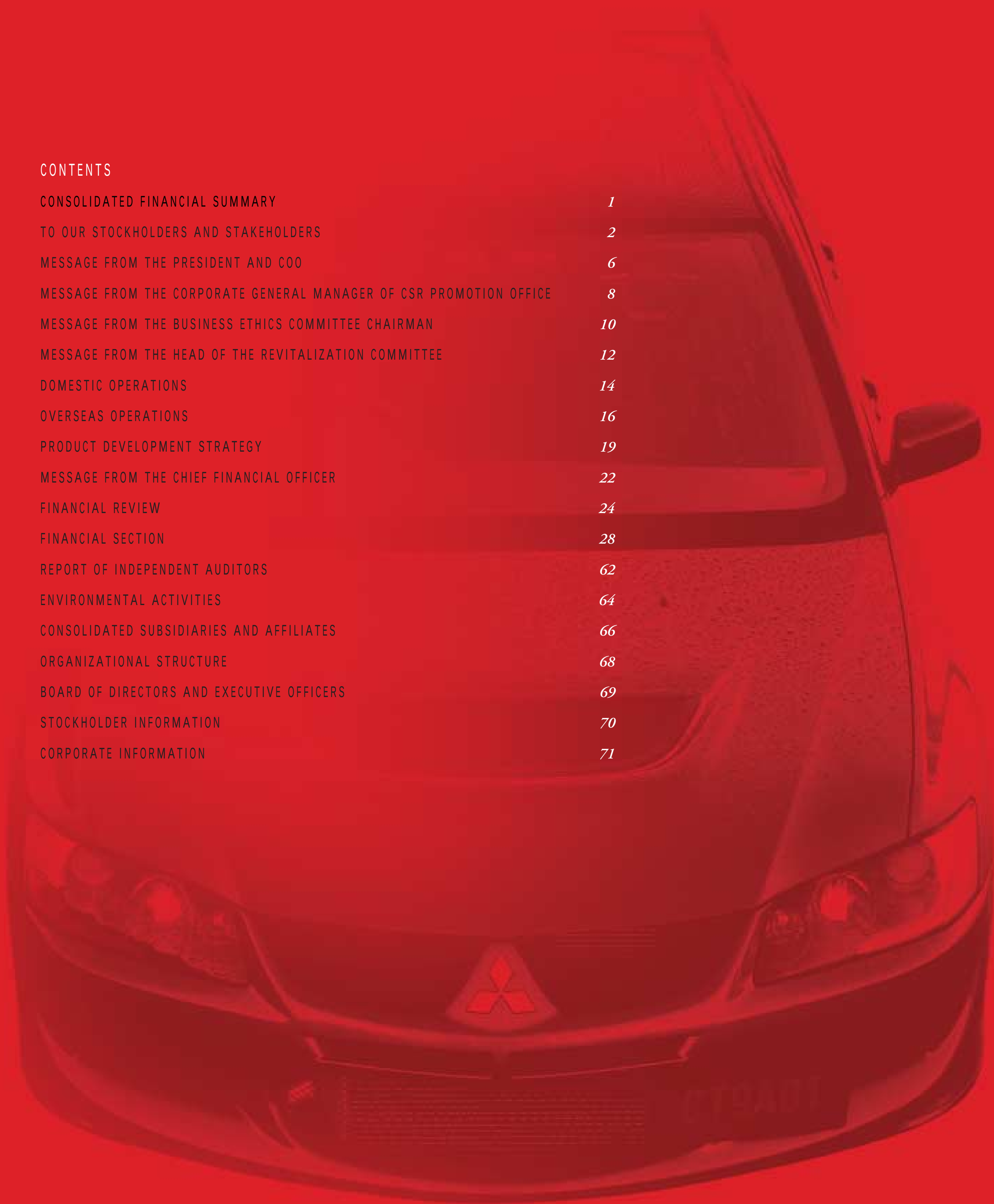
MITSUBISHI MOTORS CORPORATION
ANNUAL REPORT 2004
YEAR ENDED MARCH 31, 2004

MITSUBISHI MOTORS



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CONSOLIDATED FINANCIAL SUMMARY

MITSUBISHI MOTORS CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31,	2000	2001	2002	2003	2004	2004
					In millions of yen	In thousands of U.S. dollars
Net sales	¥3,334,974	¥3,276,716	¥3,200,699	¥3,884,874	**¥2,519,449**	**$23,838,109**
Operating profit (loss)	22,473	(73,865)	40,227	82,761	**(96,852)**	**(916,382)**
Profit (loss) before income taxes and minority interests	(12,651)	(407,289)	(31,875)	42,206	**(77,173)**	**(730,191)**
Net (loss) income	(23,331)	(278,139)	11,256	37,361	**(215,424)**	**(2,038,263)**

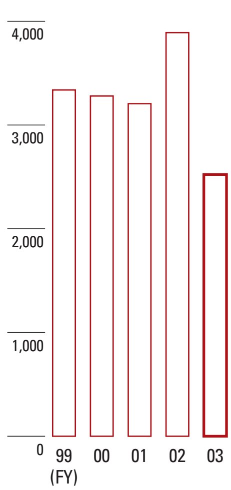
					In yen	In U.S. dollars
Net income (loss) per share:						
Basic	¥ (24.87)	¥ (232.77)	¥ 7.66	¥ 25.35	**¥ (145.22)**	**$ (1.37)**
Diluted	—	—	7.42	23.43	**—**	**—**
Cash dividends	—	—	—	—	**—**	**—**

March 31,	2000	2001	2002	2003	2004	2004
					In millions of yen	In thousands of U.S. dollars
Total assets	¥2,784,119	¥2,981,668	¥2,894,560	¥2,425,352	**¥2,029,035**	**$19,197,990**
Total stockholders' equity	347,363	256,068	270,663	280,294	**29,972**	**283,591**

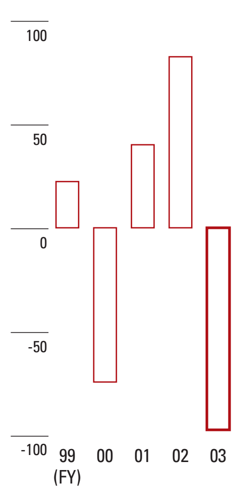
Notes: 1. The U.S. dollar amounts in the accompanying consolidated financial statements are included, solely for convenience, at ¥105.69 = US $1.00, the exchange rate prevailing on March 31, 2004.

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

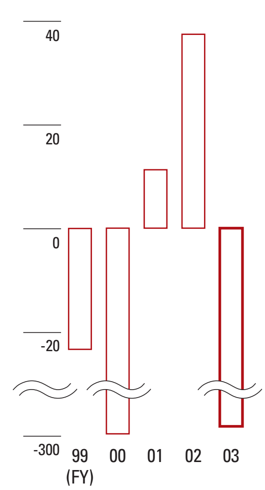
3. The assets and liabilities of truck and bus operations are not reflected in each account because these operations were spun off and subsequently became an equity-method affiliate of MMC on March 14, 2003.



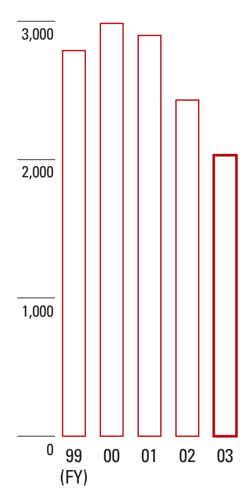
NET SALES
(¥ billion)



OPERATING PROFIT (LOSS)
(¥ billion)



NET INCOME (LOSS)
(¥ billion)



TOTAL ASSETS
(¥ billion)

Note: Fiscal year refers to the accounting period that runs from April to March of the following year (e.g. FY 1999 = April 1, 1999 to March 31, 2000).

TO OUR STOCKHOLDERS AND STAKEHOLDERS

Backed by a new management team committed to the revitalization of Mitsubishi Motors, we have taken the first major step forward in the greatest challenge Mitsubishi Motors has ever faced.

YOICHIRO OKAZAKI
Chairman and CEO

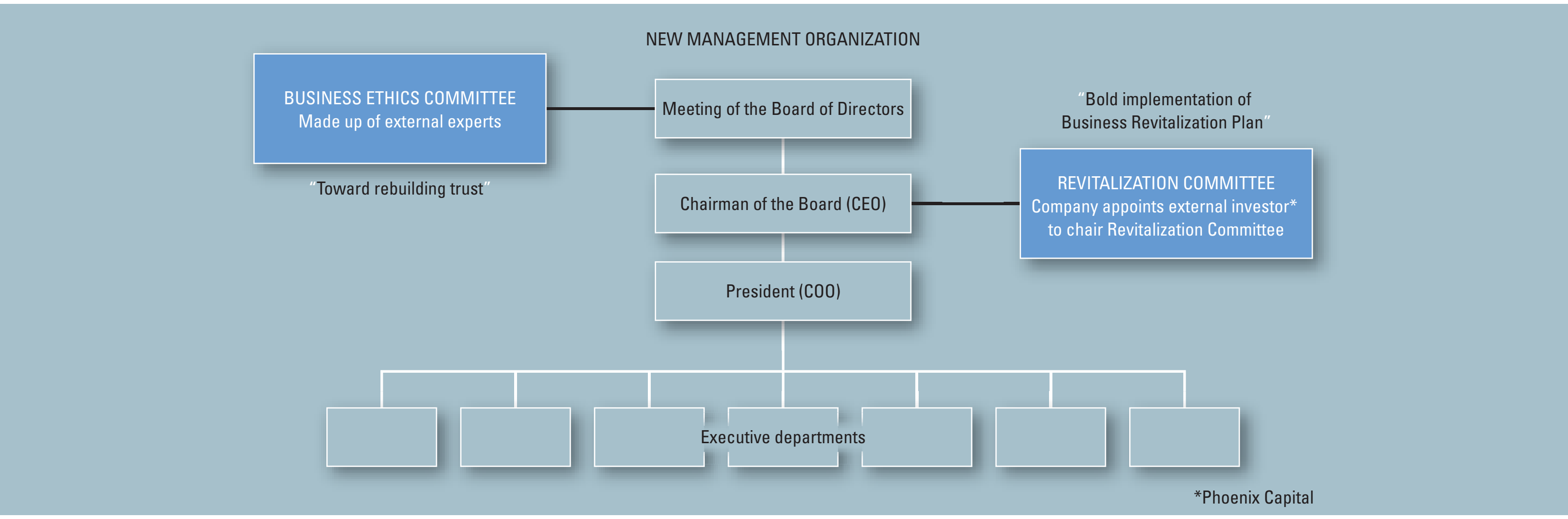
FIRST MAJOR STEP FORWARD IN THE GREATEST CHALLENGE

Fiscal 2003, ended March 31, 2004, was a tumultuous year for Mitsubishi Motors. Consolidated net sales fell 35.1% to ¥2,519.4 billion compared with the previous fiscal year. Excluding the spin-off of the truck and bus business in fiscal 2002, which adversely affected net sales by ¥715.3 billion, and the change in accounting periods of overseas consolidated subsidiaries, which adversely affected net sales by ¥433.4 billion, consolidated net sales would still have declined 7.9%. In addition, the Company recorded significant operating losses on sales financing operations in North America.

After DaimlerChrysler announced the cessation of financial support toward the end of April 2004, Mr. Rolf Eckrodt resigned from his position as President and CEO and I took over as the new helmsman of Mitsubishi Motors. On May 21, about one month after my appointment, we announced the Business Revitalization Plan and reformed the management organization. A detailed investigation of our handling of past recalls revealed that post-market measures put in place in 2000 were inadequate, and we announced these findings on June 2, 2004. Since then, my two highest priorities have been to restore the public's trust in Mitsubishi Motors and to resuscitate corporate management.

The urgent issue of raising capital in light of our substantial operating losses was resolved from late June to mid-July with the purchase of preferred stocks by Mitsubishi Group companies, China Motor Corporation, a major business partner in Asia, and J.P. Morgan, as well as the purchase of common stocks by Phoenix Capital. These arrangements allowed Mitsubishi Motors to procure ¥496.0 billion in capital, more than the ¥450 billion needed for the Business Revitalization Plan. The Company plans to allocate these funds to achieve revitalization targets and to reduce interest-bearing debt more than 40% by fiscal 2006 compared with fiscal 2003 levels.

On June 29, we officially welcomed to our management team Mr. Hideyasu Tagaya as President and Chief Operating Officer in charge of overall operations, Mr. Koji Furukawa as Chief Business Ethics Officer in charge of compliance, public relations, investor relations and auditing, as well as Mr. Yasushi Ando as the head of the Revitalization Committee for advice on achieving business revitalization targets from an investor's point of view. These



additions completed our new management team that is committed to the revitalization of Mitsubishi Motors and taking the first major step forward in the greatest challenge Mitsubishi Motors has ever faced.

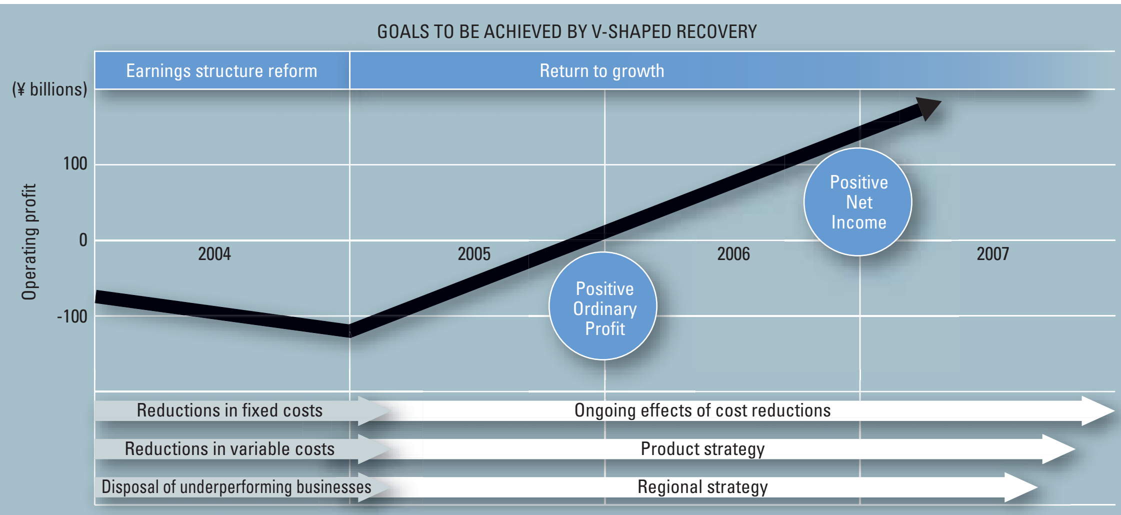
OVERCOMING A MANAGEMENT CRISIS

We achieved a majority of the targets in the Turnaround Plan, which was formulated when DaimlerChrysler had control over management, a year ahead of schedule. Unfortunately, our corporate governance efforts were insufficient to prevent losses at financing subsidiaries in the United States, leading to a significant shortfall from targets. Mitsubishi Motors cannot afford to waste time. At this critical juncture, we are highly motivated to achieve the targets in the Business Revitalization Plan.

Recent operating conditions have been considerably challenging. The recall problem has regrettably increased the likelihood of Mitsubishi Motors falling short of its domestic sales projections in the current fiscal year. To compensate for this potential shortfall in sales, on June 16 we announced an additional ¥34.4 billion in cost reduction measures. Overseas, sales volume is increasing in markets such as Russia, the Middle East and South America, so we are not changing our targets in the Business Revitalization Plan. There is always the possibility of unforeseen changes in the operating environment, and these changes could be positive or negative for Mitsubishi Motors. Nevertheless, we must achieve our revitalization targets and place the Company within reach of attaining profitability on a net income basis by fiscal 2006.

CONCERNING THE RECALL PROBLEM

I am prepared to do whatever it takes to obtain a full accounting of our handling of recalls in the past. It is clear that we should have analyzed and reflected on why these incidents of concealing recalls happened in 2000 and that measures should have been implemented to prevent future recurrence of these incidents. Investigations conducted in 2000 were



inadequate in terms of scope and time, leading to conditions that have inconvenienced our customers. When I was appointed, I promised to resolve these issues through any means necessary. As of August 26, we had reported on all past incidents of concealing recalls. We continue internal investigations into why recalls were concealed and, from the standpoint of management transparency, will report on the findings of these investigations as soon as possible. According to the results of our investigations, quality management at Mitsubishi Motors has followed the correct processes since 2000. I want to reiterate that the concealment of recalls is now an issue of the past.

PRIORITIZING COMPLIANCE IN A CHANGING CORPORATE CULTURE

We face the issue of how to change compliance and our corporate culture in order to prevent the reoccurrence of recall concealment and similar problems. As the guiding principles of our revitalization, Mitsubishi Motors is prioritizing compliance, safety and customer satisfaction. All of the directors at Mitsubishi Motors have already signed a declaration promising to place compliance at the forefront of their activities. Organizationally, we newly established the CSR Promotion Office to monitor the execution of the three guiding principles, and appointed Mr. Koji Furukawa, who was the Chief Compliance Officer at Mitsubishi Corporation, to head the office. We also established the Business Ethics Committee as an advisory function to the Board of Directors to externally monitor the activities of the CSR Promotion Office. The Business Ethics Committee is chaired by Mr. Noboru Matsuda, formerly a senior public prosecutor and, until June 2004, governor of the Deposit Insurance Corporation of Japan.

Naturally, the creation of a new auditing organization alone will not change our corporate culture. I believe that strict compliance and changes to our corporate culture are the most important points of the revitalization of Mitsubishi Motors, and I will make every effort to successfully achieve these priorities by raising awareness of them within our organization.

REVITALIZATION COMMITTEE

Mitsubishi Motors created the Revitalization Committee under the direct control of the CEO in order to assemble intellectual capital within the Company and brainstorm revitalization ideas. We asked Mr. Ando from Phoenix Capital, now our principal stockholder, to chair the committee. The Revitalization Committee interviews employees in each department of the Company, creates cross-functional teams (CFTs) for each management issue identified and then reports to me on major initiatives that cross organizational barriers. More than 70 young employees have been chosen among applicants to participate in revitalization projects, and I expect them to propose some creative ideas for revitalization.

EARNINGS TARGETS

Under the Business Revitalization Plan, we aim to achieve profitability on the ordinary profit level by fiscal 2005 and on the net income level by fiscal 2006. Reforms to the earnings structure are the first step we are taking toward these goals.

Our primary initiatives under way during the current fiscal year focus on reducing fixed and variable costs as well as restructuring unprofitable businesses. We expect fixed cost reductions will continue to have an effect from the next fiscal year onward, and plans call for restoring growth by implementing product strategies and geographic strategies that should have an effect from the next fiscal year.

We plan to lower fixed costs by reducing and optimizing production capacity 17% and shed 30% of our indirect labor, by fiscal 2006. In addition, we aim to lower material costs, which claim a majority of variable expenses, by 15% and reduce the number of platforms from the current 15 to 6 by fiscal 2010.

For numerical targets, we are setting our sights on consolidated net sales of ¥2,490 billion, operating profit of ¥120 billion, ordinary profit of ¥100 billion and net income of ¥70 billion by fiscal 2006.

MANUFACTURING AND PRODUCT STRATEGIES

Manufacturing and product strategies are another means for achieving the earnings targets I mentioned earlier.

In manufacturing, our foremost priority is optimizing production capacity. In Japan, we will turn the Okazaki Plant into a pilot plant and concentrate mass production at the Mizushima Plant and Pajero Manufacturing Co., Ltd., (PMC). Overseas, we are adjusting production to profitable levels instead of blindly pursuing higher sales volume.

In our product strategy, we will aggressively introduce new cars that exemplify Mitsubishi Motors DNA with a solid and smooth ride based on proven technologies as found in the *Pajero* and *Lancer Evolution* series.

Mitsubishi Motors is introducing a product executive (PX) system where product executives in charge of a car model are responsible for ensuring integrated management from basic product concepts and styling to development, ongoing improvements and post-market quality reviews. Through these measures, we are making every effort to regain customer trust while strengthening our product features and market competitiveness.

This sums up the management policies and measures that are putting Mitsubishi Motors firmly on the path to revitalization. I ask for your understanding and support.

Y. Okazaki

YOICHIRO OKAZAKI
Chairman and CEO

MESSAGE FROM THE PRESIDENT AND COO

I am ultimately responsible for the Company's operations—including development, purchasing and procurement, manufacturing, sales, quality assurance and management—and take pride in leading a group of dedicated employees.

