763 | 22,305 | 127,394 |
| Total | 108,540 | 39,987 | 1,083,351 |
| Intersegment | 55 | 249 | 553 |
| Consolidated | ¥ 108,596 | ¥ 40,237 | $ 1,083,904 |
| Total assets: | | | |
| Automobiles | ¥1,530,259 | ¥1,674,897 | $15,273,574 |
| Financial services | 63,484 | 110,818 | 633,643 |
| Total | 1,593,744 | 1,785,715 | 15,907,217 |
| Corporate and eliminations | 15,664 | (7,022) | 156,345 |
| Consolidated | ¥1,609,408 | ¥1,778,693 | $16,063,562 |
| Depreciation: | | | |
| Automobiles | ¥ 69,377 | ¥ 68,215 | $ 692,463 |
| Financial services | 5,493 | 6,820 | 54,828 |
| Consolidated | ¥ 74,871 | ¥ 75,035 | $ 747,291 |
| Impairment loss: | | | |
| Automobiles | ¥ 18,386 | ¥ 7,465 | $ 183,518 |
| Financial services | 2,932 | — | 29,265 |
| Consolidated | ¥ 21,318 | ¥ 7,465 | $ 212,783 |
| Capital expenditures: | | | |
| Automobiles | ¥ 68,732 | ¥ 98,058 | $ 686,026 |
| Financial services | 21,335 | 14,176 | 212,951 |
| Consolidated | ¥ 90,068 | ¥ 112,235 | $ 898,978 |

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 useful lives of fixed assets
   As described in additional information in Note 1, Significant Accounting Policies, from the previous year, instead of the useful lives dictated by the Corporate Tax Law, estimated actual useful lives are used to determine useful lives of MMC's fixed assets. As a result, operating income of the automobiles segment increased by ¥7,585 million for the year ended March 31, 2007.

### (b) Geographical segments

The geographical segment information for MMC and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Net sales: | | | |
| Japan | ¥2,021,524 | ¥1,515,221 | $20,176,911 |
| North America | 392,765 | 423,941 | 3,920,204 |
| Europe | 657,169 | 681,155 | 6,559,231 |
| Asia | 358,339 | 292,885 | 3,576,594 |
| Other areas | 207,172 | 164,087 | 2,067,798 |
| Total | 3,636,971 | 3,077,292 | 36,300,739 |
| Interarea | (954,867) | (874,423) | (9,530,569) |
| Consolidated | ¥2,682,103 | ¥2,202,869 | $26,770,169 |
| Operating income (loss): | | | |
| Japan | ¥ 82,891 | ¥ (5,136) | $ 827,341 |
| North America | (10,586) | 5,466 | (105,668) |
| Europe | 20,255 | 25,327 | 202,175 |
| Asia | 19,894 | 20,260 | 198,564 |
| Other areas | (4,711) | (3,562) | (47,023) |
| Total | 107,743 | 42,355 | 1,075,388 |
| Interarea | 853 | (2,117) | 8,515 |
| Consolidated | ¥ 108,596 | ¥ 40,237 | $ 1,083,904 |
| Total assets: | | | |
| Japan | ¥1,203,966 | ¥1,271,955 | $12,016,828 |
| North America | 221,339 | 333,025 | 2,209,201 |
| Europe | 212,843 | 248,485 | 2,124,399 |
| Asia | 218,923 | 250,081 | 2,185,079 |
| Other areas | 101,256 | 83,774 | 1,010,647 |
| Total | 1,958,329 | 2,187,321 | 19,546,156 |
| Interarea | (348,921) | (408,627) | (3,482,593) |
| Consolidated | ¥1,609,408 | ¥1,778,693 | $16,063,562 |

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 . . . . . . . . The United States, Puerto Rico
   (2) Europe . . . . . . . . . . . . . The Netherlands
   (3) Asia . . . . . . . . . . . . . . . Thailand, Philippines
   (4) Other . . . . . . . . . . . . . . Australia, New Zealand, UAE

3. Changes in useful life of fixed assets
   As described in additional information in Note 1, Significant Accounting Policies, from the previous year, instead of the useful lives dictated by Corporate Tax Law, estimated actual useful lives are used to determine useful lives of MMC's fixed assets. As a result, operating income of Japan increased by ¥7,585 million for the year ended March 31, 2007.