HIDEYASU TAGAYA
President and COO

As President and Chief Operating Officer of Mitsubishi Motors Corporation, I am ultimately responsible for the Company's operations—including development, purchasing and procurement, manufacturing, sales, quality assurance and management—and take pride in leading a group of dedicated employees. Guided by the Business Revitalization Plan, a three-year plan that commenced in fiscal 2004, the Company is making steady progress in its efforts toward self-revitalization, including the strengthening of its financial position, thanks to the much appreciated understanding of all concerned. The Business Revitalization plan provides a road map for the Company's future. At Mitsubishi Motors, we are unified in our commitment to achieving our objectives, and will implement essential measures to ensure a timely arrival at our designated destination.

COMPREHENSIVE EARNINGS STRUCTURAL REFORM

Confronted by excess capacity in global automobile production, Mitsubishi Motors was unable to secure profitable operations. In the past, in its effort to compete, the Company was forced to adopt drastic sales plans that gave scant regard to risk and return. As a result, our products' sales competitiveness and brand power suffered, and in pursuing a policy of discounting and sales incentives, the Company fell into a downward spiral, in turn incurring heavy losses. In order to break out of the root cause of this situation, the restoration of capacity commensurate with sales is essential. The trimming of production capacity is under way on a global scale, breaking away from a preoccupation on vehicle numbers to establish long-term profit structures. In overseeing the operations of the Company, I am confident Mitsubishi Motors is unified in its commitment to ensure this plan is swiftly implemented.

In concrete terms, the termination of mass production at the Okazaki assembly line is being speeded up and the site's role will change to that of a pilot plant. This will leave the Mizushima plant and PMC, which produces the Pajero, as the only production sites in Japan. Overseas, the MMAL engine plant in Australia will be closed by fiscal 2005, and the car assembly plant will scale down annual production from the current 60,000 units to 30,000. Furthermore, production at MMNA in the United States will be trimmed by changing from a double- to a single-shift operation. By so doing, production capacity will be reduced by 17% and the utilization ratio expected to improve from 78% to 97%.

PRODUCT STRATEGIES FOR GROWTH

With concepts and styling that take the renaissance of Mitsubishi Motors' DNA as their base, and that push the current boundaries of technology, innovative automobiles are being created that embody the essential qualities of Mitsubishi Motors. In order to bring these to fruition, I am pressing for two system reforms.

The first is the introduction of the PX structure. The model-specific PX has end-to-end product life cycle responsibility from the basic product concept stage to customer sales, quality follow-up and profits. Six PXs are already active and as a result of the impact on overall product life cycle, will demonstrate efficiently and effectively the full-scale efforts the

COST STRUCTURE REFORMS

	Numerical target	Achievement time frame
Reduction of production capacity	–17%	FY 2006
Reduction of indirect labor	–30% (7,600/FTE)	FY 2006
Reduction of material costs	–15%	FY 2006
Platform consolidation	15→6	FY 2010

Company is making to offer its customers innovative automobiles embodying Mitsubishi Motors' DNA.

The second is a right-sizing of the product lineup. To revitalize the Company through effective plan implementation, not only is moral discussion essential but also the establishment of a product lineup based on analyses that boldly confront reality. Plans to consolidate the numbers of platforms from the current 15 to 6 by fiscal 2010 have already been announced, but this is just one of the vital measures in the lineup right-sizing process. Thoroughness in developments that emphasize the views of both the customer and the market will lead to the Company having an appropriate product lineup. This will drastically improve long-term quality, cost and product appeal.

REGIONAL STRATEGY

In Japan, every effort must be made to regain customer confidence lost by the adverse publicity surrounding product recalls. Since I took up the post of president, my roving visits to sales companies all over the country have placed me directly on the sales front-line, where I can hear things first hand. Henceforward, opinions from sales showrooms will be listened to very carefully, and customers and a sales infrastructure that directly serves them built up. While making every effort to become profitable, we are also committed to strengthening our sales force in preparation for the progressive introduction of new models planned to start in the second half of fiscal 2005.

Overseas, the Company is remorseful that, in the past, the governance shown by its headquarters has not been effective enough. Together with the acceptance of unequivocal responsibility for each overseas operation, it has initiated a raft of changes to their management systems. Henceforward, to correct the past biased way of thinking that tried to secure vehicle numbers in North America and Japan, the global regional portfolio will be restored to health by actively injecting operational resources into key regions, including China.

The above has drawn attention to one aspect of the Company's thoughts and actions regarding its own revitalization, seen from the operational perspective. Another will be suggestions from the CFTs that, representing a cross-section of departments and with young members at their heart, are making a start with a plan of action using revitalization committee meetings. It is expected that bold, innovative ideas based on local input will arise from them. As head of administration, I have shown you all the plans that will unfailingly be brought to fruition and the urgent reforms that the Mitsubishi Motors of old was incapable of implementing.

Achieving the Company's revitalization from within, I promise to make our MITSUBISHI MOTORS brand one that boldly looks toward the future and humbly extend my good wishes.

HIDEYASU TAGAYA
President and COO

MESSAGE FROM THE CORPORATE GENERAL MANAGER OF CSR PROMOTION OFFICE

The Company is unified in its resolve to promote comprehensive reform and restore the trust and confidence of the market.

KOJI FURUKAWA
Vice Chairman
Corporate General Manager of CSR Promotion Office
Chief Business Ethics Officer

BACKGROUND

Mitsubishi Motors has lost the trust and confidence of its customers and of society. This very regrettable situation can be attributed to a number of factors including frequent changes to its management team, an overly departmentalized organization and corporate culture that prevented adequate sharing of information, disclosure issues relating to the Company's recall programs, and deteriorating results. Ultimately, Mitsubishi Motors did not fulfill its corporate social responsibility (CSR) and lacked adequate decision-making processes, communication, information exchange, and personal relationships both within and between each section. Taking this into account, the CSR Promotion Office was established to ensure that all directors and employees fully understand their collective role in CSR and to instill throughout the Group an ethical corporate culture based on strict CSR compliance.*

CSR PROMOTION OFFICE: STRUCTURE, FUNCTION, AND ROLE

The rationale for establishing the CSR Promotion Office is the renewed conviction by management that compliance forms the basis for a company's ongoing existence. Accordingly, Mitsubishi Motors has positioned "Compliance-First" as its foremost guiding principle supported by the dual concepts of "Safety-First" and "Customer-First." In implementing management reform, Mitsubishi Motors will formulate initiatives with a clearly defined time frame. Within each time frame, the Company will promote a repeating "PLAN > DO > SEE" cycle. The CSR Promotion Office will pay particular attention to ensure that the Company strictly adheres to the DO and SEE components of this repeating process, areas in which Mitsubishi Motors had previously been lacking.

Accordingly, the principal function of the CSR Promotion Office is to continuously monitor the strict implementation of the "PLAN > DO > SEE" process, and to ensure that management policies, in-house and external comments and feedback are adequately communicated and information shared throughout the entire organization. Until recently, four separate departments had been responsible for the gathering and dissemination of information. This process has now been consolidated into the one head office function, and it is the responsibility of the CSR Promotion Office to ensure comments from outside the Group are adequately conveyed to management and incorporated into the executive function and that in-house information is adequately collected and shared throughout the organization.

In addition, we called upon the Company's chairman and president to issue a declaration positioning compliance with Mitsubishi Motors' CSR principles as the foremost management priority and the Company as a whole. As a definitive statement concerning the reform of Mitsubishi Motors' corporate culture, all members of the Company's Board of Directors have added their signatures to it. In August 2004, Mitsubishi Motors conducted a series of seminars to convey to all employees the Company's CSR principles. In order to further ensure that all employees have a full understanding of these principles and compliance, meetings are being held at each workplace to promote discussion and comment among employees.

* Compliance refers to the strict adherence to domestic and overseas regulatory requirements, in-house rules, and generally accepted social practice, standards and ethics.

Furthermore, a committee comprised of leading professionals from outside the Company has been established to review the Company's CSR principles and to push through corporate cultural reform. The committee is responsible for ensuring that external social standards, practice and ethics are incorporated into the Company's compliance structure. In this manner, Mitsubishi Motors is working to implement a complete overhaul of its audit structure and systems to enhance overall quality and governance.

In connection with those issues relating to inadequate disclosure and the Company's recall programs, on August 26, 2004, Mitsubishi Motors provided a disclosure statement for past inadequacies and information regarding the Company's quality assurance process after 2000. Mitsubishi Motors remains committed to ascertaining the causes of past errors and continues to investigate each and every incident within the Company. In order to ensure an independent perspective, an investigation team has been established comprising 13 practicing attorneys from outside the Company. The Business Ethics Committee has also been called upon to support and make comment on these investigations.

OUTLOOK

Producing defect-free vehicles is the mandate of every automobile manufacturer. The human element, however, dictates that a 100% defect-free rate is difficult to achieve. For this reason, a company's recall program is critical to its production process. Mitsubishi Motors deeply regrets its past inadequacies in this regard. The Company is unified in its resolve to promote comprehensive reform and restore the trust and confidence of the market.

Mitsubishi Motors has already received valuable comment and guidance from the Business Ethics Committee. Heeding the words of our customers and those of society, the Company is focusing first and foremost on the safety of its customers. We are wholeheartedly committed to securing their trust.

The very fact that the Company requires an in-house CSR Promotion Office is a comment on our inadequacies. Our goal is to instill in the minds and activities of each and every Mitsubishi Motors employee an indefatigable understanding and commitment to CSR. Our success will enable us to eliminate the need for a CSR Promotion Office both in name and substance.

KOJI FURUKAWA
Vice Chairman
Corporate General Manager of CSR Promotion Office
Chief Business Ethics Officer

MESSAGE FROM THE BUSINESS ETHICS COMMITTEE CHAIRMAN

Implementing a comprehensive shake up of the Company's culture and methods, the Business Ethics Committee will ensure an external perspective is incorporated in the Company's evolution based on the top priorities of compliance, safety and the customer.

NOBORU MATSUDA
Chairman of the Business Ethics Committee

ROLE OF THE BUSINESS ETHICS COMMITTEE

For a number of reasons, not least of which is the Company's recall problem, MMC has lost the trust of the public and incurred significant damage to its image and reputation. The current stance of the public toward MMC is extremely severe and the Company will not be able to restore this trust overnight.

Following a revision of its management structure, and the appointment of new key executives, MMC has formulated its Business Revitalization Plan, which places the utmost priority on compliance, safety, and customers. Guided by these priorities, MMC is dedicated to overhauling its corporate culture, business ethics and is working toward improving product quality.

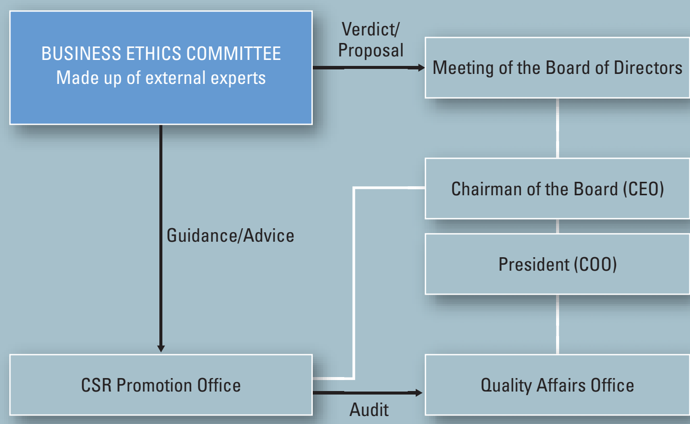
Established in June 2004, the Business Ethics Committee is an advisory body to MMC's Board of Directors. From an external perspective and reflecting society's standards, the committee submits reports directly to the board and makes proposals. At the same time, the committee provides guidance and advice to the Corporate Social Responsibility Promotion Office on quality audits and reforms to corporate culture and business ethics.

The Business Ethics Committee is comprised of five members including myself as Chairman. A panel of outside experts, committee members include: Konoe Kawagishi (former vice-chairman of Yomiuri Shimbun editorial committee); Takahiro Fujimoto (professor at Tokyo University); Kazuko Miyamoto (head of consumer research at the Nippon Association of Consumer Specialists), and; Kazuo Mura (lawyer). External to the Company, panelists will provide exacting and rigorous comment relating to compliance issues, advice and guidance to support MMC's efforts to swiftly restore credibility and public trust.

ACTIVITIES

The first meeting of the Business Ethics Committee was held on July 22, 2004. Among a number of issues, the Committee identified putting an end to the recall issue as first and foremost in restoring lost trust as quickly as possible. To this end, the Committee sought an explanation of the scope of investigations, the process in detail, corporate policies, culture and programs implemented in response to the recall problem. Following the briefing, committee members discussed with vigor the information brought to hand. Recognizing this as MMC's last chance for revitalization, the Committee recommended a comprehensive review and reform of existing management structure and methods. At the second meeting held on July 27, further explanation of the scope and process of investigations as they relate to the Company's recall problem, which were implemented by MMC's new management in an effort to revitalize the

STRENGTHENED QUALITY AND CORPORATE GOVERNANCE OVERSIGHT SYSTEM



Company and rid it of past indiscretions, was provided and followed by a detailed question and answer session. The third meeting was held the following day at MMC's research & development center and production plant in Okazaki. After observing development (design, engineering, testing), production preparations, and production processes, the committee members joined the first business ethics seminar at the plant to see firsthand the Company's efforts to promote compliance on the factory floor and to verify progress of expanded investigations at the frontline regarding the recall problem. The committee members also had the chance to talk with plant staff including the Women's Evaluation Team, a special group of female employees formed to include the opinion of women in car manufacturing.

Through these activities, committee members gained invaluable firsthand impressions of MMC's frontline and the Company's efforts to reform management ethics and culture. Committee members came to recognize a sense of thoroughness and urgency among employees in their efforts to overcome a difficult situation.

THOROUGH COMPLIANCE

MMC expects to disclose the full findings of its investigations with regard the recall problem by the end of 2004. The Business Ethics Committee will ensure that every effort has been made to secure full and complete disclosure. In addition, the committee will work to ensure compliance is recognized as a top priority throughout every level of MMC's structure and organization. It will continue to emphasize compliance, provide guidance and instruction, with the ultimate goal of returning MMC to a healthy and robust company, a company that produces vehicles that the consumer sees as safe and reliable, and to restore the trust of the general public. Implementing a comprehensive shake up of the Company's culture and methods, the Business Ethics Committee will ensure an external perspective is incorporated in the Company's evolution based on the top priorities of compliance, safety and the customer.

Noboru Matsuda

NOBORU MATSUDA
Chairman of the Business Ethics Committee

Note: Mr. Matsuda is a former senior public prosecutor and was governor of the Deposit Insurance Corporation of Japan until June 2004.

MESSAGE FROM THE HEAD OF THE REVITALIZATION COMMITTEE

MMC has established cross-functional teams (CFTs), drawing from across every department and layer of the organization, to support the Revitalization Committee and its efforts toward business revitalization.

YASUSHI ANDO
Member of the Board
Head of the Revitalization Committee

TOWARD BUSINESS REVITALIZATION

The Revitalization Committee reports directly to the chairman and has set a fixed period of one year to ensure MMC makes every conceivable effort toward self revitalization and successfully grasps this “last chance” to continue operations as a going concern. While ensuring an external perspective is included in the Company’s comprehensive reform measures, it is the goal of the committee to implement drastic and prompt initiatives that will ensure MMC’s total business revitalization. To this end, MMC has established CFTs, drawing from across every department and layer of the organization, to support the Revitalization Committee and its efforts toward business revitalization.

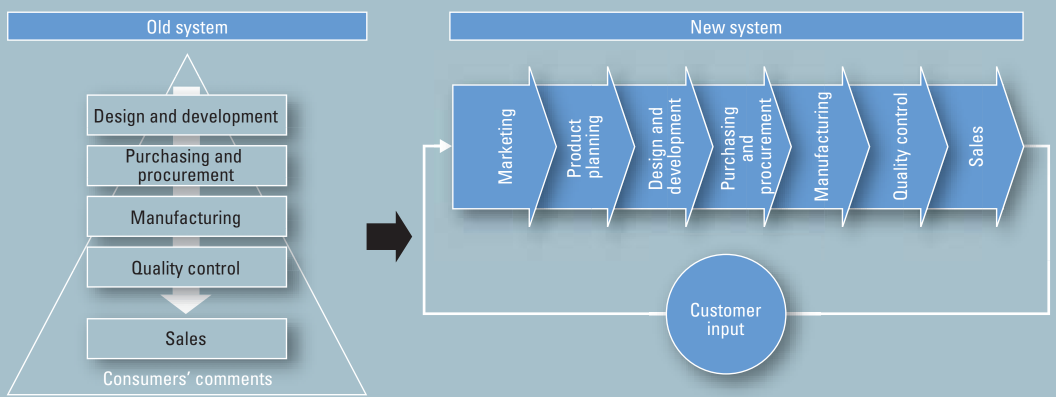
The committee commenced activities in June 2004, supported by employees from each Company department and employees from Phoenix Capital, to ensure an external perspective. Crisis Response Teams were established to immediately tackle the most critical issues including quality assurance, cost reduction, management accounting, and sales support. Together with line functions, every effort is being made to immediately implement priority initiatives.

At the same time, the committee has begun implementing measures geared toward revitalization. In the first two months considerable emphasis was placed on communication and gathering information from management, employees, suppliers, sales companies and related companies both in Japan and overseas. Adopting an external perspective, the committee has objectively assessed and analyzed this information with a view to prioritizing issues for management. Based on this analysis, three core issues have been identified: first, MMC has lost sight of its brand and corporate philosophy; second, ambiguity regarding responsibility and authority, and; finally, a compartmentalized corporate culture that hinders communication among departments. Common among these three core issues are their impact on every facet of the Company’s activities, leading to an excessively high cost structure and issues such as MMC’s recall problem.

CROSS-FUNCTIONAL TEAMS

From July 2004, the Company has set up CFTs primarily made up of employees from across every Company department. Incorporating an open recruitment system, these teams are comprised of young, energetic and enthusiastic employees, determined to address and resolve key management issues. MMC recognizes that the understanding by all MMC employees of the problems at hand and in-house efforts to formulate reform measures are crucial to success and

FROM A DEVELOPMENT-CENTERED VERTICAL ORGANIZATION TO A CUSTOMER-CENTERED HORIZONTAL ORGANIZATION



Previous vertical system: Breakdown of development and of framework to initiate it; inadequate reflection of customer opinions

Current horizontal system: Takes the customer as its starting point; takes responsibility for the car from beginning to end

self-revitalization. Underpinned by a renewed corporate philosophy and culture, CFTs thoroughly discuss and prioritize wide-ranging management issues including product development, brand strategy, materials procurement and quality assurance and promptly implement appropriate measures.

Integral to MMC's revitalization is to clarify, for the benefit of all stakeholders, the Company's fundamental philosophy, values and direction. At the same time, as a consumer goods manufacturer, the Company must incorporate the voice of the market in its business processes as the launch pad for product planning and design. Through these initiatives, MMC will be well placed to establish a cycle capable of addressing management issues and positioning the Company on a path to revitalization.

In the future, CFTs will collaborate with line functions, thoroughly discuss all issues, break through traditional organizational barriers, and propose drastic measures to the Revitalization Committee. As head of the committee, I am committed to supporting the activities of CFTs and based on their recommendations will put forward an implementation plan to our chairman, Mr. Okazaki, by December 31, 2004. Responsibility for implementing the plan will fall on the line function, while responsibility for achieving results will be for each and every director. In other words, responsibilities are across the board and will require the full commitment of each MMC employee. The Revitalization Committee will monitor the implementation of initiatives and plans with the aim of ensuring concrete results.

Despite extremely harsh operating conditions, MMC is dedicated to rebuilding its brand and corporate philosophy in common ownership with customers, stockholders and employees. Based on a realistic cost structure, and application of its collective strengths, the Company is confident of realizing reform and working toward revitalization.

YASUSHI ANDO
Member of the Board
Head of the Revitalization Committee

By the second half of fiscal 2005, MMC aims to have returned to a profitable structure by implementing thorough cost reduction measures while maintaining and strengthening its sales capabilities.