### (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, 2008 and 2007 are summarized as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Overseas sales: | | | |
| North America | ¥ 402,650 | ¥ 423,611 | $ 4,018,873 |
| Europe | 931,618 | 662,815 | 9,298,520 |
| Asia | 242,677 | 191,347 | 2,422,169 |
| Other areas | 616,613 | 419,130 | 6,154,443 |
| Total | ¥2,193,560 | ¥1,696,905 | $21,894,007 |
| Consolidated sales | ¥2,682,103 | ¥2,202,869 | $26,770,169 |

| | (%) | |
|---|---|---|
| Overseas sales as a percentage of consolidated sales: | | |
| North America | 15.0 | 19.2 |
| Europe | 34.7 | 30.1 |
| Asia | 9.1 | 8.7 |
| Other areas | 23.0 | 19.0 |
| Total | 81.8 | 77.0 |

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 . . . . . . . The United States, Puerto Rico
(2) Europe . . . . . . . . . . . . The Netherlands, Italy, Germany, Russia
(3) Asia . . . . . . . . . . . . . . Thailand, Malaysia, Taiwan
(4) Other . . . . . . . . . . . . . Australia, New Zealand
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.

### 18. Related Party Transactions

MMC entered into the following transactions with related parties during the years ended March 31, 2008 and 2007:

| | March 31, 2008 |
|---|---|
| Party type: | Main stockholder |
| Party name: | Mitsubishi Corporation |
| Address: | Chiyoda-Ku, Tokyo, Japan |
| Capital: | ¥201,825 million |
| Business: | Wholesale trading |
| % of voting stock held: | Direct 14.0 |
| Concurrent board appointment: | 1 concurrent member,<br>3 permanently transferred to MMC |
| Business relationship: | Sales of passenger cars and import of materials for production |
| Detail of transaction: | Sales (see (i) below) |
| Transaction amount: | ¥292,441 million<br>($2,918,864 thousand) |
| Account title: | Accounts receivable |
| Balance at year end | ¥24,369 million<br>($243,227 thousand) |

| | March 31, 2008 | |
|---|---|---|
| Party type: | Subsidiary | Equity method affiliate |
| Party name: | Heart Beat Reds LLC | Jatco Ltd. |
| Address: | Chuo-Ku, Tokyo, Japan | Fuji, Shizuoka, Japan |
| Capital: | ¥3 million | ¥29,935 million |
| Business: | Holding and sales of beneficial interest in trust | Development, manufacturing and sales of transmission and automotive parts |
| % of voting stock held: | Direct 100.0 | Direct 15.0 |
| Concurrent board appointment: | — | 1 concurrent member |
| Business relationship: | Investment in anonymous association | Purchases of auto parts |
| Detail of transaction: | (1) Proceeds from liquidation<br>(2) Gain on liquidation | Purchase |
| Transaction amount: | (1) ¥5,000 million<br>($49,905 thousand) (see (ii) below)<br>(2) ¥4,659 million<br>($46,501 thousand) (see (ii) below) | (1) ¥90,259 million<br>($900,878 thousand) (see (iii) below) |
| Account title: | — | Accounts payable |
| Balance at year end | — | ¥18,796 million<br>($187,603 thousand) |

(i) Sales price of products is determined based on market price and overall cost.

(ii) The proceeds in the form of liquidation dividends were from dividend distributions due to the end of anonymous associations' operations.

(iii) The purchase price is determined based on the estimated cost, the price for current model production and market price.

| | March 31, 2007 |
|---|---|
| Party type: | Main stockholder |
| Party name: | Mitsubishi Corporation |
| Address: | Chiyoda-Ku, Tokyo, Japan |
| Capital: | ¥199,228 million |
| Business: | Wholesale trading |
| % of voting stock held: | Direct 14.1 |
| Concurrent board appointment: | 1 concurrent member,<br>2 permanently transferred to MMC |
| Business relationship: | Sales of passenger cars and import of materials for production |
| Detail of transaction: | (1) Proceeds from sales of stocks(see (i) below)<br>(2) Profit from sales of stocks (see (i) below) |
| Transaction amount: | (1) ¥2,750 million<br>(2) ¥2,365 million |
| Account title: | — |
| Balance at year end | — |

| | March 31, 2007 | |
|---|---|---|
| Party type: | Subsidiary | Subsidiary |
| Party name: | Heart Beat Dealers LLC | Heart Beat Land LLC |
| Address: | Chuo-Ku, Tokyo, Japan | Chuo-Ku, Tokyo, Japan |
| Capital: | ¥3 million | ¥3 million |
| Business: | Holding and sales of beneficial interest in trust | Holding and sales of beneficial interest in trust |
| % of voting stock held: | Direct 100.0 | Direct 100.0 |
| Concurrent board appointment: | — | — |
| Business relationship: | Investment in anonymous association | Investment in anonymous association |
| Detail of transaction: | (1) Proceeds from liquidation<br>(2) Gain on liquidation | (1) Proceeds from liquidation<br>(2) Gain on liquidation |
| Transaction amount: | (1) ¥8,533 million<br>(see (ii) below)<br>(2) ¥6,880 million<br>(see (ii) below) | (1) ¥11,229 million<br>(see (ii) below)<br>(2) ¥7,034 million<br>(see (ii) below) |
| Account title: | Accrued income | |
| Balance at year end | ¥63 million | |

(i) Sales of stocks include the sales of an affiliated company's stocks and sales price is determined based on contract.

(ii) The proceeds in the form of liquidation dividends were from dividend distributions due to the end of anonymous associations' operations.

## 19. Income and Equity Per Share

Net income and equity per share of common stock for the years ended March 31, 2008 and 2007 are summarized as follows:

| | In yen | | In U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Net income per share of common stock | | | |
| Basic | ¥ 6.30 | ¥ 1.59 | $ 0.06 |
| Diluted | 3.81 | 0.96 | 0.04 |
| Stockholders' equity per share of common stock | (21.81) | (26.73) | (0.22) |

The computations of net income per share of common stock for the year ended March 31, 2008 and 2007 are as follows:

| | In millions of yen | | In thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Numerator for basic net income per share of common stock: | | | |
| Net income | ¥34,710 | ¥8,745 | $346,447 |
| Income not available to common stockholders | — | — | — |
| Income available to common stockholders | ¥34,710 | ¥8,745 | $346,447 |
| Denominator for net income per share of common stock: | | | |
| Weighted average number of shares (in thousands) | 5,509,309 | 5,491,435 | 5,509,309 |
| Number of dilutive potential common shares (in thousands) | 3,598,366 | 3,579,689 | 3,598,366 |
| (Preferred stock ) | (3,598,316) | (3,579,512) | (3,598,316) |
| (Number of stock options exercised) | (50) | (176) | (50) |

In numbers of stock, 975 thousand shares relating to stock options were outstanding at March 31, 2008.

## 20. Stock Option Plans

Information regarding subscription, size and fluctuation of stock options as of March 31, 2008 and 2007 are as follows:

### (1) Subscription of stock options

| | March 31, 2008 |
|---|---|
| Date of approval by shareholders: | June 25, 2002 |
| Grantees: | 5 directors, 25 executive officers and 80 employees |
| Date of issue: | June 2, 2003 |
| Class and number of shares granted: | Common stock 1,994,000 |
| Condition of settlement of rights: | Limited to director, executive officer, employee of the company or its subsidiaries at exercise date (except for those who no longer hold above positions due to termination of terms, retirement, or other valid reasons) |
| Period grantees provide service in return for stock options: | No provisions |
| Exercisable period: | From July 1, 2004 to June 30, 2009 |

### (2) Size and fluctuation of stock options

Outstanding stock options during the year ended March 31, 2008 converted to numbers of shares are as follows.

| | March 31, 2008 |
|---|---|
| Non-vested (number of shares): | |
| Outstanding at the beginning of the year: | — |
| Granted during the year: | — |
| Forfeited during the year: | — |
| Vested during the year: | — |
| Outstanding at the end of the year: | — |
| Vested (number of shares): | |
| Outstanding at the beginning of the year: | 1,088,000 |
| Vested during the year: | — |
| Exercised during the year: | 85,000 |
| Forfeited during the year: | 28,000 |
| Outstanding at the end of the year: | 975,000 |
| Exercise price: | ¥173 |
| Weighted-average market price at exercise date: | ¥198 |
| Fair evaluation price: | — |

### (1) Subscription of stock options

| | March 31, 2007 |
|---|---|
| Date of approval by shareholders: | June 25, 2002 |
| Grantees: | 5 directors, 25 executive officers and 80 employees |
| Date of issue: | June 2, 2003 |
| Class and number of shares granted: | Common stock 1,994,000 |
| Condition of settlement of rights: | Limited to director, executive officer, employee of the company or its subsidiaries at exercise date (except for those who no longer hold above positions due to termination of terms, retirement, or other valid reasons) |
| Period grantees provide service in return for stock options: | No provisions |
| Exercisable period: | From July 1, 2004 to June 30, 2009 |

### (2) Size and fluctuation of stock options

Outstanding stock options during the year ended March 31, 2007 converted to numbers of shares are as follows.