FUJIO CHO
Managing Director
Head of Domestic Operations

OVERVIEW

In fiscal 2003, MMC focused domestic operations on achieving the highest sales quality in the industry based on the slogans "Customer First" and "Independent Sales Network." The Company pushed forward with a renewal of dealerships at sales companies throughout Japan in an aim to create dealerships with a new, unified corporate identity that evokes a bright, open feeling. At the same time, efforts were redoubled in basic marketing activities to emphasize the customer. As a result, MMC significantly improved its ranking from below the industry average to above it in the sales satisfaction index (SSI) survey for Japanese automobiles conducted by JD Power Asia Pacific, Inc., an international company specializing in market research and consulting on customer satisfaction. First-half sales were boosted by the release of the new *GRANDIS* in May 2003. In the second half of fiscal 2003, the Company enticed customers to visit its dealerships through a nationwide campaign combining marketing and services. As a result, sales volume in fiscal 2003 increased year on year for the first time in eight years, rising 1% to 359,000 cars.

However, MMC's domestic operations are faced with its most challenging operating environment to date. The Company's corporate image was tarnished by directives to repair large-sized vehicles made by MMC in the past, as well as a series of quality problems that were inadequately addressed in 2000 with the recall of automobiles. As a result, MMC has lost the trust of its customers, which has inevitably led to an adverse effect on sales. MMC must now make significant efforts in order to reverse this trend.

CUSTOMER-CENTERED SERVICES

Under these circumstances, MMC is making every effort to restore the trust of customers in its products. The Company is promptly communicating its current conditions to all customers in order to eradicate their concerns and gain their understanding and trust. Furthermore, MMC is working as swiftly as possible to address repairs from the recall, and is offering free inspection services to all customers driving Mitsubishi cars. The Three-Year Full Support Program, offering free inspections and 24-hour roadside services, was launched for customers seeking to buy MMC vehicles, to ease any concerns they might have.

Next, the Company is working to rebuild its sales structure and establish a sales cycle centered on customers. MMC will release automobiles in the Mitsubishi Motors DNA image of power, durability and sporty looks while taking

eK Active

Grandis

on new markets. MMC is incorporating the Mitsubishi Motors DNA concept not only in automobile development, but also in advertising campaigns and sales promotion activities. In May 2004, the Company revealed the *eK ACTIVE* as the first Mitsubishi Motors DNA automobile, and plans to release the second and third Mitsubishi Motors DNA car models this autumn. With the launch of these cars, MMC aims to restore communication through contact with existing customers. The Company hopes to build a long-lasting, trustworthy relationship with current and future customers of Mitsubishi cars.

MMC aims to increase the management efficiency of its sales network. The decline in sales volume due to recent problems is having a major impact on the operations of sales companies, so the Company is offering all the support it can to sales companies and dealerships. By further deepening relationships and maintaining the sales network, MMC aims to create a highly efficient network of dealerships. Renovated dealerships have seen a considerable increase in sales from the previous fiscal year, and MMC continues to support these renovations.

INCREASING DOMESTIC MARKET PRESENCE

MMC has been an integral part of the global strategy of the DaimlerChrysler Group, so the Company has not always been able to provide products tailored to the needs of customers in Japan. In the future, however, MMC has made increasing its presence in the domestic market one of its highest priorities. As a part of this initiative, the Company plans to launch 16 new car models in the Japanese market based on the Mitsubishi Motors DNA concept by 2007. By the second half of fiscal 2005, in the push to launch car models, MMC aims to have returned to a profitable structure by implementing thorough cost reduction measures while maintaining and strengthening its sales capabilities.

F. Cho

FUJIO CHO
Managing Director
Head of Domestic Operations

Guided by its new management structure, the Company is unified in its commitment to implementing the strategies in each of its overseas operating regions in an effort to swiftly realize revitalization.

OSAMU MASUKO
Managing Director
Executive Corporate General Manager of Overseas Operations Group Headquarters
and Corporate General Manager of ASEAN Office

OVERVIEW

As efforts to rebuild MMC's European operations took hold in fiscal 2003, performance in this region steadily improved, posting a profit on a consolidated basis for the first time since the Company's founding. In addition, our Chinese and ASEAN operations posted solid results. However, North American (U.S.) sales and sales financing subsidiaries posted a major loss that far outweighed the income generated in other regions, and overseas operations were unable to make a contribution to the Company's performance. Affected by the significant decline in the number of vehicles sold in North America, overseas operations overall posted a year-on-year decline of 4.5%, or 55,000 vehicles, to 1,168,000 vehicles.

Our policy of emphasizing North American (U.S.) vehicle sales based on volume over a short-term perspective resulted not only in substantial losses, but also in damaging the image of the Mitsubishi Motors brand. The Company placed excessive reliance on fleet sales and incentive marketing, and offered a financing program that entailed insufficient risk analysis. Our strategy in the U.S. market had the effect of driving down used car prices, which had an adverse effect on new car sales, further damaging the image of the Mitsubishi Motors brand. This became a vicious circle.

One of the principal causes of this sort of vicious circle was a system that did not allow headquarters personnel in Japan to grasp overseas operations in detail, while decisions were left entirely in the hands of overseas managers. From a governance standpoint, it cannot be denied that this was a problem.

In a sweeping response to this situation, the Company launched a new system in June, and implemented innovative policies with regard to the organizations engaged in overseas operations. In specific terms, directly reporting to the Overseas Operations Group Headquarters are five offices (North America, Europe, North Asia, ASEAN, and Global Aftersales) and six departments (Australia/New Zealand; Latin America, Middle East & Africa; Export Operations; Overseas Product Marketing; Overseas Sales Promotion; and Overseas Asset Management). In addition to clarifying the performance and operational responsibilities in each region, Company headquarters has shifted to a structure that allows control of each facet of overseas operations. In an effort to emerge as an organization with improved governance and faster decision-making, internal communications are being improved. As part of this, Export Operations, Overseas Product Marketing, Overseas Sales Promotion and Overseas Asset Management, which have regional strategy support functions, now come under Overseas Operations Group Headquarters.

REGIONAL STRATEGIES

MMC's fundamental policies for its overseas operations will be one of market orientation—that is, of listening to customers and sales agents and ensuring that our products reflect feedback from the frontline. In addition, the Company

Galant

Endeavor

Colt

will strengthen ties to business partners in the various regions, and with trading companies with whom MMC collaborates. The Company will concentrate its management resources in important areas. The regional strategies below are based on this approach.

North America

MMC has designated 2004 as a year of recovering from the sales-volume driven strategy of the past. The Company will restore its marketing to normalcy, extending warranty periods and providing top-quality automobiles to customers. A complete overhaul of its marketing policy has led to adjustments to the scope of production, and our Illinois Plant will cut back from a double- to a single-shift operation. North American operations and headquarters are working together to regain customer trust and to restore the image of the Mitsubishi Motors brand.

Europe

The Company is resolved to achieve the strengthening of its marketing structure in the mature markets of Western Europe through reorganization and a re-examination of its labor situation. Major growth is forecast for Russia and the Ukraine, Eastern Europe, and Central Europe, and MMC is moving forward with the development of operations in those markets.

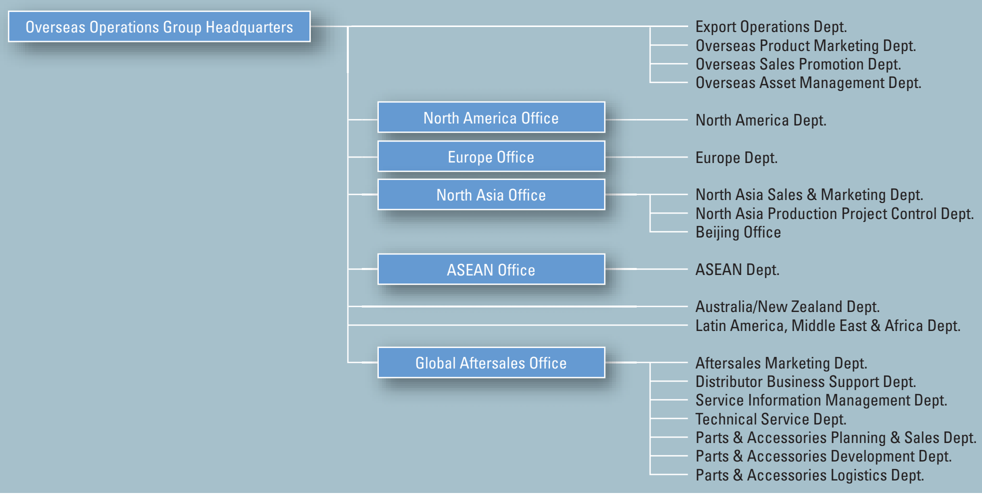
North Asia

It is not an overstatement to suggest that the ability of the Company to implement strategies leading to its revitalization will prove the key to securing a future in North Asia, and in particular the Chinese automobile industry, a market experiencing remarkable growth. MMC will work to develop both engine production and vehicle assembly companies while strengthening ties with China Motor Corp. of Taiwan. At the same time, the Company will adopt a cautious approach to its business, giving due consideration to the impact of continued tight finance policies by the Chinese government on automobile sales.

ASEAN

MMC will pursue a number of initiatives in the ASEAN region. The Company will reinforce its operations in Thailand as a platform for renewed export. At the same time, the Company will realign automobile production in the Philippines, where it will start manufacturing cars specifically developed for and sold in the ASEAN region, bolster its lineup in Indonesia, a market in which MMC enjoys a high market share, and strengthen the support structure in Vietnam, where a business platform is steadily taking shape.

OVERSEAS ORGANIZATIONAL STRUCTURE



Australia & New Zealand

In the Oceania region, MMC will undertake comprehensive reorganization including the closure of its engine plant. The Company is also on track with preparations to introduce a new model into the region in fiscal 2005.

Latin America, the Middle East & Africa

Although historically low-profile markets, sales volume and profits in Latin America, the Middle East & Africa have contributed significantly to MMC's overall overseas operations. To date, sales in these regions continue to grow at a steady pace. In the Middle East & Africa, MMC will focus on the export of finished vehicles to Gulf nations. In Latin America, the Company will strengthen production capacity in Brazil and pursue contract negotiations for the exportation of finished vehicles.

Global Aftersales

Customer relation management is an integral and critical responsibility for any manufacturer of goods and services. Accordingly, MMC has embarked on a thorough review of its distribution structure and systems with the aim of ensuring the smooth supply of components and spare parts at a competitive price. Efforts will also be made to provide prompt and high-quality aftersales service.

More than ever before, overseas operations will play a key role in the revitalization of MMC. Guided by its new management structure, the Company is unified in its commitment to implementing the aforementioned strategies in each of its overseas operating regions in an effort to swiftly realize revitalization.

O. Masuko

OSAMU MASUKO
Managing Director
Executive Corporate General Manager of Overseas Operations Group Headquarters
and Corporate General Manager of ASEAN Office

The Company's first priority is to concentrate on creating products that offer new value without compromise and that are uniquely Mitsubishi Motors. This will lead to restored customer trust and allow the Company to rebuild its brand image.

AKIRA KIJIMA
Managing Director
Head of Product Operations

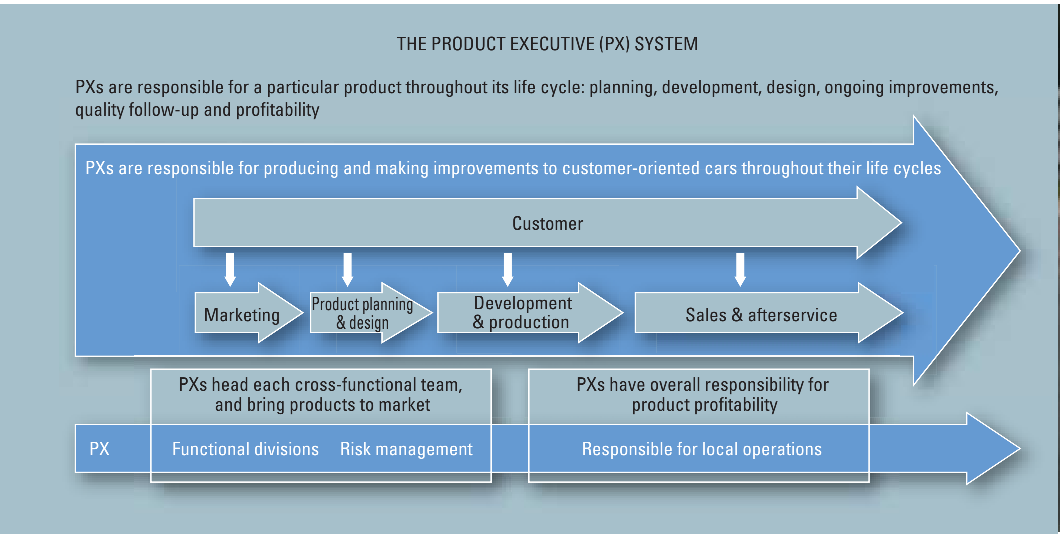
REBUILDING MITSUBISHI MOTORS' BRAND IMAGE

To revitalize operations, MMC must provide in a timely fashion products that excite customers. To this end, the Company's first priority is to concentrate on creating products that offer new value without compromise and that are uniquely Mitsubishi Motors, as shown in the Business Revitalization Plan. This will lead to restored customer trust and allow the Company to rebuild its brand image.

The second priority is to provide this value at a competitive cost and return to a profitable business structure. The third priority is to continuously advance these efforts in order to create automobiles that fascinate customers and contribute to society.

In an effort to rebuild MMC's brand name, the Company reconsidered what makes Mitsubishi Motors unique. Traditionally, MMC has aimed to create automobiles that are "simple and sturdy," "rugged and long lasting," and offer a "responsive ride" that customers have highly praised. The Company believes that returning to the basics of our DNA in creating automobiles that are uniquely Mitsubishi Motors is the first step toward rebuilding our brand name. Accordingly, MMC's base DNA can be identified as two categories: SUV-DNA as demonstrated in the durability and dynamism of the *Pajero*, and Sporty DNA as shown in the smooth ride and fun-to-drive concept of the *Lancer Evolution*.

In producing new automobiles, MMC aims to create distinct new value in terms of concepts, styling and technologies through the continued infusion of its DNA. To communicate these new values to customers, MMC has renewed



Lancer Evolution VIII MR

its design identity in tandem with its business revitalization. Aiming for a design that expresses pure functionality, the Company plans to develop a new design identity by reevaluating several aspects of its automobiles, such as the front end of the car and the three-diamond Mitsubishi Motors symbol.

In the area of technological development, MMC is combining its accumulated technologies and know-how, including its highly efficient engines, lightweight body frames, all-round four-wheel drive and innovative packaging, based on continuously maturing basic technologies related to environmental preservation and safety. In doing so, the Company is providing value to customers and society while rebuilding its brand name from a technological perspective.

Through these and other measures, MMC is committed to becoming a company constantly at the cutting edge of technology and dedicated to meeting customer expectations. In addition, MMC is returning to the basics by aiming to create exciting automobiles, or "Spirited Cars" as a New Value Creator, a company that creates and provides new value from the customer's point of view.

ORGANIZATIONAL STRUCTURE REVIEWED

Under the revitalization plan, MMC will implement substantial cost reduction measures, including material expenses, and steadily carry out the aforementioned product strategy. In order to reduce costs while maintaining and improving product capabilities, MMC must manage operations under an integrated structure that maintains and reinforces product development. To this end, the Company reviewed its organizational structure and introduced the PX system that assigns responsibilities from product planning and development to life cycle management.

Product Executives are business section managers in charge of a particular car model. They play a crucial role and

Lancer WRC 04

Pajero

Pajero Evolution

carry a heavy responsibility for ensuring profitability and overseeing every aspect of their car model. Reviewing the functions of its organizations, MMC also introduced a support structure at the same time as the PX system in order to enhance the operational efficiency of Product Executives and put their performance targets firmly within reach.

For example, MMC separated component technology development functions from the product development function in order to advance technological development to provide value from the customer's point of view. Accordingly, the Company is promoting advanced technologies development that strengthens product capabilities, creating component strategies that allow for future improvements in development efficiency, and effectively supporting the PX product development structure in terms of enhancing quality, improving product capabilities and reducing costs. Moreover, MMC uses simulation based on digital technology to better ensure quality, control development expenses and shorten development times. The Company also continues to strengthen the support structure for product development and PX decision-making.

In strengthening processes for increasing development efficiency, reducing costs and ensuring quality, MMC has already examined and prepared for the introduction of measures under the previous Turnaround Plan. The current management team at MMC is shifting to the execution phase for these measures and making every effort to combine the results with the Business Revitalization Plan and ongoing corporate activities.

AKIRA KIJIMA
Managing Director
Head of Product Operations

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

MMC is committed to achieving the targets of its Business Revitalization Plan, driven by the desire to increase stockholder value.

HIIZU ICHIKAWA
Managing Director
Chief Financial Officer

OVERVIEW

Financial data provide a clear indication of a company's performance and standing. Utilizing financial data, it is my role as Chief Financial Officer (CFO) to ensure the Company's optimal business structure, to accurately assess operating conditions, and to work toward implementing MMC's Business Revitalization Plan.

In fiscal 2003, MMC reported a substantial consolidated loss, impacted by a large write-off incurred by the Company's U.S.-based sales financing business, sluggish sales, and a reversal of deferred tax assets. As a result, MMC's consolidated stockholders' equity fell to ¥30.0 billion as of the end of the fiscal year. Despite efforts to implement a series of Turnaround initiatives, an extremely difficult business environment dictates MMC must pursue additional restructuring measures if it is to continue as a going concern.

With this issue as a starting point in May 2004, MMC formulated its Business Revitalization Plan with the aim of swiftly restoring credibility with all stakeholders including customers, suppliers, and stockholders, and establishing a roadmap toward self revitalization.

MMC has announced funding of ¥1,000.0 billion is required over the next three years to ensure the Company's business revitalization. Of this amount, approximately half, ¥496.0 billion, has been raised through an increase in capital as of mid-July 2004. Beginning with the CFO, it is management's duty to ensure these funds are efficiently applied and that the remaining ¥500.0 billion required is generated by the Company's operating activities.

FINANCIAL TARGETS

Financial targets to be achieved by fiscal 2006 are as follows:

	In billions of yen	
	Fiscal 2006 target	Fiscal 2003 results
Net sales	2,490.0	2,519.4
Operating profit (loss)	120.0	(96.9)
Ordinary profit (loss)	100.0	(110.3)
Net income (loss)	70.0	(215.4)
Equity ratio (times)	2.5	35.4

MMC has also targeted a 40% reduction in interest-bearing debt (¥425.0 billion), based on the balance of interest-bearing debt as of March 31, 2004, which stood at ¥1,062.6 billion.

The aforementioned targets are underpinned by a series of initiatives. While emphasizing improved efficiency in asset and funds utilization, MMC will implement reductions in variable costs as well as fixed costs including headcount and the closure of plants. The Company will continue to undertake capital investment in the development of new models to be launched from fiscal 2005 onward that exemplify the MMC essence, work toward restoring credibility with customers, reform sales functions in North America, and renew business models in China including investment in local partners. Focusing again on my role as CFO and the importance of financial data in evaluating a company's true business condition, I will foster healthy communication with the frontline to ensure their views are incorporated into management's policies and action plans.

MMC is committed to achieving the targets of its Business Revitalization Plan, driven by the desire to increase stockholder value. We thank you for your continued support and understanding.

HIIZU ICHIKAWA
Managing Director
Chief Financial Officer

OPERATIONAL OVERVIEW

Total vehicle sales in the Japanese automotive industry in fiscal 2003, amounted to 5.89 million vehicles, roughly on par with the previous fiscal year. Year-on-year exports also remained flat, totaling 4.77 million units, with growth in sales to Asia and Europe offset by the decline in exports to North America.

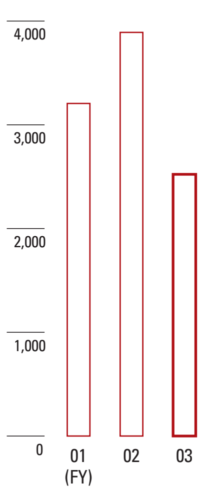
Against this backdrop, MMC introduced the new concept model *GRANDIS* and worked to realize optimal business processes. The Company completed the final year of its Turnaround, a three-year plan that was implemented in 2001 and designed to further strengthen business activities, enhance brand power, improve product development, reduce costs, ensure greater selection and focus on core businesses, and optimize the operating process. On the earnings front, however, MMC fell well short of its original profit target, impacted by intense competition in the United States, the loss recorded by its U.S.-based finance subsidiary, and other factors.