| | March 31, 2007 |
|---|---|
| Non-vested(number of shares): | |
| Outstanding at the beginning of the year: | — |
| Granted during the year: | — |
| Forfeited during the year: | — |
| Vested during the year: | — |
| Outstanding at the end of the year: | — |
| Vested(number of shares): | |
| Outstanding at the beginning of the year: | 1,168,000 |
| Vested during the year: | — |
| Exercised during the year: | 64,000 |
| Forfeited during the year: | 16,000 |
| Outstanding at the end of the year: | 1,088,000 |
| Exercise price: | ¥173 |
| Weighted-average market price at exercise date: | ¥240 |
| Fair evaluation price: | — |

## 21. Business Combinations

During the year ended March 31, 2008, in order to achieve “customer’s of satisfaction to top level of the industry and the improvement of profit rate” and “Realization of an early stage profitability turnaround of domestic business”, MMC reorganized its consolidated subsidiaries as follows.

1. Business of the entities combined:
   Sale of vehicles, etc
2. Description of business of the entities combined:
   Sale of vehicles, etc
3. Legal form of business combination:
   Absorption by surviving company
4. Corporate name before and after the business combinations on April 1, 2007:

| April 1, 2007 | | |
|---|---|---|
| Corporate name before the business combination | | Corporate name after the business combination |
| Surviving company: | Hokkaido Mitsubishi Motors Sales Co., Ltd. | Hokkaido Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving companies: | Sapporo Mitsubishi Motors Sales Co., Ltd. | |
| | Iwamizawa Mitsubishi Motors Sales Co., Ltd. | |
| | Sorachi Mitsubishi Motors Sales Co., Ltd. | |

| | Asahikawa Mitsubishi Motors Sales Co., Ltd. | |
|---|---|---|
| | July 1, 2007 | |
| Corporate name before the business combination | | Corporate name after the business combination |
| Surviving company: | Fukushima Mitsubishi Motors Sales Co., Ltd. | Higashi Nihon Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving company: | Iwate Mitsubishi Motors Sales Co., Ltd. | |
| | Gunma Chuo Mitsubishi Motors Sales Co., Ltd. | |
| | Tochigi Mitsubishi Motors Sales Co., Ltd. | |
| Surviving company: | Tokyo Mitsubishi Motors Sales Co., Ltd. | Kanto Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving companies: | Minami Ibaraki Mitsubishi Motors Sales Co., Ltd. | |
| | Saitama Mitsubishi Motors Sales Co., Ltd. | |
| | Kanagawa Mitsubishi Motors Sales Co., Ltd. | |
| | Kawasaki Mitsubishi Motors Sales Co., Ltd. | |
| | Yamanashi Mitsubishi Motors Sales Co., Ltd. | |
| | Matsumoto Mitsubishi Motors Sales Co., Ltd. | |
| Surviving company: | Aichi Chuo Mitsubishi Motors Sales Co., Ltd. | Chubu Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving companies: | Nagoya Mitsubishi Motors Sales Co. Ltd. | |
| | Gifu Mitsubishi Motors Sales Co., Ltd. | |
| | Ishikawa Mitsubishi Motors Sales Co., Ltd. | |
| Surviving company: | Kinki Mitsubishi Motors Sales Co., Ltd. | Nishi Nihon Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving companies: | Okayama Mitsubishi Motors Sales Co., Ltd. | |
| | Hiroshima Chuo Mitsubishi Motors Sales Co., Ltd. | |
| | Sanin Mitsubishi Motors Sales Co., Ltd. | |
| | Shin-Yamaguchi Mitsubishi Motors Sales Co., Ltd. | |
| | Ehime Mitsubishi Motors Sales Co., Ltd. | |
| | Miyazaki Chuo Mitsubishi Motors Sales Co., Ltd. | |
| | Nagasaki Mitsubishi Motors Sales Co., Ltd. | |
| | Kagoshima Chuo Mitsubishi Motors Sales Co., Ltd. | |
| Surviving company: | Kita Kanto Mitsubishi Motors Parts Sales Co., Ltd. | Mitsubishi Motors Parts Sales Co., Ltd. |
| Non-surviving companies: | Hokkaido Mitsubishi Motors Parts Sales Co., Ltd. | |
| | Tohoku Mitsubishi Motors Parts Sales Co., Ltd. | |
| | Shinetsu Mitsubishi Motors Parts Sales Co., Ltd. | |
| | Kanto Mitsubishi Motors Parts Sales Co., Ltd. | |
| | Hokuriku Mitsubishi Motors Parts Sales Co., Ltd. | |
| | Chugoku Mitsubishi Motors Parts Sales Co., Ltd., | |

Since the entities combined are consolidated subsidiaries in the automobiles segment, these transactions are treated as transactions under common control. Thereby the combined entities' transactions are properly accounted for based on the appropriate book values in the stand-alone accounts and are properly eliminated as inter-company transactions in the consolidated accounts.

Additional acquisition of subsidiaries' shares is as follows.

| | In millions of yen | In thousands of U.S. dollars |
|---|---|---|
| Acquisition consideration (cash and deposits) | ¥920 | $9,182 |
| Acquisition cost | ¥920 | $9,182 |

From additional acquisition of subsidiaries' stocks, goodwill of ¥3 million ($29 thousand) is charged to income as incurred.

During the year ended March 31, 2007, in order to improve the efficiency of its sales network by the integration of domestic sales companies, MMC merged its consolidated subsidiaries as follows.

1. Business of the entities combined:
   Sale of vehicles, etc
2. Description of business of the entities combined:
   Sale of vehicles, etc
3. Legal form of business combinations:
   Absorption by surviving company
4. Corporate name before and after the business combination:

April 1, 2006

| Corporate name before the business combination | | Corporate name after the business combination |
|---|---|---|
| Surviving company: | Shimane Mitsubishi Motors Sales Co., Ltd. | Sanin Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving company: | Nishi Tottori Mitsubishi Motors Sales Co., Ltd. | |

July 1, 2006

| Corporate name before the business combination | | Corporate name after the business combination |
|---|---|---|
| Surviving company: | Saitama Chuo Mitsubishi Motors Sales Co., Ltd. | Saitama Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving company: | Saitama Mitsubishi Motors Sales Co., Ltd. | |
| Surviving company: | Iyo Mitsubishi Motors Sales Co., Ltd. | Ehime Mitsubishi Motors Sales Co., Ltd. |
| Non-surviving companies: | Uwajima Mitsubishi Motors Sales Co., Ltd. | |
| | Matsuyama Mitsubishi Motors Sales Co., Ltd. | |

Since the entities combined are consolidated subsidiaries in the automobiles segment, their transactions are treated as transactions under common control. Thereby the combined entities' transactions are properly accounted for based on appropriate book values in the stand-alone accounts and are properly eliminated as inter-company transactions in the consolidated accounts. Moreover, there are no additional acquisitions of shares from minority interests of the entities combined.

## 22. Subsequent Event

On May 19, 2008 the MMC group entered into a contract for a joint plant in Russia with PSA Peugeot Citroën to produce vehicles under Peugeot, Citroen, and Mitsubishi brands.

The joint plant will be constructed in Kaluga state in Russia to start production in 2011.

The annual production capacity of the plant will be 160,000 units and plans are to produce mid-range SUVs under Mitsubishi, Peugeot, and Citroen brands and mid-range models under Peugeot and Citroen brands.

The MMC group will bear 30 percent of the total 470 million Euro contribution into joint ventures. On the other hand, PSA Peugeot Citroën will bear 70 percent of the contribution.

ERNST & YOUNG SHINNIHON

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■ Tel: 03 3503 1100
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# Report of Independent Auditors

The Board of Directors
Mitsubishi Motors Corporation

We have audited the accompanying consolidated balance sheets of Mitsubishi Motors Corporation (the "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets, 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, 2008 and 2007, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 2.

*Further Information*

As described in Note 1, Going Concern, the financial statements of the Company and consolidated subsidiaries for the year ended March 31, 2007 included a note describing the basis on which the going concern premise had been applied given the existence of significant doubts as to going concern. Due to the resolution of the significant doubts as to going concern, such information is not presented in respect of the year ended March 31, 2008.