RESULTS OF OPERATIONS

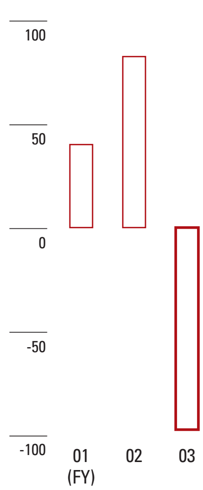
Net Sales, Operating Profit, Ordinary Profit and Net Income

In the fiscal year under review, consolidated net sales decreased ¥1,365.4 billion, or 35.1%, to ¥2,519.4 billion due in large part to the spin-off of its truck and bus business* and steps to align the fiscal year closing dates at consolidated overseas subsidiaries in FY2002**. Adjusting for a full year's impact from the spin-off of the Company's truck and bus operations (¥715.3 billion) and the absence of one-off figures attributed to the change in accounting period at consolidated overseas subsidiaries (¥433.4 billion), consolidated net sales fell 7.9% year on year. In terms of profits, MMC recorded an operating loss of ¥96.9 billion, down ¥179.6 billion from the operating profit in the previous fiscal year. Despite the positive effect of cost reductions and the impact of favorable movements in euro exchange rates, these factors were more than offset by the drop in unit sales, primarily reflecting intense competition in the U.S. market, a tightening of credit standards, an increase in sales and promotional expenses, and an increase in allowance for doubtful accounts relating to sales finance. Again, excluding the impact of the spin-off of truck and bus operations (operating profit of ¥8.8 billion) and the change in accounting period at consolidated overseas subsidiaries (operating loss of ¥10.0 billion), operating profit for the fiscal year under review declined ¥180.8 billion.

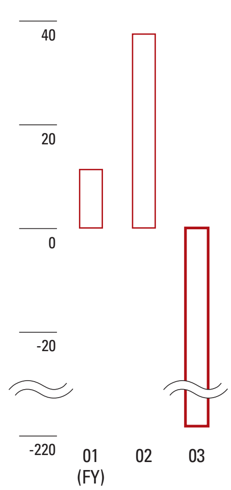
Consolidated ordinary profit dropped ¥164.6 billion to an ordinary loss of ¥110.3 billion. Excluding the impact of the change in accounting period at consolidated overseas subsidiaries, totaling losses of ¥13.1 billion, ordinary profit declined ¥177.7 billion.



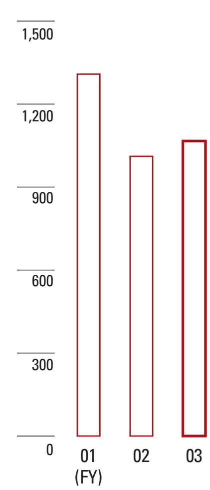
NET SALES
(¥ billion)



OPERATING PROFIT (LOSS)
(¥ billion)



NET INCOME (LOSS)
(¥ billion)



INTEREST-BEARING DEBT
(¥ billion)

In addition, net income deteriorated ¥252.8 billion to a net loss of ¥215.4 billion. Excluding the impact of the change in accounting period at consolidated overseas subsidiaries, totaling losses of ¥6.5 billion, profits deteriorated ¥259.3 billion. Included were an extraordinary gain on sales of investment in securities of ¥39.4 billion and an extraordinary loss of ¥138.0 billion resulting from the reversal of deferred tax assets.

* **Spin-off of the truck and bus business:**
The Company spun off its truck and bus business, transferring it to Mitsubishi Fuso Truck and Bus Corporation (Mitsubishi Fuso), a new wholly owned subsidiary established by the Company, in January 2003.
The Company transferred 58% of the stocks of Mitsubishi Fuso, which were held by the Company, to DaimlerChrysler AG and ten Mitsubishi group companies. As a result, the new stockholdings in Mitsubishi Fuso are DaimlerChrysler (43%), the Company (42%) and Mitsubishi group companies (15%).
The Company subsequently sold a further 22% stake in Mitsubishi Fuso to DaimlerChrysler in March 2004.
The truck and bus business is included in the income statement of the consolidated financial statements for the previous fiscal year. However, on the balance sheet, Mitsubishi Fuso was an equity-method company as of the end of the fiscal year, and the truck and bus business was included in the investment securities account. Therefore, the assets and liabilities of the truck and bus business were not reflected in the assets and liabilities sections of the balance sheet.

** **Note on change in accounting period:**
Starting in FY2002, MMC's consolidated overseas subsidiaries changed their annual closing date from December 31 to March 31 to match that of MMC' and domestic consolidated subsidiaries. The purpose is to improve transparency and the quality of MMC's group financial reporting. FY 2002 figures for these companies include results for 15 months.

SEGMENT ANALYSIS

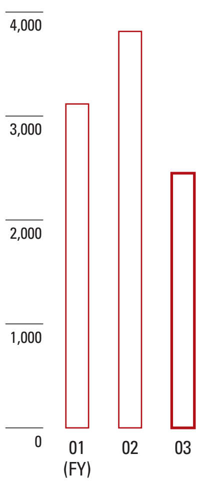
Business Segment Information

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

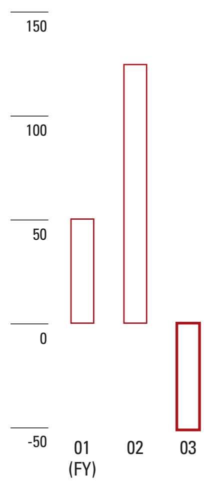
Automobiles

In its automobiles business, sales increased steadily in Japan, Europe, Asia and other regions. In the United States, on the other hand, sales of automobiles fell dramatically, reflecting the tightening of credit assessment standards by the Company's financial services arm and intense industry competition. As a result, sales declined in value terms 35.9% to ¥2,443.3 billion. Excluding the impact of the fiscal 2002 spin-off of the Company's truck and bus business (¥715.3 billion) and the absence of one-off figures in fiscal 2002 attributed to the change in accounting period at consolidated overseas subsidiaries (¥422.4 billion), sales in this segment fell 8.6% year on year.

AUTOMOBILES

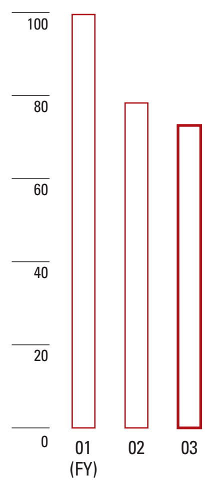


NET SALES
(¥ billion)

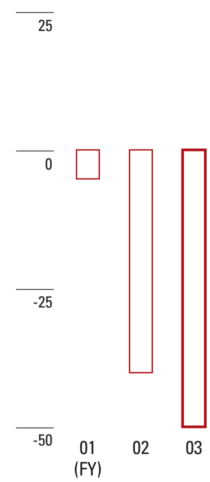


OPERATING PROFIT (LOSS)
(¥ billion)

FINANCIAL SERVICES



NET SALES
(¥ billion)



OPERATING PROFIT (LOSS)
(¥ billion)

In the fiscal year under review, MMC recorded an operating loss on automobile operations of ¥50.9 billion, a deterioration of ¥175.2 billion. Excluding the impact of the spin-off of truck and bus operations (¥8.8 billion) and the change in accounting period at consolidated overseas subsidiaries (¥6.0 billion), operating loss for the period deteriorated ¥160.4 billion.

Financial services

Revenues from financial services fell 7.1% year on year to ¥72.6 billion. Excluding the impact (¥11.0 billion) of the change in accounting period at consolidated overseas subsidiaries, revenues from financial services climbed 8.1%.

In its financial services operations, MMC reported an operating loss of ¥49.9 billion, a drop of ¥9.7 billion compared with the previous fiscal year. Operating profit declined ¥26.2 billion after excluding the operating loss ¥16.5 billion attributed to the change in accounting period at consolidated overseas subsidiaries.

Geographical Segment Information

The geographical segment analysis provided in this section is based on results posted by specific regions. Accordingly, data differs from geographic segment information provided in the Notes to Consolidated Financial Statements. In addition, information is exclusive of one-off figures following the change in fiscal 2002 of the accounting period at consolidated overseas subsidiaries and results from truck and bus operations.

Japan

In Japan, sales increased 1.4% to 359,000 units compared with the previous fiscal year due to the release of new models. This represents the first year-on-year increase in eight years. In value terms, sales rose 13.4% to ¥621.2 billion. Operating loss narrowed significantly to ¥35.3 billion, an improvement of ¥31.5 billion.

North America

Unit sales in North America fell substantially to 273,000 units, a year-on-year decline of 20.4%. This was attributed primarily to the tightening of credit assessment standards by the Company's financial services arm and intense competition among automobile manufacturers. Sales in monetary terms declined 39.2% to ¥600.8 billion, which in part reflected the appreciation of the yen (¥122 = US$1 in fiscal 2002, ¥114 = US$1 in fiscal 2003). Operating profit fell ¥249.0 billion resulting in an operating loss of ¥147.4 billion. In the fiscal year under review, profits were impacted by the drop in automobile sales, an increase in sales and promotional expenses, and loss on doubtful accounts in connection with the sales finance business.

Europe

In Europe, vehicle sales climbed 7.0% in volume terms to 214,000 units. Sales in this geographic segment rose 13.4% to ¥662.0 billion. Marking a watershed for the Company, MMC reported its first operating profit in Europe since operations commenced. Operating profit totaled ¥23.5 billion, a turnaround of ¥43.9 billion.

Asia and the rest of the world

Overall sales to Asia and the rest of the world increased slightly to 681,000 units. MMC experienced growth in sales in Asia, primarily in China, while recording a decline in sales to Malaysia.

Sales in value terms rose 3.0% to ¥635.4 billion. Operating profit fell ¥7.3 billion to ¥62.3 billion.

FINANCIAL POSITION

Assets

Total assets as of the fiscal 2003 year-end stood at ¥2,029.0 billion, down ¥396.3 billion as of the previous fiscal year-end. Current assets fell ¥91.3 billion to ¥869.4 billion. Principal factors were a decrease of ¥45.9 billion in U.S.-based finance subsidiary buyback vehicles and ¥50.0 billion reversal of deferred tax assets (¥107.9 billion including reversal of deferred tax assets—fixed).

Fixed assets fell ¥305.0 billion and stood at ¥1,159.6 billion as of the fiscal year-end. Major components were property, plant and equipment, net, which fell ¥124.7 billion, including ¥86.0 billion in lease vehicles held by MMC's U.S.-based finance subsidiary, investments in securities, which declined ¥73.5 billion, and reversal of deferred tax assets totaling ¥57.9 billion.

Liabilities

Total liabilities as of March 31, 2004 stood at ¥1,983.3 billion, a decrease of ¥144.4 billion as compared with the previous fiscal year-end. Current liabilities declined ¥78.6 billion to ¥1,567.1 billion, while long-term liabilities fell ¥65.8 billion to ¥416.2 billion.

Interest-bearing debt as of the fiscal year-end climbed ¥54.0 billion to ¥1,062.6 billion. Excluding cash and deposits, net interest-bearing debt stood at ¥889.1 billion, a decrease of ¥37.8 billion.

Stockholders' Equity

As of the fiscal year-end, total stockholders' equity amounted to ¥30.0 billion, a decline of ¥250.3 billion. This is mainly attributed to the net loss of ¥215.4 billion recorded for the period.

As a result, the equity ratio fell 10.1 percentage points from 11.6% to 1.5%. Stockholders' equity per share was ¥20.20, a drop of ¥168.75 from the previous fiscal year-end figure of ¥188.95.

CASH FLOWS

Net cash used in operating activities totaled ¥1.4 billion, a turnaround of ¥19.0 billion from net cash provided by operating activities in the previous fiscal year. Major components were net loss before income taxes and minority interests and decrease in trade notes and accounts payable.

Net cash provided by investing activities amounted to ¥46.8 billion, a year-on-year increase of ¥29.3 billion. For the fiscal year under review, proceeds from sales of property, plant and equipment and proceeds from sales of investment in securities exceeded purchase of property, plant and equipment.

Net cash provided by financing activities totaled ¥56.7 billion, an increase of ¥88.7 billion compared with the previous fiscal year. This was mainly due to proceeds from issuance of long-term debt.

As a result of all these factors, the year-end balance of cash and cash equivalents amounted to ¥181.9 billion, an increase of ¥97.4 billion, or 115.2%, as of the end of the previous fiscal year.

Consolidated Balance Sheets

Mitsubishi Motors Corporation and Consolidated Subsidiaries
March 31, 2004 and 2003

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2004	2003	2004
Assets			
Current assets:			
Cash and cash equivalents (Note 16)	¥ 181,911	¥ 84,544	$ 1,721,177
Trade notes and accounts receivable (Notes 6 and 11)	187,093	208,150	1,770,212
Finance receivables (Notes 6 and 11)	44,451	34,257	420,586
Inventories (Notes 7 and 11)	275,460	272,682	2,606,310
Short-term loans	4,719	6,708	44,655
Deferred tax assets (Note 20)	4,979	54,955	47,117
Prepaid expenses and other current assets (Note 11)	175,045	317,834	1,656,215
Allowance for doubtful accounts	(4,268)	(18,416)	(40,388)
Total current assets	869,393	960,717	8,225,886
Property, plant and equipment, net (Notes 8 and 11)	707,717	832,371	6,696,162
Intangible assets	29,719	42,409	281,193
Investments and other assets:			
Investments (Notes 9 and 11)	146,165	219,074	1,382,965
Long-term finance receivables (Notes 6 and 11)	105,612	87,385	999,262
Long-term loans	9,944	1,258	94,095
Deferred tax assets (Note 20)	19,721	77,644	186,600
Long-term prepaid expenses and other	234,506	250,681	2,218,818
Allowance for doubtful accounts	(93,746)	(46,190)	(886,993)
Investments and other assets, net	422,205	589,854	3,994,748
Total assets	¥2,029,035	¥2,425,352	$19,197,990

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
Liabilities, minority interests and stockholders' equity			
Current liabilities:			
Trade notes and accounts payable	**¥ 345,212**	¥ 411,018	**$ 3,266,275**
Short-term borrowings (Note 11)	**660,430**	632,434	**6,248,748**
Current portion of long-term debt (Note 11)	**163,334**	107,170	**1,545,408**
Current portion of non-interest bearing long-term debt (Note 11)	**24,555**	14,433	**232,335**
Accrued expenses and other payables and deferred income (Note 10)	**305,144**	354,772	**2,887,162**
Accrued income taxes	**1,771**	3,042	**16,761**
Other current liabilities (Note 20)	**66,648**	122,799	**630,603**
Total current liabilities	**1,567,096**	1,645,671	**14,827,295**
Long-term debt (Note 11)	**238,862**	268,744	**2,260,030**
Non-interest bearing long-term debt	**—**	24,736	**—**
Deferred tax liabilities (Note 20)	**24,751**	10,532	**234,186**
Accrued retirement benefits (Note 19)	**111,121**	118,387	**1,051,389**
Other non-current liabilities	**41,459**	59,610	**392,271**
Total liabilities	**1,983,291**	2,127,681	**18,765,174**
Minority interests	**15,771**	17,376	**149,225**
Stockholders' equity (Notes 12 and 23):			
Common stock:			
Authorized: 3,220,000,000 shares			
Issued: 1,483,438,934 shares in 2004 and 2003	**252,201**	252,201	**2,386,235**
Capital surplus	**27,513**	224,481	**260,318**
Accumulated deficit	**(183,410)**	(155,847)	**(1,735,364)**
Unrealized holding gain on securities	**19,917**	33,854	**188,455**
Translation adjustments	**(86,245)**	(74,394)	**(816,024)**
Treasury stock — 4,745 shares at March 31, 2003 11,718 shares at March 31, 2004	**(3)**	(1)	**(29)**
Total stockholders' equity	**29,972**	280,294	**283,591**
Contingent liabilities (Note 13)			
Total liabilities, minority interests and stockholders' equity	**¥2,029,035**	¥2,425,352	**$19,197,990**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
Net sales	**¥2,519,449**	¥3,884,874	**$23,838,109**
Cost of sales (Note 6)	**2,160,612**	3,162,011	**20,442,923**
Reversal of deferred profit on installment sales, net	**50**	167	**476**
Gross profit	**358,887**	723,029	**3,395,661**
Selling, general and administrative expenses (Note 14)	**455,739**	640,268	**4,312,044**
Operating (loss) profit	**(96,852)**	82,761	**(916,382)**
Interest and dividend income	**13,021**	10,155	**123,202**
Interest expense	**29,335**	36,710	**277,557**
Other income (loss), net (Notes 9 and 15)	**35,992**	(14,000)	**340,547**
(Loss) profit before income taxes and minority interests	**(77,173)**	42,206	**(730,191)**
Income taxes (Note 20):			
Current	**4,272**	22,167	**40,428**
Deferred	**133,573**	(19,121)	**1,263,828**
	137,846	3,045	**1,304,256**
Minority interests	**403**	1,798	**3,815**
Net (loss) income (Note 23)	**¥ (215,424)**	¥ 37,361	**$ (2,038,263)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
Common stock:			
Balance at beginning of year	**¥ 252,201**	¥ 252,201	**$ 2,386,235**
Balance at end of year	**252,201**	252,201	**2,386,235**
Capital surplus:			
Balance at beginning of year	**224,481**	220,816	**2,123,965**
Transferred to accumulated deficit (Note 12)	**(197,179)**	—	**(1,865,637)**
Issuance of common stock	**—**	3,664	**—**
Change due to exclusion from consolidation	**210**	—	**1,991**
Balance at end of year	**27,513**	224,481	**260,318**
Accumulated deficit:			
Balance at beginning of year	**(155,847)**	(188,756)	**(1,474,569)**
Net (loss) income	**(215,424)**	37,361	**(2,038,263)**
Change due to merger of non-consolidated subsidiaries with consolidated subsidiaries	**127**	38	**1,209**
Transferred from capital surplus (Note 12)	**197,179**	—	**1,865,637**
Change due to inclusion in consolidation	**(3,396)**	—	**(32,140)**
Change due to exclusion from consolidation	**(6,049)**	—	**(57,238)**
Decrease due to adjustment of balance recognized under equity method at beginning of year	**—**	(4,490)	**—**
Balance at end of year	**(183,410)**	(155,847)	**(1,735,364)**
Unrealized holding gain on securities:			
Balance at beginning of year	**33,854**	34,830	**320,318**
Net change	**(13,936)**	(975)	**(131,862)**
Balance at end of year	**19,917**	33,854	**188,455**
Translation adjustments:			
Balance at beginning of year	**(74,394)**	(48,428)	**(703,893)**
Net change	**(11,851)**	(25,966)	**(122,130)**
Balance at end of year	**(86,245)**	(74,394)	**(816,024)**
Treasury stock:			
Balance at beginning of year	**(1)**	(0)	**(11)**
Net change	**(1)**	(1)	**(17)**
Balance at end of year	**(3)**	(1)	**(29)**
Total stockholders' equity	**¥ 29,972**	¥ 280,294	**$ 283,591**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Motors Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	In millions of yen		In thousands of U.S. dollars (Note 5)
	2004	2003	**2004**
Operating activities:			
Net (loss) income	**¥(215,424)**	¥ 37,361	**$(2,038,263)**
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	**137,911**	192,432	**1,304,867**
Allowance for doubtful receivables, net of reversal	**34,043**	50,709	**322,106**
Accrued retirement benefits, net of reversal	**(6,878)**	8,321	**(65,085)**
Gain on sales of investment in securities, net	**(40,010)**	(20,624)	**(378,565)**
Loss on impairment of investment in securities	**527**	10,401	**4,987**
Gain on exchange of stocks	**—**	(1,399)	**—**
Loss on sales and disposal of property, plant and equipment, net	**4,022**	3,358	**38,056**
Income from affiliates accounted for by the equity method	**(9,573)**	(2,373)	**(90,582)**
Deferred income taxes	**133,573**	(19,121)	**1,263,828**
Minority interests	**403**	1,798	**3,815**
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	**19,162**	(23,725)	**181,304**
Inventories	**3,330**	(44,595)	**31,514**
Finance receivables (Note 16)	**(46,164)**	(114,009)	**(436,795)**
Retained interests in transferred receivables	**33,529**	(89,891)	**317,243**
Other assets	**(97,660)**	(38,014)	**(924,028)**
Trade notes and accounts payable	**(61,669)**	59,563	**(583,495)**
Other liabilities	**108,047**	(21,141)	**1,022,307**
Other	**1,381**	28,591	**13,068**
Net cash (used in) provided by operating activities	**(1,449)**	17,596	**(13,716)**
Investing activities:			
Decrease in short-term investments	**4**	(189)	**45**
Purchase of property, plant and equipment (Note 16)	**(134,785)**	(188,935)	**(1,275,287)**
Proceeds from sales of property, plant and equipment (Note 16)	**83,080**	123,013	**786,075**
Decrease in investment in securities	**102,059**	18,156	**965,647**
Proceeds from sales of stock due to demerger of truck and bus business (Note 16)	**—**	59,257	**—**
Loans made	**(6,674)**	(2,876)	**(63,150)**
Collection of loans receivable	**7,106**	3,877	**67,237**
Purchase of minority interests	**—**	(1,993)	**—**
Other	**(3,962)**	7,236	**(37,496)**
Net cash provided by investing activities	**46,828**	17,546	**443,070**
Financing activities:			
Increase in short-term borrowings	**55,151**	89,601	**521,818**
Proceeds from issuance of long-term debt	**274,489**	193,255	**2,597,122**
Repayment or redemption of long-term debt	**(272,834)**	(312,497)	**(2,581,460)**
Dividend paid to minority	**(130)**	(2,358)	**(1,233)**
Other	**(1)**	(43)	**(17)**
Net cash provided by (used in) financing activities	**56,674**	(32,042)	**536,229**
Effect of exchange rate changes on cash and cash equivalents	**(2,242)**	(14,263)	**(21,221)**
Net change in cash and cash equivalents	**99,809**	(11,162)	**944,362**
Cash and cash equivalents at beginning of year	**84,544**	95,189	**799,930**
Change in cash and cash equivalents due to inclusion and exclusion of subsidiaries in consolidation	**(2,443)**	517	**(23,115)**
Cash and cash equivalents at end of year (Note 16)	**¥ 181,911**	¥ 84,544	**$ 1,721,177**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Motors Corporation and Consolidated Subsidiaries

1. GOING CONCERN

Mitsubishi Motors Corporation (MMC) recorded a large consolidated net loss of ¥215,424 million ($2,038,263 thousand) for the year ended March 31, 2004.

As a result, significant doubt arises as to the MMC's ability to continue as a going concern.

A business revitalization plan for the years 2004 to 2006 was established in May 2004 in order to rectify this situation and to strengthen the foundation of our business. The major reforms under the revitalization plan are set out below.

(1) Restoring trust and rebuilding through the revitalization plan

The Company has set up a Business Ethics Committee, Corporate Social Responsibility (CSR) Promotion Office, and Corporate Restructuring Committee to push through corporate reforms and to strengthen corporate ethics standards under the supervision of members from outside the Company. Further, through fresh capital, the Company will implement bold measures aimed at revitalizing its operations.

Plan for restoring trust

A Business Ethics Committee, consisting mainly of independent experts, was established to supervise from an independent standpoint MMC's efforts to comply with its pledge to place the utmost importance on customers, safety, and quality. This committee will also directly advise the Board of Directors, thereby dramatically strengthening the monitoring of quality and governance issues.

A new Quality Affairs Office will handle all issues related to quality assurance and management, while the Corporate Social Responsibility (CSR) Promotion Office will be established directly under the CEO to promote quality review and compliance throughout the Company. The CSR Promotion Office will also monitor quality management and make improvements.

Decisive actions towards revitalization:

- Implementation of tough corporate reforms, accountable to investors
- A Corporate Restructuring Committee, headed up by a Corporate Restructuring Officer appointed by investors, has been established for one year and cross-functional teams have been created to focus on business revitalization issues
- Consisting mainly of younger members, these teams will make bold proposals to the Corporate Restructuring Officer that will reach through the entire organization
- The Committee sends proposals to respective departments, which will be responsible for implementation. Those in charge of operations in each region are responsible for achieving profit targets set out for their region

Slim organization measures:

The number of executives will be cut and the number of departments slashed.

(2) Dramatic profitability reforms

Significant reduction of fixed and variable costs

¥85 billion ($804 million) in fixed cost savings by fiscal 2006 will be achieved by:

a. Reducing production capacity by 17% by fiscal 2006 and raising the overall plant utilization rate to 97% of capacity.

   To reduce total production capacity by 17%, the Company will end automobile body production by fiscal 2006 at its Okazaki plant in Japan, thereby consolidating its three domestic plants into two. Overseas, MMC will also wind down operations at Mitsubishi Motors Australia Limited (MMAL)'s engine manufacturing plant in Australia during fiscal 2005. Further, the Company plans to decrease the output at MMAL to 30 thousand units per year for assembly, but to continue manufacture.

b. Reducing indirect personnel by 30% by fiscal 2006 on a consolidated basis.

c. Reducing the number of platforms in order to increase development efficiency

   ¥154 billion ($1,457 million) in savings of variable costs by fiscal 2006

   In line with its target to slash variable costs by ¥154 billion ($1,457 million) by fiscal 2006, MMC intends to cut back material costs by 15% (estimated saving effect ¥120 billion ($1,135 million)) by stepping up initiatives in the Mitsubishi Cross-Functional Project (MXP), a Companywide project charged with cutting material costs across the board. MXP will also be introduced to offshore plants. Other moves include promoting global sourcing, reducing die costs, and increasing commonality of parts to keep the cost of indirect materials down.

MMC will also review its captive finance company in the United States, including consideration of downsizing assets and/or consideration of possible strategic alliances with external partners.

To cut headquarters staff in Japan, MMC will shift its headquarters to Kyoto in order to make maximum use of its assets.

(3) Product Strategy for growth

1. The new cars will be reconstructed and steeped in "Mitsubishi Motors DNA," which is best summed up by MMC's SUVs which are typified by the Pajero and the sporty, driver-oriented traits found in the Lancer Evolution.
2. To clarify responsibility throughout product life cycle development, Product Executives will be appointed for each product to oversee issues related to the whole product life cycle from initial conception through development, production and sales.
3. The new cars, which have "Mitsubishi Motors DNA," will be launched actively.

(4) Geographical Strategy for growth

In Japan, the plan aims for a renewed customer-centric sales approach. MMC will successively launch new "Mitsubishi Motors DNA" cars focused on customer needs. Other steps include offering customers free vehicle inspections and 24-hour support, building relations with customers on a Companywide basis, improving the sales structure by refurbishing dealer outlets and making use of IT infrastructure.

Profitability in North America will be achieved by maintaining a balance between supply and demand. In particular, MMC will review an adjustment to production capacity at its plant, cut back on incentives and the ratio of fleet sales, and launch new and special edition cars.

MMC will also seek to expand opportunities for profit and stability in the fast-growing Chinese market by investing further in its local partners to change the production and sales network over to the Mitsubishi brand.

A new strategic car for Asia will be launched to enhance the product lineup.

MMC's engine and transmission joint ventures will become the main bases for supplying parts to other operations throughout Asia.

By fiscal 2008, MMC aims to have 500 Mitsubishi Motors dealers in China with annual sales of 220,000 units (310,000 units including local brands).

MMC aims to achieve a drastic increase of sales in North Asia, including China, by the end of fiscal 2008, and the recovery of sales in North America leading to annual sales of 1,700,000 units worldwide.

(5) Alliance with DaimlerChrysler AG

DaimlerChrysler remains an important partner for MMC and the alliance will continue on the basis of economic rationality for both companies. Ongoing projects such as the joint development and production of B-segment (Colt class) platforms, the joint development and production at World Engine, joint development of C-segment (Lancer class) platforms, and OEM operations for pickup trucks, are mutually beneficial and will continue as planned. MMC will evaluate future projects based on economic rationality, and for each project will consider alliance possibilities.

(6) Target Consolidated Result

Fiscal 2004 marks the start of MMC's revitalization plan, which calls for a number of restructuring measures and efforts to improve operations. While MMC plans to implement measures in fiscal 2004 to drastically reduce costs and reorganize part of its operations, MMC expects only a limited effect for fiscal 2004. Further, fiscal 2004 forecasts include a one time loss that the Company expects to book for the period as a result of restructuring costs. As a result, in fiscal 2004, MMC expects consolidated net sales of ¥2.25 trillion ($21.3 billion); operating loss of ¥120 billion ($1,135 million); ordinary loss of ¥150 billion ($1,419 million), and net loss of ¥230 billion ($2,176 million).

The plan aims to achieve the minimum target of creating positive ordinary income* in fiscal 2005. The Company's financial targets for fiscal 2006 are: consolidated net sales of ¥2.49 trillion ($23.6 billion), operating profit of ¥120 billion ($1,135 million), ordinary income of ¥100 billion ($946 million), net profit of ¥70 billion ($623 million), and a 4.8% operating profit margin.

* Ordinary income is defined in generally accepted accounting principles in Japan as operating and non-operating income or loss, before extraordinary gains or losses.

(7) Consolidated Financial Targets

MMC expects that total interest bearing debts will be reduced by 40%, and that the debt equity ratio will be below 2.5 in fiscal 2006.

Strengthening of the capital base to achieve our plan

To shore up MMC's financial standing, a capital enhancement of ¥450 billion ($4,257 million) will be carried out with ¥270 billion ($2,554 million) coming from Mitsubishi Group companies, ¥10 billion ($94 million) from MMC's strategic partner China Motor Co., Ltd. (CMC), and ¥170 billion ($1,608 million) from the market. Preferred shares totaling ¥140 billion ($1,324 million) will be issued to Mitsubishi Heavy Industries Ltd., Mitsubishi Corporation, The Bank of Tokyo-Mitsubishi Ltd., and other Mitsubishi Group companies, while The Bank of Tokyo-Mitsubishi and Mitsubishi Trust & Banking Corporation will capitalize ¥130 billion ($1,230 million) of debt.

Funds procured from the market will come from plans to issue ¥70 to ¥100 billion ($662–946 million) in common stock to Phoenix Capital and ¥100 billion ($946 million) in preferred shares to J.P. Morgan Securities.

MMC will use ¥130 billion ($1,230 million) of the funds to reduce debts and ¥320 billion ($3,027 million) will go towards revitalizing the Company's operations.

At the meeting of the Board of Directors on May 21, 2004, MMC resolved to issue preferred shares to Mitsubishi Group companies and CMC with payment due in late June. The common stock, which is expected to be priced at ¥100 per share, will be issued below market to Phoenix Capital after being approved at MMC's annual shareholders' meeting. The preferred shares for J.P. Morgan Securities will be issued at the same time as the common stock is issued to Phoenix Capital and payment is expected to be due around mid to late July.

Three types of preferred shares will be issued, all of which can be converted to common stock in the future. However, the preferred shares issued to Mitsubishi Group companies and CMC are designed to be held for a relatively long period.

As explained above, MMC recognizes the challenge of this plan as this is MMC's last chance for survival as an automaker. Everyone in the Mitsubishi Motors Group is determined to rally together and bring the Company back to health through a self-supported revival.

MMC outlined additional measures to its business revitalization plan in June 2004 that focus on three areas: all-out cost cutting, restoring customer trust, and across-the-board compliance. The new measures are in response to a potential marked slump in domestic sales that surfaced following the recent recall problems at MMC and Mitsubishi Fuso Truck and Bus Corporation.

(a) All-out cost cutting measures

MMC forecasts that a decline in domestic sales could lead to an additional operating loss of ¥30 billion ($283 million) in both fiscal 2004 and 2005. To cover this loss, MMC will take additional steps to cut costs by a further ¥34.4 billion ($325 million) in fiscal 2004 and ¥38.2 billion ($361 million) in fiscal 2005, giving extra savings of ¥72.6 billion ($686 million).

MMC will also seek savings in labor costs. For the coming two years, MMC plans to forgo the payment of retirement allowances to directors, cut executive remuneration packages, reduce managers' pay, and reduce the pay of rank-and-file employees.

In addition, MMC plans to cancel employees' 2004 year-end bonuses, accelerate headcount reductions, review employment policies, and revise down the pension rate.

In Japan, MMC will freeze all new IT-related projects other than those that address regulations, reduce advertising expenses, and drastically cut expenses at its head office, and research and development departments. Overseas, MMC will halve costs related to outsourcing, travel, and computer system expenses, while further cost reductions will come from limiting advertising to major models.

MMC will cut costs for spare parts and supplies and will accelerate savings set out for indirect materials. MMC also expects to see further savings through headcount reductions made possible by consolidating sub-assembly-line work, and improving profitability, reduced packaging costs, and reassessing its outsourcing to reduce export charges.

(b) Restoring customer trust

MMC will seek to rebuild its domestic operations by restoring consumer trust. Through close communication with its customers to restore trust in the Company and its products, MMC is offering a free 20-point inspection and oil change for all MMC vehicles. To give new buyers peace of mind, the Company is also offering a three-year full support program, which includes free inspections and 24-hour roadside service.

MMC also recently conducted a sweeping in-house probe into past "repair directives" dating back to December 1993 in an effort to ease the concern of its some six million users in Japan, ensure traffic safety, and rid itself of past problems and mistakes so as to pave the way for a self-revitalization of its business. As a result of this investigation, MMC will submit 26 recalls to the Japanese Ministry of Land, Infrastructure and Transport covering a total of 180,000 vehicles.

(c) Across-the-board compliance: Plan to reform corporate culture, ethics

In order to reform its corporate culture, MMC outlined three top priority areas in its business revitalization plan: compliance, safety, and customers. MMC also mapped out a new corporate structure geared to pushing through reform, centering on its Business Ethics Committee, Corporate Social Responsibility (CSR) Promotion Office, and Corporate Restructuring Committee.

Awareness of compliance issues is being raised throughout the Company. Action that was not possible with MMC's previous organization and human resources is now possible and this new structure will help ensure compliance across the board, which MMC plans to report on regularly. MMC sees compliance as its most urgent task, one that must be enforced with resolve to ensure its survival. The Corporate Restructuring Committee has already started work on pushing through reforms.

In placing compliance first, MMC's compliance and communication functions will be brought together under the CSR Promotion Office, thereby improving the ability to gather and release information while implementing all measures uniformly throughout the Company. Reporting directly to the Board of Directors, the Business Ethics Committee will monitor the activities of the CSR Promotion Office from an external perspective and will offer proposals to the board.

The cycle of planning, implementing, and evaluating initiatives within MMC will be completely overhauled to ensure compliance issues are upheld company wide and all executives, including the chairman and president, will sign a compliance pledge that will be a code of conduct.

Accordingly, MMC's consolidated financial statements have been prepared on the basis that the Company is a going concern and the effect of any significant doubt as to going concern is not reflected.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

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

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

(b) Principles of consolidation

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

All significant intercompany transactions have been eliminated in consolidation.

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

(c) Cash and cash equivalents

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

(d) Inventories

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

(e) Investments in securities

Investments in securities that are expected to be held-to-maturity are stated at their amortized costs.

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

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

(f) Depreciation

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

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

(g) Allowance for doubtful accounts

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

(h) Allowance for product warranty

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

(i) Retirement benefits

Accrued retirement benefits for employees at March 31, 2004 and 2003 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as adjusted for unrecognized actuarial gains or losses and unrecognized prior service cost. The retirement benefit obligation is allocated to future years on a straight-line basis.

Prior service cost is being amortized by the straight-line method over periods of 10 to 17 years, these periods are within the estimated average remaining service years of the employees.

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

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

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

(k) Revenue recognition

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

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

(l) Translation of foreign currency accounts

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

a. Asset and liability items are translated at the rate of exchange in effect on March 31;

b. Components of stockholders' equity are translated at their historical rates at acquisition or upon occurrence; and

c. Revenues, expenses and cash flow items are translated at the average rate for the financial period. Translation adjustments are included in "Stockholders' equity."

(m) Amounts per share

The computation of basic net (loss) income per share is based on the weighted average number of shares outstanding during each year. Diluted net income per share 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 exercise of warrants and the conversion of convertible bonds.

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

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

(o) Leases

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

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

(p) Derivative financial instruments

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

(a) Synchronization of fiscal year-end of overseas consolidated subsidiaries

In the year ended March 31, 2003, to improve transparency and quality of disclosure, the fiscal year-end of overseas consolidated subsidiaries, which historically had been December 31, was changed to synchronize with the fiscal year-end of MMC, March 31. In the year ended March 2003, as part of this change, Mitsubishi Motors Australia Ltd. and 11 other overseas subsidiaries formally changed their local fiscal year-end to March 31. Mitsubishi Motors North America Inc. and 49 other overseas subsidiaries prepared their financial statements for consolidation purposes for a period ended on March 31, 2003.

In the year ended March 31, 2004, Mitsubishi Motors North America, Inc. and 23 other overseas subsidiaries, which had previously prepared their financial statements for consolidation purposes to March 31, 2003, formally changed their local fiscal year end to March 31. Mitsubishi Motors Europe B.V. and 30 other overseas subsidiaries continued to prepare their financial statements for consolidation purposes to March 31.

Accordingly, operating results for the year ended March 31, 2004 included 12 months of operations for these 55 subsidiaries, whereas the operating results for the year ended March 31, 2003 consisted of 15 months for the 62 above-mentioned subsidiaries.

In the year ended March 31, 2003, the effect of this change was to increase net sales by ¥433,364 million, and to decrease operating profit, profit before income taxes and minority interests and net income by ¥10,030 million, ¥24,920 million and ¥6,486 million over the previous year, respectively. Further, net cash provided by operating activities increased by ¥39,495 million, net cash provided by investing activities and net cash used in financing activities decreased by ¥19,171 million and ¥23,151 million over the previous year, respectively. The effect of this change on segment information is given in Note 21.

(b) Lease subvention income and expenses related to the North American subsidiaries

Effective January 1, 2003, a change in the recording of lease subvention income and expenses related to the North America subsidiaries was made to recognize the income and expenses from certain lease transactions on a more normalized basis.

One of the North American subsidiaries enters into lease agreements through its captive finance subsidiary (a consolidated subsidiary of this North American subsidiary), which may be on terms below market. Accordingly, the North American subsidiary pays subvention to its finance subsidiary to the extent that these terms are below market. The finance company records this subvention income as deferred revenue which is amortized over the lease term. Prior to December 31, 2002, this subvention was eliminated on the consolidation of the North American group as an intergroup transaction. As a result of this elimination, there was no recognition of the subvention expense and income in each period of the lease term, over the entire lease term the expense and income are matched.

Effective January 1, 2003, the North American subsidiary changed to recognize all the subvention expense when it enters into lease agreements, since the subvention expenses are considered as a kind of marketing expense for sales promotion. As a result, the Company no longer eliminates unamortized deferred revenue against marketing expenses, allowing for this expense to be recognized immediately and to be subsequently reversed as the deferred revenue is recognized over the lease term.

This change was made to recognize the income and expenses from these lease transactions on a more normalized basis.

In the year ended March 31, 2003, as a result of this change, operating profit for the year decreased by ¥237 million, and profit before income taxes and minority interests decreased by ¥11,389 million over the previous year. In addition, total assets and total liabilities increased by ¥4,195 million and ¥11,041 million, respectively. The effect of this change on segment information is given in Note 21.

4. NEW ACCOUNTING STANDARDS

(a) Accounting for Treasury Stock and Legal Reserve

MMC adopted Accounting Standard No. 1, "Accounting Standards for Treasury Stock and the Withdrawal of Legal Reserve," which was issued by the Accounting Standards Board of Japan, from the beginning of the year ended March 31, 2003.

(b) Accounting for earnings per share

MMC adopted Accounting Standard No. 2, "Accounting Standard for Earnings per Share," and Financial Accounting Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings per Share," which were issued by the Accounting Standards Board of Japan, from the beginning of the year ended March 31, 2003.

5. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts in the accompanying consolidated financial statements are included, solely for convenience, at ¥105.69 = US $1.00, the exchange rate prevailing on March 31, 2004. The translation should not be construed as a representation that the yen amounts represented have been, or could be, converted into U.S. dollars at that or any other rate.

6. TRADE NOTES, ACCOUNTS RECEIVABLE AND FINANCE RECEIVABLES SOLD

The outstanding balances of trade notes and accounts receivable sold to others which have been deducted from the respective accounts amounted to ¥30,091 million ($284,715 thousand) and ¥31,839 million as of March 31, 2004 and 2003, respectively. Such amounts deducted from finance receivables were ¥464,253 million ($4,392,600 thousand) and ¥935,660 million as of March 31, 2004 and 2003, respectively.