Ernst & Young ShinNihon

Tokyo, Japan
June 19, 2008

# Consolidated Subsidiaries and Affiliates

As of March 31, 2008

| | Company | Incorporated in |
|---|---|---|
| **Major consolidated subsidiaries** | | |
| | Hokkaido Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Higashi Nihon Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Kanto Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Chubu Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Nishi Nihon Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Mitsubishi Motors Parts Sales Co., Ltd. | Japan |
| | Higashi Kanto MMC Parts Sales Co., Ltd. | Japan |
| | Shikoku MMC Parts Sales Co., Ltd.*[2] | Japan |
| | Pajero Manufacturing Co., Ltd. | Japan |
| | Mitsubishi Automotive Accessories & Products Co., Ltd. | Japan |
| | Mitsubishi Automotive Logistics Technology Co., Ltd. | Japan |
| | Mitsubishi Automotive Engineering Co., Ltd. | Japan |
| | Suiryo Plastics Co., Ltd. | Japan |
| | Mitsubishi Motors North America, Inc. (MMNA) | U.S.A. |
| | Mitsubishi Motors R&D of America, Inc. (MRDA) | U.S.A. |
| | Mitsubishi Motor Sales of Canada, Inc. (MMSCAN) | Canada |
| | Mitsubishi Motors Credit of America, Inc. (MMCA) | U.S.A. |
| | Mitsubishi Motor Sales of Caribbean, Inc. (MMSC) | Puerto Rico |
| | Mitsubishi Motors Europe B.V. (MME) | Netherlands |
| | Mitsubishi Motor R&D of Europe GmbH (MRDE) | Germany |
| | Mitsubishi Motor Sales Netherlands B.V. | Netherlands |
| | Mitsubishi Motors Deutschland GmbH | Germany |
| | Mitsubishi Motors France S.A.S | France |
| | Mitsubishi Motors Belgium nv | Belgium |
| | MMC International Finance (Netherlands) B.V. | Netherlands |
| | Netherlands Car B.V. (NedCar) | Netherlands |
| | Mitsubishi Motors Australia, Ltd. (MMAL) | Australia |
| | Mitsubishi Motors New Zealand Ltd. (MMNZ) | New Zealand |
| | Mitsubishi Motors (Thailand) Co., Ltd. (MMTH) | Thailand |
| | MMTh Engine Co., Ltd. | Thailand |
| | Mitsubishi Motors Philippines Corp. (MMPC) | Philippines |
| | Asian Transmission Corp. (ATC) | Philippines |
| | Mitsubishi Motor Parts Sales of Gulf FZE | U.A.E. |
| | Note: MMC has 17 other subsidiaries outside Japan in addition to the above. | |
| **Major equity method affiliates** | | |
| | Hakodate Mitsubishi Motors Sales Co., Ltd.*[3] | Japan |
| | Muroran Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Tokachi Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Ibaraki Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Meihoku Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Mie Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Kagawa Mitsubishi Motors Sales Co., Ltd. | Japan |
| | Miyazaki Mitsubishi Motors Sales Co., Ltd. | Japan |
| | MMC Diamond Finance Corp. | Japan |
| | Mitsubishi Motors do Portugal S.A. | Portugal |
| | Vina Star Motors Corporation | Vietnam |
| | Note: MMC has 10 other affiliates outside Japan in addition to the above. | |
| **Other Associated Companies** | | |
| | **Company** | **Capitalization (In millions of yen)** |
| | Mitsubishi Heavy Industries, Ltd. | 265,608 |

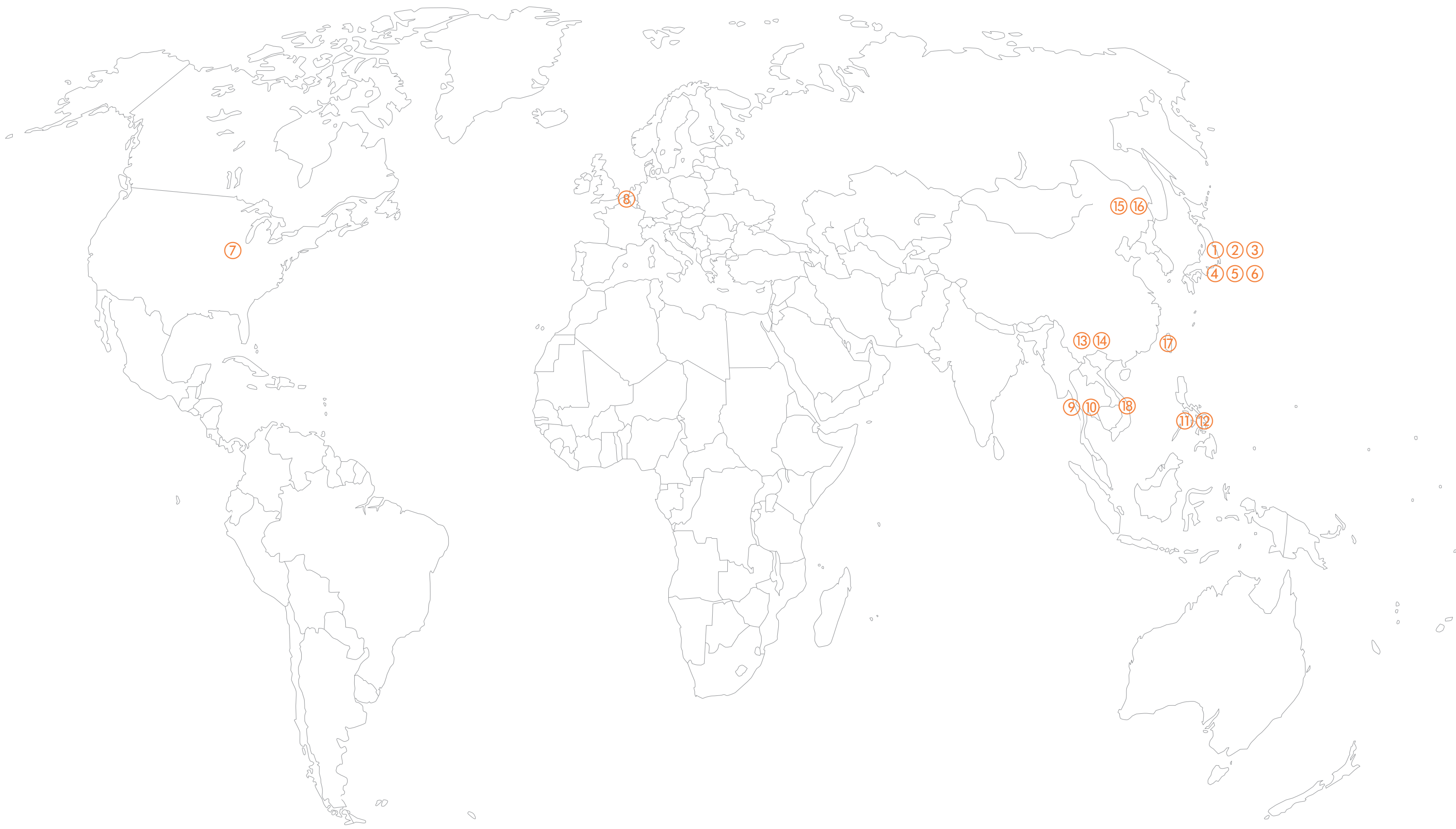
*[1] Figures in parentheses represent indirect shares.
*[2] Although MMC's equity holding is less than 50%, this affiliate is listed as a subsidiary because MMC exercises effective control over the company.
*[3] Although MMC's equity holding is less than 20%, this company is listed as an affiliate because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