Following weakness in the North American economy, a higher probability was assigned to the higher end of the range of future credit losses relating to securitized finance receivables estimated in the finance company, Mitsubishi Motors Credit of America, Inc. An allowance for doubtful accounts of ¥39,956 million ($378,049 thousand), including a one time unusual amount to bring the valuation to a more conservative estimate of value as compared to prior estimates, was recorded in cost of sales during the period ended March 31, 2004.

7. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Finished products	**¥171,528**	¥189,374	**$1,622,937**
Raw materials	**19,980**	19,745	**189,049**
Work in process	**83,952**	63,563	**794,323**
	¥275,460	¥272,682	**$2,606,310**

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Land	**¥ 178,611**	¥ 186,411	**$ 1,689,960**
Buildings and structures	**334,049**	340,287	**3,160,656**
Machinery and equipment	**1,426,772**	1,537,859	**13,499,597**
Construction in progress	**38,919**	48,642	**368,245**
	1,978,354	2,113,199	**18,718,460**
Accumulated depreciation	**(1,270,636)**	(1,280,828)	**(12,022,297)**
Property, plant and equipment, net	**¥ 707,717**	¥ 832,371	**$ 6,696,162**

Included in the above as at March 31, 2004 are idle assets of land, and machinery and equipment with book values of ¥21,531 million ($203,721 thousand) and ¥1,496 million ($14,155 thousand), respectively.

9. INVESTMENTS

Held-to-maturity securities and other securities at March 31, 2004 and 2003 were as follows:

	In millions of yen							
	2004				2003			
	Carrying amount	Estimated fair value	Unrealized gains	Unrealized (losses)	Carrying amount	Estimated fair value	Unrealized gains	Unrealized (losses)
Held-to-maturity securities:								
Securities without market value	**—**	**—**	**—**	**—**	¥2,284	¥2,284	—	—
Total held-to-maturity securities	**—**	**—**	**—**	**—**	¥2,284	¥2,284	—	—

	In thousands of U.S. dollars			
	2004			
	Carrying amount	Estimated fair value	Unrealized gains	Unrealized (losses)
Held-to-maturity securities:				
Securities without market value	**—**	**—**	**—**	**—**
Total held-to-maturity securities	**—**	**—**	**—**	**—**

	In millions of yen							
	2004				2003			
	Acquisition cost	Carrying amount	Unrealized gains	Unrealized (losses)	Acquisition cost	Carrying amount	Unrealized gains	Unrealized (losses)
Other securities:								
Securities with market value	**¥17,744**	**¥49,989**	**¥32,354**	**¥(109)**	¥29,850	¥ 84,163	¥55,141	¥(828)
Securities without market value	**29,722**	**29,722**	**—**	**—**	21,522	21,522	—	—
Total other securities	**¥47,466**	**¥79,712**	**¥32,354**	**¥(109)**	¥51,372	¥105,685	¥55,141	¥(828)

	In thousands of U.S. dollars			
	2004			
	Acquisition cost	Carrying amount	Unrealized gains	Unrealized (losses)
Other securities:				
Securities with market value	**$167,891**	**$472,986**	**$306,129**	**$(1,034)**
Securities without market value	**281,220**	**281,220**	**—**	**—**
Total other securities	**$449,111**	**$754,207**	**$306,129**	**$(1,034)**

Proceeds from sales of other securities and the corresponding gross gains and losses, which are included in other income (loss), net for the years ended March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Proceeds	**¥58,655**	¥20,288	**$554,978**
Gross gains	**39,488**	13,821	**373,622**
Gross losses	**56**	3	**533**

Significant declines in the value of securities with market value are recognized as impairment losses if the decline is not considered to be recoverable. After the write-down of the impaired amount, a new book acquisition cost is established. Losses recognized on the impairment of securities with market value totaled ¥36 million ($348 thousand) and ¥10,401 million for the years ended March 31, 2004 and 2003, respectively.

Significant declines in the value of securities without market value are recognized as impairment losses. Losses recognized on the impairment of securities without market value totaled ¥65 million ($618 thousand) for the year ended March 31, 2004.

Investment in unconsolidated subsidiaries and affiliated companies, and investment in securities at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	2004
Investment in unconsolidated subsidiaries and affiliated companies	¥ 77,010	¥114,841	$ 728,654
Investment in securities	69,154	104,232	654,311
	¥146,165	¥219,074	$1,382,965

10. ACCRUED EXPENSES, OTHER PAYABLES AND DEFERRED INCOME

Accrued expenses, other payables and deferred income at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	2004
Accrued expenses	¥ 58,269	¥ 57,573	$ 551,324
Accrued bonuses	7,594	20,174	71,859
Deferred income	110,390	152,131	1,044,474
Product warranty provision	38,403	37,476	363,357
Other payables	90,486	87,415	856,146
	¥305,144	¥354,772	$2,887,162

Following a change in the internal rules for employee bonuses relating to the current year, MMC, on a non-consolidated basis, did not have any amounts to record as accrued bonuses at March 31, 2004. At March 31, 2003, accrued bonuses amounted to ¥20,174 million, of which the amount in respect of MMC, on a non-consolidated basis, was ¥12,995 million.

11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	2004
Loans, principally from banks	¥553,616	¥556,100	$5,238,115
Commercial paper	106,813	76,333	1,010,632
	¥660,430	¥632,434	$6,248,748

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	2004
Loans, principally from banks and insurance companies, due through 2022 at rates averaged 3.2% in 2004 and 2.8% in 2003:			
Secured	¥ 94,855	¥ 51,316	$ 897,491
Unsecured	220,104	122,428	2,082,550
2.4% bonds due 2003	—	29,500	—
2.7% bonds due 2004	20,000	20,000	189,232
3.1% bonds due 2007	8,700	8,700	82,316
3.3% bonds due 2009	25,600	25,800	242,217
1.7% convertible bonds due 2003	—	19,200	—
Secured non-recourse notes payable due through 2006 at average rates ranging from 1.5% to 2.2%	—	78,595	—
Euro medium-term notes due through 2008 at rates 1.6%	9,900	—	93,670
Euro medium-term notes due through 2005 at rates ranging from 0.8% to 1.7%	15,375	6,917	145,478

Euro medium-term notes due through 2006 at rates ranging from 3.3% to 4.7%	**7,660**	13,456	**72,480**
	402,196	375,915	**3,805,438**
Less current portion	**(163,334)**	(107,170)	**(1,545,408)**
	¥ 238,862	¥ 268,744	**$ 2,260,030**

The 1.7% unsecured convertible bonds due 2003 are convertible through April 28, 2003 into shares of common stock of MMC at ¥405 per share. At March 31, 2003, if all the outstanding convertible bonds had been converted at the current conversion price, 47,407 thousand new shares would have been issuable. The conversion price is subject to adjustment in certain cases including stock splits.

The maturities of long-term debt were as follows:

Year ending March 31,	In millions of yen	In thousands of U.S. dollars
2005	¥163,334	$1,545,408
2006	76,706	725,768
2007	66,133	625,727
2008	28,604	270,642
2009	26,841	253,964
Thereafter	40,577	383,927
Total	¥402,196	$3,805,438

Non-interest bearing long-term debt is mainly due to the Dutch State and Volvo Car Corporation. The maturities of non-interest bearing long-term debt were as follows:

Year ending March 31,	In millions of yen	In thousands of U.S. dollars
2005	¥24,555	$232,335

Assets pledged as collateral for short-term borrowings, long-term debt and guarantees at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Trade notes and accounts receivable	**¥ 1,618**	¥ 1,640	**$ 15,312**
Inventories	**14,465**	—	**136,867**
Finance receivables	**85,586**	98,083	**809,791**
Investments	**274**	23,396	**2,593**
Property, plant and equipment, net	**174,591**	208,326	**1,651,916**
Other	**702**	2,069	**6,644**
	¥277,238	¥333,515	**$2,623,126**

The obligations secured by such collateral at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Short-term borrowings and long-term debt	**¥231,613**	¥203,829	**$2,191,438**
Guarantees	**—**	620	**—**

The following groups of assets of the Okazaki plant were pledged as collateral for unused credit limits of ¥1 million ($9 thousand) under a collateral agreement with The Bank of Tokyo-Mitsubishi at March 31, 2004. No debt was outstanding under the credit limit at March 31, 2004 and 2003, respectively.

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Buildings and structures	**¥12,805**	¥11,197	**$121,159**
Machinery and equipment	**10,674**	8,263	**100,998**
Land	**985**	985	**9,328**
	¥24,465	¥20,446	**$231,486**

The following groups of assets of the Mizushima plant were pledged as collateral for the debt from The Japan Bank for International Cooperation to EQUUS Leasing B.V., a counterparty of Netherland Car B.V., a consolidated subsidiary, at March 31, 2004 and 2003, respectively. The debt amount was ¥15,600 million ($147,601 thousand) at March 31, 2004 and 2003, respectively.

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Buildings and structures	**¥ 4,958**	¥ 4,949	**$ 46,913**
Machinery and equipment	**23,962**	26,460	**226,727**
Land	**2,008**	2,018	**19,006**
	¥30,929	¥33,428	**$292,647**

The above assets of the Okazaki and the Mizushima plants were also pledged as collateral for the debt and guarantees from The Development Bank of Japan to MMC International Finance B.V., a consolidated subsidiary, and others during the year. At March 31, 2004, the debt and guarantees to which this collateral related amounted to ¥25,976 million ($245,780 thousand) at March 31, 2004.

The following groups of assets of the Pajero plant were pledged as collateral for the debt from The Development Bank of Japan and others to Pajero Manufacturing Corporation, a consolidated subsidiary, at March 31, 2004 and 2003, respectively. The debt amount was ¥2,871 million ($27,168 thousand) and ¥4,072 million at March 31, 2004 and 2003, respectively.

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Buildings and structures	**¥3,038**	¥3,201	**$28,750**
Machinery and equipment	**2,478**	3,307	**23,452**
Land	**1,542**	1,542	**14,598**
	¥7,060	¥8,051	**$66,800**

The following groups of assets at the Suiryo Plastics plant were pledged as collateral for the debt from The Hyakujushi Bank, Ltd. and others to Suiryo Plastics Co., Ltd., a consolidated subsidiary, at March 31, 2004 and 2003, respectively. The debt amount was ¥1,033 million ($9,782 thousand) and ¥1,894 million at March 31, 2004 and 2003, respectively.

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Buildings and structures	**¥1,199**	¥1,288	**$11,351**
Machinery and equipment	**1,189**	1,100	**11,255**
Land	**194**	194	**1,840**
	¥2,583	¥2,583	**$24,447**

MMC had unused lines of credit of ¥105,900 million ($1,001,986 thousand) and ¥156,500 at March 31, 2004 and 2003, respectively. The credit line in existence at March 31, 2004 was originally available until September 17, 2004, however there were related conditions and the contract was subsequently terminated on June 21, 2004.

12. STOCKHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings should be appropriated to the legal reserve until the sum of the legal reserve and capital surplus equals at least 25% of the common stock account. The Code also stipulates that, to the extent that the sum of capital surplus account and the legal reserve exceed 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the stockholders. MMC and its domestic subsidiaries have provided these amounts in accordance with the Code. The legal reserve, which is included in accumulated deficit amounted to ¥0 million at March 31, 2004 and ¥9,029 million at March 31, 2003.

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

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

13. CONTINGENT LIABILITIES

Trade notes endorsed in the ordinary course of business amounted to ¥12 million ($121 thousand) and ¥112 million at March 31, 2004 and 2003, respectively.

Loans guaranteed given in the ordinary course of business amounted to ¥6,721 million ($63,596 thousand) and ¥9,691 million at March 31, 2004 and 2003, respectively. Agreements similar to guarantees given in the ordinary course of business amounted to ¥4,518 million ($42,749 thousand) and ¥5,171 million at March 31, 2004 and 2003, respectively.

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Sales promotion and advertising	**¥167,925**	¥186,724	**$1,588,848**
Freight	**30,109**	49,614	**284,886**
Bad debts expense	**2,907**	12,648	**27,513**
Salaries and wages	**80,921**	119,691	**765,644**
Pension expenses	**9,864**	8,933	**93,334**
Severance payments to directors and corporate auditors	**738**	2,087	**6,983**
Depreciation	**12,148**	19,336	**114,949**
Research and development	**68,874**	77,956	**651,669**
Others	**82,249**	163,275	**778,215**
Total	**¥455,739**	¥640,268	**$4,312,044**

15. OTHER INCOME (LOSS), NET

Other income (loss), net for the years ended March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Gain on sales of investments in securities	**¥39,431**	¥ 13,980	**$373,089**
Gain on sales of stocks of subsidiaries	**—**	6,569	**—**
Loss on sales and disposal of property, plant and equipment and intangible assets	**(4,022)**	(3,358)	**(38,056)**
Cumulative effect of a change in accounting for deferred lease subvention income	**—**	(11,152)	**—**
Loss on impairment of investment securities	**(527)**	(10,401)	**(4,987)**
Income from affiliated companies	**9,573**	2,373	**90,582**
Foreign exchange (loss) gain	**(2,015)**	292	**(19,071)**
Reversal/(Provision) of accrual for restructuring expense	**3,534**	(1,170)	**33,441**
Cost of extraordinary measures	**—**	(5,099)	**—**
Severance payments for early retirement	**(3,190)**	(1,361)	**(30,185)**
Amortization of consolidation goodwill	**1,560**	833	**14,763**
Litigation expenses	**(5,137)**	(3,941)	**(48,612)**
Other	**(3,214)**	(1,566)	**(30,416)**
	¥35,992	¥(14,000)	**$340,547**

16. CASH FLOW INFORMATION

Cash and cash equivalents at March 31, 2004 and 2003 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Cash and bank deposits	**¥173,514**	¥81,728	**$1,641,734**
Time deposits with maturities of three months or more	**(2,161)**	(916)	**(20,453)**
Short-term investments maturing within three months from the acquisition dates	**10,558**	3,732	**99,895**
Cash and cash equivalents	**¥181,911**	¥84,544	**$1,721,177**

Interest paid less interest received and dividends received for the years ended March 31, 2004 and 2003 amounted to a net expense of ¥15,232 million ($144,122 thousand) and ¥27,858 million, respectively. Income taxes paid for the years ended March 31, 2004 and 2003 amounted to ¥5,260 million ($49,777 thousand) and ¥7,668 million, respectively.

Purchase of property, plant and equipment within investing activities in the consolidated statements of cash flows for the years ended March 31, 2004 and 2003 includes payments for the acquisition of lease vehicles of ¥45,059 million ($426,339 thousand) and ¥75,371 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, 2004 and 2003 includes proceeds from sales of lease vehicles of ¥64,998 million ($614,988 thousand) and ¥68,100 million, respectively.

Changes in finance receivables within operating activities in the consolidated statements of cash flows for the years ended March 31, 2004 and 2003 are the net of payments amounting to ¥257,773 million ($2,438,960 thousand) and ¥1,072,027 million, respectively, and proceeds from collections amounting to ¥211,608 million ($2,002,164 thousand) and ¥958,017 million, respectively.

Assets and liabilities which MMC transferred to Mitsubishi Fuso Truck and Bus Corporation (MFTBC) as part of the demerger described in Note 19 are summarized as follows ((decrease) increase):

	In millions of yen
March 31,	2003
Current assets	¥(343,007)
Non-current assets	(379,238)
Current liabilities	393,600
Non-current liabilities	106,900
Minority interests	1,754
Proceeds from the sale of shares due to the demerger of MFTBC	118,122
Cash and cash equivalents of MFTBC	58,865
Net proceed of sales of MFTBC	¥ 59,257

In the year ended March 31, 2002, additions and collection of finance receivables were classified in "loans made" and "collection of loans receivable," respectively, within investing activities in the consolidated statements of cash flows. However, the management of the relevant overseas subsidiaries consider finance receivables as operational assets and consequently, in the year ended March 31, 2003, additions and collections of finance receivables were classified as "changes in operating assets and liabilities — finance receivables." The effect of this change was to decrease net cash provided by operating activities by ¥114,009 million and to increase net cash provided by investing activities by ¥114,009 million in the year ended March 31, 2003 as compared to the same amounts for the year ended March 31, 2002.

17. LEASES

As lessee

MMC and its consolidated subsidiaries lease certain property, plant and equipment. For the years ended March 31, 2004 and 2003, details of finance leases, excluding those lease agreements which stipulate the transfer of title of the assets to the lessee, were as follows:

1. Notional equivalent acquisition cost, accumulated depreciation, and related net book value of such finance lease assets:

	In millions of yen					
	2004			2003		
	Notional equivalent acquisition cost	Notional equivalent accumulated depreciation	Notional equivalent net book value	Notional equivalent acquisition cost	Notional equivalent accumulated depreciation	Notional equivalent net book value
Tools and equipment	**¥40,392**	**¥26,322**	**¥14,070**	¥49,183	¥29,773	¥19,409
Others	**5,256**	**2,693**	**2,563**	10,469	3,903	6,566
Total	**¥45,649**	**¥29,015**	**¥16,634**	¥59,653	¥33,677	¥25,975

	In thousands of U.S. dollars		
	2004		
	Notional equivalent acquisition cost	Notional equivalent accumulated depreciation	Notional equivalent net book value
Tools and equipment	**$382,176**	**$249,049**	**$133,127**
Others	**49,739**	**25,481**	**24,258**
Total	**$431,916**	**$274,530**	**$157,385**

2. Future minimum lease payments of such finance leases:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Due within 1 year	**¥ 9,542**	¥11,967	**$ 90,290**
Due after 1 year	**14,121**	20,911	**133,608**
Total	**¥23,663**	¥32,879	**$223,899**

3. Lease payment expense, notional depreciation expense and notional interest expense of such finance leases:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Lease payment expense	**¥12,861**	¥18,893	**$121,689**
Notional depreciation expense	**¥13,075**	¥16,020	**$123,718**
Notional interest expense	**¥ 608**	¥ 1,371	**$ 5,759**

4. 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.

5. Calculation of notional interest expense of finance leases

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

Future minimum lease payments required under operating lease transactions entered into by MMC and its consolidated subsidiaries at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Future minimum lease payments on operating lease transactions:			
Due within 1 year	**¥11,260**	¥ 5,508	**$106,542**
Due after 1 year	**36,964**	11,991	**349,743**
Total	**¥48,224**	¥17,500	**$456,286**

As lessor

Future minimum lease revenues from operating lease transactions entered into by MMC and its consolidated subsidiaries as lessor at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Future minimum lease revenues from operating lease transactions:			
Due within 1 year	**¥27,063**	¥42,194	**$256,061**
Due after 1 year	**35,714**	47,841	**337,921**
Total	**¥62,778**	¥90,036	**$593,982**

18. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Nature of and policy for derivative transactions

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

(b) Risk

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

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

(c) Control

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

Summarized below are the notional amounts and the estimated fair values of the derivative positions, except for those accounted for under the special hedge provision, outstanding at March 31, 2004 and 2003:

						In millions of yen
			2004			2003
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell:						
US $	**¥ 7,042**	**¥ 6,825**	**¥ 216**	¥ 6,024	¥ 6,072	¥ (47)
Euro	**7,897**	**7,721**	**175**	18,728	20,049	(1,321)
£ stg	**12,478**	**12,604**	**(126)**	154	155	0
Canadian $	**5,705**	**5,677**	**28**	1,976	2,117	(141)
Japanese ¥	**10,105**	**10,104**	**0**	—	—	—
Buy:						
Japanese ¥	**2,474**	**2,491**	**17**	—	—	—
Total			**¥ 311**			¥(1,509)

			In thousands of U.S. dollars
			2004
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
US $	**$ 66,628**	**$ 64,576**	**$ 2,052**
Euro	**74,721**	**73,061**	**1,660**
£ stg	**118,064**	**119,257**	**(1,193)**
Canadian $	**53,986**	**53,718**	**267**
Japanese ¥	**95,613**	**95,608**	**5**
Buy:			
Japanese ¥	**23,408**	**23,571**	**162**
Total			**$ 2,949**

	In millions of yen					
			2004			2003
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Currency options:						
Sell						
US$ call	**¥46,234**			¥ 8,791		
	(457)	**¥584**	**¥(127)**	(172)	¥ 32	¥ 139
Euro call	**—**			46,992		
	—	**—**	**—**	(746)	1,311	(564)
Buy:						
US$ put	**46,234**			9,550		
	(457)	**380**	**(77)**	(212)	166	(45)
Euro put	**—**			50,587		
	—	**—**	**—**	(894)	376	(518)
Total			**¥(204)**			¥(988)

	In thousands of U.S. dollars		
			2004
	Notional amount	Fair value	Unrealized gain (loss)
Currency options:			
Sell			
US$ call	**$437,455**		
	(4,325)	**$5,533**	**$(1,208)**
Euro call	**—**		
	—	**—**	**—**
Buy:	**437,455**		
US$ put	**(4,325)**	**3,595**	**(729)**
	—		
Euro put	**—**	**—**	**—**
Total			**$ 1,937**

	In millions of yen					
			2004			2003
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Cross currency swaps:						
Pay-JPY receive — US$	**¥3,595**	**¥(387)**	**¥(387)**	—	—	—
Pay-THB receive — US$	**5,547**	**(128)**	**(128)**	—	—	—
Total			**¥(516)**			¥—

	In thousands of U.S. dollars		
			2004
	Notional amount	Fair value	Unrealized gain (loss)
Cross currency swaps:			
Pay-JPY receive — US$	**$34,017**	**$(3,666)**	**$(3,666)**
Pay-THB receive — US$	**52,490**	**(1,216)**	**(1,216)**
Total			**$(4,883)**

All cross currency swaps have maturities over one year.

	In millions of yen					
	2004			2003		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:						
Pay-fixed, receive-floating	**¥150,608**	**¥(1,215)**	**¥(1,215)**	¥82,938	¥(2,463)	¥(2,463)
Pay-floating, receive-fixed	**14,241**	**531**	**531**	—	—	—
Total			**¥ (683)**			¥(2,463)

	In thousands of U.S. dollars		
	2004		
	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Pay-fixed, receive-floating	**$1,425,000**	**$(11,499)**	**$(11,499)**
Pay-floating, receive-fixed	**134,747**	**5,028**	**5,028**
Total			**$ (6,471)**

Included in interest rate swaps above are contracts with maturities over one year with notional amounts of ¥45,446 ($430,000 thousand) and ¥42,070 million as at March 31, 2004 and 2003, respectively.

19. RETIREMENT BENEFITS

MMC and its consolidated subsidiaries have defined benefit pension plans for their employees. The plans include contributory plans in accordance with the Welfare Pension Institute Law of Japan, tax-qualified plans and non-contributory severance plans. Additional early retirement benefits are paid in certain cases upon employees' retirements. Certain foreign consolidated subsidiaries have defined contribution pension plans. At March 31, 2004, the Company and its consolidated subsidiaries have four funds for contributory plans in accordance with the Welfare Pension Insurance Law, and 47 funds for tax-qualified plans. MMC and 43 of its consolidated subsidiaries have non-contributory severance plans.

The discount rate used to determine the retirement benefit obligation was 2.0%–2.5% for MMC and its domestic consolidated subsidiaries, 6.25%–7.0% for its foreign consolidated subsidiaries, and 2.5% for MMC and its domestic consolidated subsidiaries, 6.8%–7.0% for its foreign consolidated subsidiaries at March 31, 2004 and 2003, respectively. The rate of return on plan assets assumed was 1.5%–4.0% for MMC and its domestic consolidated subsidiaries, 8.0%–8.5% for its foreign consolidated subsidiaries, and 4.0% for MMC and its domestic consolidated subsidiaries, 8.3%–8.5% for its foreign consolidated subsidiaries for the years ended March 31, 2004 and 2003, respectively.

The retirement benefit obligation for MMC's and its consolidated subsidiaries' employees' defined benefit plans at March 31, 2004 and 2003 is summarized as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation	**¥(186,990)**	¥(181,264)	**$(1,769,236)**
Pension plan assets at fair value	**54,460**	43,714	**515,288**
Unfunded status	**(132,529)**	(137,549)	**(1,253,948)**
Unrecognized actuarial losses	**19,668**	23,839	**186,099**
Unrecognized prior service cost	**6,605**	(1,323)	**62,500**
Net recognized retirement benefit obligation	**(106,255)**	(115,033)	**(1,005,348)**
Prepaid pension premiums	**4,866**	3,354	**46,040**
Accrued retirement benefits	**¥(111,121)**	¥(118,387)	**$(1,051,389)**

Plan assets relating to multi-employer pension plans are not included in the above pension plan assets, as the amount of such assets representing the consolidated subsidiaries' share can not be reasonably established. The amount of such assets calculated mainly on the basis of contribution ratio was ¥3,627 million ($34,318 thousand) and ¥3,681 million at March 31, 2004 and 2003, respectively.

Pension expenses for MMC's and its consolidated subsidiaries' employees' retirement defined benefit plans for the years ended March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥11,718**	¥17,232	**$110,879**
Interest cost	**5,175**	8,351	**48,970**
Expected return on plan assets	**(2,549)**	(3,177)	**(24,125)**
Amortization of actuarial loss	**2,673**	3,019	**25,292**
Amortization of prior service cost	**347**	(12)	**3,288**
Other	**5,363**	—	**50,749**
Pension expenses	**¥22,729**	¥25,413	**$215,054**

In addition to the above pension expenses, additional early retirement benefits of ¥3,190 million ($30,185 thousand) and ¥1,340 million were paid and recorded as other income (loss) during the years ended March 31, 2004 and 2003, respectively.

On January 6, 2003, MMC demerged its truck and bus operations and established MFTBC. As a result of the sale of a 58% interest in MFTBC on March 14, 2003, MFTBC became an affiliate of MMC and is accounted for under the equity method. The retirement benefit obligation which MMC transferred to MFTBC at March 31, 2003 as part of the demerger is summarized as follows:

	In millions of yen
	2003
Retirement benefit obligation	¥(93,186)
Pension plan assets at fair value	22,329
Unfunded status	(70,857)
Unrecognized actuarial loss	13,155
Unrecognized prior service cost	600
Net recognized retirement benefit obligation	(57,101)
Prepaid pension cost	790
Accrued retirement benefits	¥(57,891)

20. INCOME TAXES

MMC and its domestic consolidated subsidiaries are subject to corporation, residents' and enterprise taxes based on taxable income, which, in the aggregate, resulted in a statutory tax rate of approximately 41.6% and 41.7% for the years ended March 31, 2004 and 2003, respectively. Income taxes of the foreign consolidated subsidiaries are calculated based generally on the tax rates applicable in their countries of incorporation.

MMC and its wholly owned domestic subsidiaries have been adopting the system of filing tax returns on a consolidated basis since the year ended March 31, 2003.

Due to a change in the Japanese enterprise tax law, the aggregate statutory tax rate for MMC and its domestic subsidiaries will decrease effective April 1, 2004. Consequently the effective tax rate reflected in the calculation of deferred taxes was 41.7% for temporary differences for which reversals are scheduled in the years to March 31, 2004, and was 40.4% for temporary differences for which reversals are scheduled thereafter. As a result, net deferred tax assets and liabilities, and provisions for income taxes of MMC and its consolidated subsidiaries for the year ended March 31, 2003 decreased by ¥997 million and increased by ¥1,697 million, respectively.

The effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2004 and 2003 differ from the statutory tax rate for the following reasons:

	%	
	2004	2003
Statutory income tax rate for MMC	**41.6**	41.7
Increase in valuation allowance, effect of use of loss carryforwards and similar	**(211.3)**	(41.9)
Income (loss) from affiliates accounted for by the equity method	**8.9**	(2.3)
Amortization of consolidation goodwill	**0.8**	(0.8)
Decrease by tax effect of subsidiaries in North America	**(8.3)**	—
Expenses not deductible for income tax purposes	**(2.1)**	5.3
Loss on sales of affiliates	**(2.1)**	—
Other	**(6.1)**	5.2
Income taxes as a percentage of (loss) gain before income taxes and minority interests	**(178.6)**	7.2

The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Net operating loss carryforwards	**¥ 162,820**	¥ 120,460	**$ 1,540,550**
Accrued retirement benefits	**41,663**	39,370	**394,204**
Allowance for doubtful accounts	**32,635**	38,286	**308,788**
Allowance for product warranty	**17,865**	15,944	**169,040**
Accounts payable — warranty	**15,279**	18,539	**144,564**
Other	**95,251**	104,780	**901,237**
Less valuation allowance	**(285,943)**	(125,202)	**(2,705,494)**
Total deferred tax assets	**79,573**	212,179	**752,892**
Deferred tax liabilities:			
Reserves under the Special Taxation Measures Law	**(3,291)**	(1,773)	**(31,139)**
Unrealized holding gain on securities	**(12,693)**	(21,762)	**(120,099)**
Fair value adjustment relating to land in consolidated subsidiaries	**(6,338)**	(8,021)	**(59,971)**
Accelerated depreciation of overseas consolidated subsidiaries	**(42,029)**	(50,378)	**(397,669)**
Other	**(15,543)**	(8,503)	**(147,067)**
Total deferred tax liabilities	**(79,896)**	(90,438)	**(755,948)**
Net deferred tax assets	**¥ (323)**	¥ 121,741	**$ (3,056)**

Deferred tax assets and liabilities at March 31, 2004 and 2003 are included in the consolidated balance sheets as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Current assets	**¥ 4,979**	¥ 54,955	**$ 47,117**
Investments and other assets	**19,721**	77,644	**186,600**
Other current liabilities	**(273)**	(327)	**(2,587)**
Non-current liabilities	**(24,751)**	(10,532)	**(234,186)**
Net deferred tax assets	**¥ (323)**	¥121,741	**$ (3,056)**

21. SEGMENT INFORMATION

(a) Business segments

The business segment information for MMC and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 are summarized as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Net sales:			
Automobiles	**¥2,443,342**	¥3,809,762	**$23,118,009**
Financial services	**72,626**	78,146	**687,163**
Total	**2,515,968**	3,887,909	**23,805,172**
Intersegment	**3,481**	(3,035)	**32,936**
Consolidated	**¥2,519,449**	¥3,884,874	**$23,838,109**
Operating (loss) profit:			
Automobiles	**¥ (50,864)**	¥ 124,363	**$ (481,260)**
Financial services	**(49,880)**	(40,137)	**(471,954)**
Total	**(100,745)**	84,225	**(953,214)**
Intersegment	**3,892**	(1,463)	**36,832**
Consolidated	**¥ (96,852)**	¥ 82,761	**$ (916,382)**
Total assets:			
Automobiles	**¥1,784,453**	¥2,048,982	**$16,883,846**
Financial services	**485,540**	530,398	**4,594,007**
Total	**2,269,994**	2,579,380	**21,477,853**
Corporate and eliminations	**(240,958)**	(154,027)	**(2,279,863)**
Consolidated	**¥2,029,035**	¥2,425,352	**$19,197,991**
Depreciation:			
Automobiles	**¥ 108,051**	¥ 139,744	**$ 1,022,346**
Financial services	**31,419**	53,521	**297,284**
Consolidated	**¥ 139,471**	¥ 193,265	**$ 1,319,630**
Capital expenditures:			
Automobiles	**¥ 113,907**	¥ 128,676	**$ 1,077,755**
Financial services	**37,015**	72,860	**350,225**
Consolidated	**¥ 150,923**	¥ 201,537	**$ 1,427,980**

As a result of the synchronization of the fiscal year-end of overseas consolidated subsidiaries, as explained in Note 3, net sales and operating profit in the ‘Automobiles’ segment and ‘Financial services’ segments for the year ended March 31, 2003 included fifteen months’ net sales and operating profit in respect of certain overseas subsidiaries. The impact of the additional three month bridge period, January 2003 to March 2003, on net sales for the ‘Automobiles’ segment and the ‘Financial services’ segment for the year ended March 31, 2003 amounted to ¥422,431 million and ¥10,932 million respectively. The impact of this bridge period on operating (loss) profit for the ‘Automobiles’ segment and the ‘Financial services’ segment and ‘Intersegment’ segment was an increase (decrease) of ¥6,001 million, ¥(16,451) million and ¥419 million, respectively.

As a result of the change in the method of accounting for lease subvention income and expenses related to the North American subsidiaries as explained in Note 3, operating profit decreased by ¥237 million in the ‘Intersegment’ segment in the year ended March 31, 2003. Corporate assets and eliminations of total assets also increased by ¥4,195 million at March 31, 2003.

(b) Geographical segments

Geographical segments for the year ended March 31, 2004 have been classified based on geographical proximity and on the proximity of business activity, whereas in the year ended March 31, 2003, geographical segments were classified solely on the basis of geographical proximity.

As a result, Puerto Rico, which had been classified within the 'Other areas' segment in the previous year, was reclassified to the 'North America' segment. This lead to an increase in sales, operating profit and total assets of the 'North America' segment of ¥36,189 million ($342,409 thousand), ¥1,236 million ($11,697 thousand), and ¥11,353 million ($107,423 thousand), respectively, and a corresponding decrease in the same amounts of the 'Other areas' segment in the year ended March 31, 2004 compared to the amounts which would have been disclosed using the previous years' classifications.

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Net sales:			
Japan	**¥1,564,860**	¥2,354,208	**$14,806,133**
North America	**599,675**	1,205,049	**5,673,914**
Europe	**656,241**	761,760	**6,209,120**
Asia	**183,767**	238,731	**1,738,742**
Other areas	**181,958**	297,393	**1,721,620**
Total	**3,186,503**	4,857,144	**30,149,530**
Interarea	**(667,054)**	(972,270)	**(6,311,421)**
Consolidated	**¥2,519,449**	¥3,884,874	**$23,838,109**
Operating (loss) profit:			
Japan	**¥ 19,933**	¥ 46,255	**$ 188,602**
North America	**(125,970)**	33,775	**(1,191,884)**
Europe	**14,105**	(10,547)	**133,456**
Asia	**12,415**	11,968	**117,475**
Other areas	**(16,732)**	6,073	**(158,315)**
Total	**(96,248)**	87,525	**(910,664)**
Interarea	**(604)**	(4,763)	**(5,718)**
Consolidated	**¥ (96,852)**	¥ 82,761	**$ (916,382)**
Total assets:			
Japan	**¥1,197,472**	¥1,424,496	**$11,330,041**
North America	**676,349**	970,459	**6,399,374**
Europe	**257,556**	297,037	**2,436,901**
Asia	**86,514**	87,934	**818,570**
Other areas	**82,830**	104,624	**783,709**
Total	**2,300,723**	2,884,552	**21,768,597**
Interarea	**(271,687)**	(459,199)	**(2,570,607)**
Consolidated	**¥2,029,035**	¥2,425,352	**$19,197,990**

As a result of the synchronization of the fiscal year-end of overseas consolidated subsidiaries as explained in Note 3, net sales for the year ended March 31, 2003 included fifteen months net sales in respect of certain overseas subsidiaries. The impact of the additional three month bridge period, January 2003 to March 2003, on the net sales in 'North America' segment, 'Europe' segment, 'Asia' segment and 'Other areas' segment amounted to ¥207,982 million, ¥149,625 million, ¥21,081 million and ¥54,675 million, respectively. The impact of this bridge period on the operating (loss) profit in 'North America' segment, 'Europe' segment, 'Asia' segment, 'Other areas' segment and 'Interarea' segment amounted to an increase (decrease) of ¥(8,989) million, ¥(3,700) million, ¥2,803 million, ¥799 million and ¥(942) million, respectively.

As a result of a change in the method of accounting for lease subvention income and expenses related to the North American subsidiaries as explained in Note 3, operating profit decreased by ¥237 million in the 'North America' segment in the year ended March 31, 2003. Total assets also increased by ¥4,195 million in the 'North America' segment at March 31, 2003.

(c) Overseas sales

As explained above, geographical segments for the year ended March 31, 2004 have been classified based on geographical proximity and on the proximity of business activity, whereas in the year ended March 31, 2003, geographical segments were classified solely on the basis of geographical proximity.

As a result, overseas sales in the 'North America' segment increased by ¥33,308 million ($315,154 thousand) and overseas sales in the 'Other areas' segment decreased by the same amount in the year ended March 31, 2004, compared to the amounts which would have been disclosed using the previous years' classifications.

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 year ended March 31, 2004 and 2003 are summarized as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Overseas sales:			
North America	**¥ 600,770**	¥1,217,176	**$ 5,684,266**
Europe	**661,967**	752,462	**6,263,293**
Asia	**304,429**	355,508	**2,880,400**
Other areas	**330,974**	450,810	**3,131,559**
Total	**1,898,141**	2,775,958	**17,959,520**
Consolidated sales	**¥2,519,449**	¥3,884,874	**$23,838,109**
Overseas sales as a percentage of consolidated sales:			
North America	**23.8%**	31.3%	
Europe	**26.3**	19.4	
Asia	**12.1**	9.2	
Other areas	**13.1**	11.6	
Total	**75.3**	71.5	

22. RELATED PARTY TRANSACTIONS

MMC entered into the following transactions with related parties during the years ended March 31, 2004 and 2003:

	2004	
	(a)	(b)
Party type:	Other related company	Affiliated company
Party name:	DaimlerChrysler AG	Mitsubishi Fuso Truck and Bus Corporation
Address:	Stuttgart, Germany	Tokyo, Japan
Capital:	Euro 2,633 million	¥20,000 million
Business:	Manufacture and sale of passenger cars and other transportation equipment	Development, design, manufacture, assembly and sales of trucks and buses, and related parts and accessories
% of voting stock held:	Direct 33.7, Indirect 3.2	20.0
Concurrent board appointment:	1 person	1 person
Business relationship:	International alliances for research, development, production, sales and similar for passenger cars	Sales of engine and transmission parts
Detail of transaction:	Sale of shares in MFTBC	Deposit held
Transaction amount:	Sale amount ¥52,360 million ($495,411 thousand) Gain on sale ¥499 million ($4,721 thousand)	Deposit amount ¥275,000 million ($2,601,949 thousand) Interest expenses ¥125 million ($1,184 thousand)
Account title:	—	Other current liabilities
Balance at year end:	—	—
	(see (i) below)	(see (ii) below)

	2003
Party type:	Other related party
Party name:	DaimlerChrysler AG
Address:	Stuttgart, Germany
Capital:	Euro 2,609 million
Business:	Manufacture and sale of passenger cars and other transportation equipment
% of voting stock held:	Direct 33.7, Indirect 3.2
Concurrent board appointment:	1 person
Business relationship:	International alliances for research, development, production, sales and similar for passenger cars
Detail of transaction:	Sale of shares in MFTBC
Transaction amount:	Sale amount ¥99,110 million Gain on sale ¥4,515 million
Account title:	Other current assets
Balance at year end:	¥12,713 million
	(see (i) below)

(i) The terms of the above transactions were decided by negotiation between the parties based on the net assets of the company subject to the sale.

(ii) The highest amount of the deposit held during the year was ¥60,000 million ($567,697 thousand).

23. (LOSS) INCOME AND EQUITY PER SHARE

Net (loss) income and equity per share for the years ended March 31, 2004 and 2003 are summarized as follows:

	In yen		In U.S. dollars
	2004	2003	**2004**
Net (loss) income per share			
Basic	**¥(145.22)**	¥ 25.35	**$(1.37)**
Diluted	**—**	23.43	**—**
Stockholders' equity per share	**20.20**	188.95	**0.19**

Diluted amounts per share are not included for the year ended March 31, 2004 due to the net loss recorded.

The computation of net (loss) income per share for the years ended March 31, 2004 and 2003 is as follows:

	In millions of yen		In thousands of U.S. dollars
	2004	2003	**2004**
Numerator for basic net income per share:			
Net (loss) income	**¥(215,424)**	¥37,361	**$(2,038,263)**
Income not available to common stockholders	**—**	—	**—**
Income available to common stockholders	**¥(215,424)**	¥37,361	**$(2,038,263)**
Denominator for net income per share:			
Weighted average number of shares (in thousands)	**1,483,429**	1,473,719	**1,483,429**

24. SIGNIFICANT SUBSEQUENT EVENTS

1. Business Revitalization Plan

On May 21, 2004, a Business Revitalization Plan (from fiscal 2004 to 2006), which includes the restructuring of production bases and headcount adjustments, was approved by the Board of Directors and publicly announced.

Additional measures to achieve the Business Revitalization Plan were approved by the Board of Directors on June 16, 2004 and announced to the public.

The new measures are in response to a potential marked slump in domestic sales that surfaced following the recent recall problems at MMC and MFTBC.