| Capitalization (In millions) | | Business Lines | MMC Share of Voting Rights (%)*1 |
|---|---|---|---|
| | | | |
| JPY | 100 | Automobile sales | 100.0 |
| JPY | 100 | Automobile sales | 100.0 |
| JPY | 100 | Automobile sales | 100.0 |
| JPY | 100 | Automobile sales | 100.0 |
| JPY | 100 | Automobile sales | 100.0 |
| JPY | 100 | Automobile parts sales | 100.0 (31.5) |
| JPY | 100 | Automobile parts sales | 56.0 (10) |
| JPY | 100 | Automobile parts sales | 50.0 (8) |
| JPY | 610 | Automobile and parts manufacture, sales | 100.0 |
| JPY | 300 | Sales of automobile accessories, air conditioners | 100.0 |
| JPY | 436 | Automobile inspection, maintenance, transport, storage and packaging | 82.8 |
| JPY | 350 | Design and testing of automobiles and parts | 100.0 |
| JPY | 100 | Manufacture, sales of automobile parts | 100.0 |
| USD | 398.8 | Automobile importing, manufacturing, sales | 100.0 |
| USD | 2.0 | Product development, design, testing, certification | 100.0 (100.0) |
| USD | 1.3 | Automobile importing, sales | 100.0 (100.0) |
| USD | 260.0 | Automobile financing, leasing | 100.0 (100.0) |
| USD | 47.5 | Automobile importing, sales | 100.0 |
| EUR | 1282.9 | Importing, sales of automobiles and parts | 100.0 |
| EUR | 0.8 | Product development, design, testing, certification | 100.0 (100.0) |
| EUR | 6.8 | Automobile importing, sales | 100.0 (100.0) |
| EUR | 30.0 | Automobile importing, sales | 100.0 (100.0) |
| EUR | 10.0 | Automobile importing, sales | 100.0 (100.0) |
| EUR | 3.0 | Automobile importing, sales | 100.0 (100.0) |
| EUR | 0.1 | Procurement of funds, group company financing | 100.0 |
| EUR | 250.0 | Manufacturing, sales of automobile and parts | 100.0 (15.0) |
| AUD | 1,789.9 | Automobile importing, assembly, sales | 100.0 |
| NZD | 48.0 | Automobile importing, sales | 100.0 |
| THB | 7,000.0 | Automobile importing, assembly, sales | 99.8 |
| THB | 20.0 | Manufacturing of automobile engines | 100.0 (100.0) |
| PHP | 1,640.0 | Automobile importing, assembly, sales | 51.0 |
| PHP | 350.0 | Manufacturing of automobile transmissions | 94.7(89.4) |
| UAD | 10.0 | Importing, sales of automobile parts | 100.0 |

| | | | |
|---|---|---|---|
| JPY | 240 | Automobile sales | 16.9 |
| JPY | 100 | Automobile sales | 29.0 (29.0) |
| JPY | 60 | Automobile sales | 35.0 |
| JPY | 30 | Automobile sales | 40.0 |
| JPY | 70 | Automobile sales | 28.6 |
| JPY | 58 | Automobile sales | 24.8 |
| JPY | 50 | Automobile sales | 23.0 |
| JPY | 60 | Automobile sales | 38.8 |
| JPY | 3,000 | Auto sales financing, leasing, rentals | 47.0 |
| EUR | 16.5 | Automobile importing, sales | 50.0 (50.0) |
| USD | 16.0 | Manufacture and marketing of automobiles and parts | 25.0 |

| Business Lines | Share of Voting Rights in MMC (%) | Relationship |
|---|---|---|
| Shipbuilding & ocean systems development, power systems, machinery & steel structures, aerospace, mass and medium-lot manufactured machinery and others | 15.7(0.5) | Supplier of parts for MMC products |

# Principal Plants




| Country/Region | Name | Major Products |
|---|---|---|
| Japan | 1 Nagoya Plant–Okazaki | Outlander, Colt, Colt Plus, Grandis |
| | 2 Mizushima Plant | Lancer (Galant Fortis), i, eK Wagon, Minicab |
| | 3 Pajero Manufacturing Co., Ltd. | Pajero (Montero), Delica D:5 |
| | 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, Pajero Sport, Lancer, Spacewagon (Grandis) |
| | 10 MMTH Engine Co., Ltd. (MEC) | Engines |
| Philippines | 11 Mitsubishi Motors Philippines Corporation (MMPC) | Adventure, L300 (Delica) |
| | 12 Asian Transmission Corporation (ATC) | Transmissions |
| China | 13 Hunan Changfeng Motor Co., Ltd. (CFA) | Pajero |
| | 14 South East (Fujian) Motor Co., Ltd. (SEM) | Galant, Lancer |
| | 15 Shenyang Aerospace Mitsubishi Motors Engine Manufacturing, Co., Ltd. (SAME) | Engines |
| | 16 Harbin Dongan Automotive Engine Manufacturing, Co., Ltd. (HDMC) | Engines, transmissions |
| Taiwan | 17 China Motor Corporation (CMC) | Colt Plus, Galant Fortis, Grunder, Zinger |
| Vietnam | 18 Vina Star Motors Corporation (VSM) | Zinger, Grandis |

# Investor Information

As of March 31, 2008

| | |
|---|---|
| **Company Name** | MITSUBISHI MOTORS CORPORATION |
| **Head Office** | 5-33-8, Shiba, Minato-ku, Tokyo 108-8410, Japan<br>Telephone: +81-3-3456-1111 |
| **Established** | April 22, 1970 |
| **Capital** | ¥657,349,227,926 |
| **Number of Employees** | 33,202 (Consolidated) 12,761 (Non-consolidated) |
| **Stock Listings** | Tokyo Stock Exchange and Osaka Securities Exchange |
| **Securities Code** | 7211 |
| **Share Trading Unit** | 1,000 |
| **Number of Shares Outstanding** | 5,538,335,433 |

**Number of Shareholders**

| Type | Number of issued shares | Number of shareholders |
|---|---|---|
| COMMON SHARES | 5,537,897,840 | 432,575 |
| PREFERRED SHARES | | |
| First Series Class A | 73,000 | 4 |
| Second Series Class A | 25,000 | 7 |
| 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 |

**Major Shareholders**

| Name | Number of shares held (thousands) | % of total |
|---|---|---|
| Mitsubishi Heavy Industries, Ltd. | 839,942 | 15.17 |
| Mitsubishi Corporation | 774,768 | 13.99 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 268,763 | 4.85 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 58,661 | 1.06 |
| MLP FS Custody | 48,447 | 0.87 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 48,296 | 0.87 |
| Mitsubishi UFJ Trust and Banking Corporation (Trust account) | 32,442 | 0.59 |
| Mitsubishi UFJ Trust and Banking Corporation | 32,106 | 0.58 |
| Japan Trustee Services Bank, Ltd. (Trust account 4) | 22,717 | 0.41 |
| Trust & Custody Services Bank, Ltd. (Trust account Y) | 22,183 | 0.40 |
| Total | 2,148,327 | 38.79 |

**Transfer Agent and Register**

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