2. Capital enhancement through share issue (excluding beneficial share issue)

The allocation of new shares to third parties, one of the measures of the business revitalization plan, was approved by the Board of Directors on May 21 and June 8, 2004 as follows:

a. Mitsubishi Motors Corporation's No. 1 Class-A preferred stock

Number of stocks issued:	130,000 shares
Issue price:	¥1 million per share
Amount to record as share capital:	¥65,000 million ($615,006 thousand)
Share proceeds:	¥130,000 million ($1,230,012 thousand)
Payment date:	June 24, 2004 (Thursday)
Placement method:	Allocation to the following parties:
Mitsubishi Heavy Industries, Ltd.	40,000 shares
Mitsubishi Corporation	40,000 shares
The Bank of Tokyo-Mitsubishi, Ltd.	40,000 shares
The Mitsubishi Trust and Banking Corporation	10,000 shares

b. Mitsubishi Motors Corporation's No. 2 Class-A preferred stock

Number of stocks issued:	35,000 shares
Issue price:	¥1 million per share
Amount to record as share capital:	¥17,500 million ($165,578 thousand)
Share proceeds:	¥35,000 million ($331,157 thousand)
Payment date:	June 24, 2004 (Thursday)
Placement method:	Allocation to the following parties:
China Motor Co., Ltd.	10,000 shares
Tokio Marine & Fire Insurance Company, Limited	10,000 shares
Meiji Yasuda Life Insurance Company	7,000 shares
Mitsubishi Electric Corporation	2,500 shares
NIPPON YUSEN KABUSHIKI KAISHA	2,500 shares
Mitsubishi Materials Corporation	1,000 shares
Mitsubishi Chemical Corporation	1,000 shares
Mitsubishi Logistics Corporation	1,000 shares

c. Mitsubishi Motors Corporation's No. 3 Class-A preferred stock

Number of stocks issued:	1,000 shares
Issue price:	¥1 million per share
Amount to record as share capital:	¥500 million ($4,730 thousand)
Share proceeds:	¥1,000 million ($9,461 thousand)
Proposed payment date:	July 15, 2004 (Thursday)
Placement method:	Allocation of shares to Nippon Oil Corporation

d. Mitsubishi Motors Corporation's No. 1 Class-G preferred stock

Number of stocks issued:	130,000 shares
Issue price:	¥1 million per share
Amount to record as share capital:	¥65,000 million ($615,006 thousand)
Share proceeds:	¥130,000 million ($1,230,012 thousand)
Payment date:	June 28, 2004 (Monday)
Placement method:	Allocation of shares to the following banking institutions:
The Bank of Tokyo-Mitsubishi, Ltd.	90,000 shares
The Mitsubishi Trust and Banking Corporation	40,000 shares

e. Mitsubishi Motors Corporation's No. 1–No. 3 Class-B preferred stock

Maximum number of stocks:	150,000 shares
Issue price:	¥1 million per share
Maximum amount to record as share capital:	¥75,000 million ($709,622 thousand)
Maximum share proceeds:	¥150,000 million ($1,419,244 thousand)
Proposed payment date:	July 15, 2004 (Thursday)
Placement method:	Allocation to J.P. Morgan Securities

Mitsubishi Motors Corporation's No. 3 Class-A preferred stock and Mitsubishi Motors Corporation's No. 1–No. 3 Class-B preferred stock were approved by the Board of Directors on June 29, 2004.

3. Capital enhancement through share issue (beneficial share issue)

As part of the business revitalization plan, a beneficial issue of new shares to certain investors was approved by the Board of Directors on May 27, 2004 and June 29, 2004, and was approved at the annual meeting of stockholders held on June 29, 2004.

Maximum number of stocks:	1,000,000,000 shares
Issue price:	¥100 per share
Maximum amount to record as share capital:	¥50,000 million ($473,081 thousand)
Maximum share proceeds:	¥100,000 million ($946,163 thousand)
Proposed payment date:	July 15, 2004 (Thursday)
Placement method:	Allocation of shares to an investment fund, special purpose companies (Phoenix Capital Funds) or similar formed by Phoenix Capital Inc.

Note: The differences between share proceeds and the amount recorded as share capital is recorded as capital surplus.

4. Handling of Past Recalls and Improvement Measures

As part of its business revitalization plan, MMC has formed an investigative team which has conducted a thorough investigation of repair directives issued to dealers to carry out repairs without notification to the authorities of recalls or other matters. This investigation covered all repair directives stretching back to December 1993, the earliest date at which it is now possible to investigate. As a result of the investigation, on June 2, 2004, MMC announced that it had not taken appropriate action in the past for recalls and other improvement measures. MMC deeply apologizes for this. On June 3, 2004, MMC reported recalls and other improvement measures to the Ministry of Land, Infrastructure and Transport.

		No. of cases	No. of units
Announced on June 2, 2004	Recalls	26	180,000
	Improvement measures	4	60,000
Reported on June 3, 2004	Recalls and improvement measures	3	120,000

The projected losses related to the above recalls and improvement measures are ¥3,100 million ($29,331 thousand).

The expected impact on the business of MMC following quality issues including the above is described in Note 1, Going Concern.

MFTBC, an equity affiliate of MMC, has implemented a strict internal investigation going back to 1992 in relation to their handling of past quality issues and on June 14, 2004, announced that it is necessary to report recalls and to carry out other improvement measures to clean up the outstanding quality issues of the past. Details of that announcement are as follows:

	June 14, 2004
	No. of cases
Recalls	43
Recalls and improvement measures	4
Total	47
No. of units	450,000

The number of units refers to the number of vehicles involved.

The following three cases (total of number of units: 168,686) have already been reported, and the expected losses related to these recalls in the consolidated financial statements for fiscal year 2004 is approximately ¥14.2 billion ($13,435 million). The expected losses relating to the other cases for fiscal year 2004 are currently being estimated.

Announcement date	No. of cases	No. of units
May 26, 2004	1	168,002
June 15, 2004	2	684

These recalls may impact future operations, however, the effect of these recalls on future business operations is currently uncertain.

5. Agreement between DaimlerChrysler AG and Mitsubishi Motors Corporation related to shares of Mitsubishi Fuso Truck and Bus Corporation.

On June 7, 2004, MMC received notification from DaimlerChrysler AG explaining that DaimlerChrysler AG is investigating whether or not it will seek compensation in respect of the quality issues at MFTBC based on the agreement relating to its purchase of that company's shares from MMC.

However, at this time, it is not clear whether this matter will be followed and details are not yet fixed.

Shin Nihon & Co.

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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, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Further Information

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

2. Note 24, Significant Subsequent Events, includes the following:

   (1) On May 21, 2004, a business revitalization plan (from fiscal 2004 to 2006), which includes the restructuring of production bases and headcount adjustments, was approved by the Board of Directors and publicly announced. Further, in order to achieve the business revitalization plan, additional measures were approved by the Board of Directors on June 16, 2004 and announced to the public.

Shin Nihon & Co.

(2) As a part of the business revitalization plan, the issue of new shares to certain investors was approved by the Board of Directors on May 21, 2004, June 8, 2004 and June 29, 2004.

(3) As a part of the business revitalization plan, a beneficial issue of new shares to certain investors was approved by the Board of Directors on May 27, 2004 and June 29, 2004, and was approved at the annual meeting of stockholder's held on June 29, 2004.

(4) The Company announced that it did not take appropriate action for matters such as recalls and other improvement measures. In addition, the Company reported recalls and other improvement measures to the Ministry of Land, Infrastructure and Transport on June 3, 2004.

On June 14, 2004, Mitsubishi Fuso Truck and Bus Corporation, an equity investment of the Company, announced that it is required to report recalls and other improvement measures.

(5) On June 7, 2004, the Company received notification from DaimlerChrysler AG explaining that DaimlerChrysler AG is investigating whether it will seek compensation in respect of the quality issues at Mitsubishi Fuso Truck and Bus Corporation based on the agreement relating to its purchase of that company's shares from the Company.

3. As described in Note 3, Changes in Accounting Policies, to the consolidated financial statements, the fiscal year-ends of overseas consolidated subsidiaries were synchronized from December 31 to March 31, in the year ended March 31, 2003. In the same year, the method of accounting for lease subvention income and expenses related to the North American subsidiaries was changed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 5.

Shin Nihon & Co.

Tokyo, Japan
June 29, 2004

See Note 2(a) which explains the basis of preparation of the consolidated financial statements of Mitsubishi Motors Corporation and consolidated subsidiaries under Japanese accounting principles.

ENVIRONMENTAL ACTIVITIES

In 2002, MMC formulated the Environmental Sustainability Plan, a five-year internal action plan that contains a variety of measures aimed at promoting environmental conservation. The plan sets specific performance objectives in four main categories: environmental management, recycling, prevention of global warming and environmental pollution. Performance is being monitored internally in all these areas, which are outlined below.

ENVIRONMENTAL MANAGEMENT

DfE (Design for Environment)

The DfE system ensures that reduced environmental impact is built into new products at the earliest concept stages. This includes efforts to increase recyclability and reduce weight. The aim is to minimize the environmental impact of products over the entire life cycle so that the MMC development process generates eco-conscious vehicles.

Supplier cooperation: Green purchasing

MMC initiated green purchasing initiatives in November 2000 to ensure that procurement is eco-conscious. MMC requires that all its materials and parts suppliers obtain ISO 14001 certification for their environmental management systems by March 2005.

Subsidiaries and affiliates

MMC is promoting the establishment and operation of environmental management systems at dealers and domestic and overseas production affiliates.

Enhancing communications on the environment

In addition to continuously publishing environmental reports, MMC strives to enhance communication about its environmental activities by issuing the environmental pamphlet The Environment and Manufacturing Automobiles, providing support for environmental education by dispatching teachers to schools, and creating web sites for elementary school children and offering consulting services about automobiles.

RECYCLING

Promotion of vehicle recycling in Japan and overseas countries

The End-of-Life Vehicle Recycling Law was passed in Japan in July 2002 and will come fully into force in January 2005. MMC is working proactively to comply with these regulations as they pertain to car manufacturers as detailed below.

• Collection and recycling of fluorocarbons, airbags, and shredder dust residue
• Determination and publication of recycling fees (published on our Web site on July 23, 2004)
• Design and manufacture of vehicles that give due consideration to recycling and the environment
• Provision of information on the construction, parts and materials of vehicles

In Europe, MMC is promoting the construction of an effective system for end-of-life automobile collection in conformity with European recycling legislation. MMC is now working to conduct a preliminary investigation of the details and costs of collection and recycling methods for end-of-life vehicles in Europe.

Reduction of waste emissions and improved resource conservation at the production stage

Waste generated during the production stage is reduced, reused, and recycled wherever possible. As a result, MMC has eliminated the disposal of any waste sent to landfills at all its domestic plants since the end of March 2002 and continues to maintain this zero-emission status.

PREVENTION OF GLOBAL WARMING

Improvement of vehicle fuel efficiency

MMC is increasing production of gasoline vehicles that comply with 2010 domestic fuel efficiency standards, such as the *COLT, LANCER CARGO*, and *GRANDIS*, in order to meet these standards by 2005.

Measures in production and logistics

To restrict emissions of carbon dioxide (CO_2) generated from the consumption of energy, MMC makes energy use more efficient through various means, such as the introduction of co-generation systems (generating electricity with gas turbines and through other means, and reusing the waste heat as a heating source for air conditioning and water heating facilities) in production, and promotion of modal shift (optimized transportation by combining several means of transportation, such as trucks, ships and trains) in transportation.

PREVENTION OF ENVIRONMENTAL POLLUTION

Development and promotion of low-emission vehicles (LEVs)

Reduced exhaust emissions with gasoline-engine models

Japan introduced tighter regulations on exhaust emissions in 2000. The Japanese government has also introduced an LEV certification scheme that aims to promote the use of automobiles with emissions that are lower than the revised standards.

MMC began submitting models for certification in fiscal 2000. All new passenger car models (*COLT, LANCER CARGO*, and *GRANDIS*) introduced in Japan in 2002-2003 are designated as Ultra Low Emission Vehicles (ULEVs). More than 95% of all the gasoline-engine vehicles that MMC sold in Japan in fiscal 2003 were LEVs.

Fuel-cell vehicles (FCVs)

MMC is working on FCV commercial development, and has produced the *Mitsubishi-FCV*, which features a fuel cell system based on the *GRANDIS* platform. In October 2003, MMC obtained ministerial approval to participate in the Japan Hydrogen & Fuel Cell Demonstration Project (JHFC) sponsored by the Ministry of Economy, Trade and Industry. MMC is now conducting driving tests on public roads.

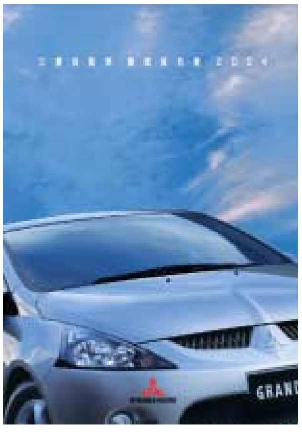
Electric vehicles (EVs)

MMC has continued to undertake R&D into EVs that can meet the needs of modern consumers. MMC displayed an *ECLIPSE EV* prototype fitted with a high-performance motor and battery pack at an “EV Week” exhibition held in Shikoku in August 2003. Testing of this vehicle continues to develop various aspects of its practical use.

Reduced environmental impact from manufacturing processes

Reduction of VOC emissions

To reduce emissions of VOCs (volatile organic compounds) such as toluene and xylene in the body and component painting process, MMC is constructing a new auto body painting plant and promoting the introduction of low-solvent technologies, such as waterborne and powder paints.



Mitsubishi Motors Environmental Report 2004

For more details, please read the Mitsubishi Motors Environmental Report 2004.
http://www.mitsubishi-motors.com/corporate/environment/report/e/index.html

CONSOLIDATED SUBSIDIARIES AND AFFILIATES
(AS OF MARCH 31, 2004)

CONSOLIDATED SUBSIDIARIES IN JAPAN

Company	Capitalization (In millions of yen)	Business Lines	MMC Share of Voting Rights (%)*
Hokkaido Mitsubishi Motors Sales Co., Ltd.	1,750	Automobile sales	100.0
Sapporo Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Iwamizawa Mitsubishi Motors Sales Co., Ltd.	60	Automobile sales	100.0
Sorachi Mitsubishi Motors Sales Co., Ltd.	150	Automobile sales	100.0
Asahikawa Mitsubishi Motors Sales Co., Ltd.	310	Automobile sales	100.0
Iwate Mitsubishi Motors Sales Co., Ltd.	300	Automobile sales	100.0
Sendai Mitsubishi Motors Sales Co., Ltd.	470	Automobile sales	100.0
Fukushima Mitsubishi Motors Sales Co., Ltd.	168	Automobile sales	100.0
Koriyama Mitsubishi Motors Sales Co., Ltd.	316	Automobile sales	100.0
Gunma Chuo Mitsubishi Motors Sales Co., Ltd.	240	Automobile sales	100.0
Tochigi Mitsubishi Motors Sales Co., Ltd.	400	Automobile sales	100.0
Minami Ibaraki Mitsubishi Motors Sales Co., Ltd.	450	Automobile sales	100.0
Saitama Mitsubishi Motors Sales Co., Ltd.	500	Automobile sales	100.0
Saitama Chuo Mitsubishi Motors Sales Co., Ltd.	470	Automobile sales	100.0
Tokyo Mitsubishi Motors Sales Co., Ltd.	3,263	Automobile sales	100.0
Kanagawa Mitsubishi Motors Sales Co., Ltd.	1,025	Automobile sales	100.0
Kawasaki Mitsubishi Motors Sales Co., Ltd.	543	Automobile sales	100.0
Yamanashi Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Matsumoto Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Aichi Chuo Mitsubishi Motors Sales Co., Ltd.	50	Automobile sales	99.1
Gifu Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	82.5
Ishikawa Mitsubishi Motors Sales Co., Ltd.	330	Automobile sales	100.0
Kinki Mitsubishi Motors Sales Co., Ltd.	1,010	Automobile sales	100.0
Konan Mitsubishi Motors Sales Co., Ltd.	180	Automobile sales	100.0
Nishi Tottori Mitsubishi Motors Sales Co., Ltd.	40	Automobile sales	100.0 (15.4)
Okayama Mitsubishi Motors Sales Co., Ltd.	203	Automobile sales	65.0
Hiroshima Chuo Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	97.8
Shimane Mitsubishi Motors Sales Co., Ltd.	200	Automobile sales	97.2
Shin Yamaguchi Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Matsuyama Mitsubishi Motors Sales Co., Ltd.	390	Automobile sales	100.0
Oita Mitsubishi Motors Sales Co., Ltd.	280	Automobile sales	100.0
Miyazaki Chuo Mitsubishi Motors Sales Co., Ltd.	260	Automobile sales	90.4
Nagasaki Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	100.0
Kagoshima Chuo Mitsubishi Motors Sales Co., Ltd.	223	Automobile sales	99.1
Hokkaido Mitsubishi Motors Parts Sales Co., Ltd.	150	Automobile parts sales	90.0 (45.0)
Tohoku Mitsubishi Motors Parts Sales Co., Ltd.	200	Automobile parts sales	62.0 (15.0)
Michinoku Mitsubishi Motors Parts Sales Co., Ltd.	200	Automobile parts sales	71.0 (21.0)
Kita Kanto Mitsubishi Motors Parts Sales Co., Ltd.	200	Automobile parts sales	75.0 (25.0)
Saitama Mitsubishi Motors Parts Sales Co., Ltd.	60	Automobile parts sales	90.4 (32.7)
Tokyo Mitsubishi Motors Parts Sales Co., Ltd.	200	Automobile parts sales	100.0 (30.0)
Higashi Kanto Mitsubishi Motors Parts Sales Co., Ltd.	200	Automobile parts sales	56.0 (10.0)
Kanagawa Mitsubishi Motors Parts Sales Co., Ltd.	100	Automobile parts sales	100.0 (44.4)
Shinetsu Mitsubishi Motors Parts Sales Co., Ltd.**	200	Automobile parts sales	50.0 (15.0)
Hokuriku Mitsubishi Motors Parts Sales Co., Ltd.	150	Automobile parts sales	52.0 (17.0)
Higashi Chugoku Mitsubishi Motors Parts Sales Co., Ltd.	150	Automobile parts sales	83.0 (43.0)
Nishi Chugoku Mitsubishi Motors Parts Sales Co., Ltd.	150	Automobile parts sales	55.0 (5.0)
Shikoku Mitsubishi Motors Parts Sales Co., Ltd.**	100	Automobile parts sales	50.0
Pajero Manufacturing Co., Ltd.	610	Automobile and parts manufacture, sales	100.0
Ryoji Yohin Sales Co., Ltd.	20	Sales of automobile accessories, air conditioners	100.0
Mitsubishi Automotive Techno-Service Co., Ltd.	400	Automobile servicing	100.0
Mitsubishi Automotive Logistics Co., Ltd.	300	Vehicle transportation contractor	75.0
Mitsubishi Automotive Engineering Co., Ltd.	450	Design and testing of automobiles and parts	100.0
Suiryo Plastics Co., Ltd.	100	Manufacture, sales of automobile parts	100.0

MAJOR CONSOLIDATED SUBSIDIARIES OUTSIDE JAPAN

Company	Incorporated in	Capitalization (In millions)	Business Lines	MMC Share of Voting Rights (%)*
Netherlands Car B.V. (NedCar)	Netherlands	EUR 250.0	Manufacture, sales of automobiles and parts	100.0 (15.0)
Mitsubishi Motors Europe B.V. (MME)	Netherlands	EUR 1,282.9	Holding company Imports, sales of automobiles and parts	100.0
Mitsubishi Motor Marketing Research Europe GmbH (MMRE)	Germany	EUR 0.4	Market research, information gathering	100.0 (100.0)
Mitsubishi Motor R&D of Europe GmbH (MRDE)	Germany	EUR 0.8	Product development, design, testing, certification	100.0 (100.0)
Mitsubishi Motor Sales Netherlands B.V.	Netherlands	EUR 6.8	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motors Deutschland GmbH	Germany	EUR 30.0	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motor Sales Sweden AB (MMSS)	Sweden	SNK 51.6	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motor Sales Denmark AS (MMSD)	Denmark	DKK 66.0	Automobile importing, sales	100.0 (100.0)
MMC Automoviles Espana S.A.	Spain	EUR 1.2	Automobile importing, sales	75.0 (75.0)
Mistubishi Motors France S.A.S	France	EUR 6.7	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motors Belgium nv	Belgium	EUR 3.0	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motors R&D of America, Inc. (MRDA)	U.S.A.	USD 2.0	Product development, design, testing, certification	100.0 (100.0)
Mitsubishi Motors North America, Inc. (MMNA)	U.S.A.	USD 954.5	Automobile importing, manufacture, sales	100.0
Mitsubishi Motors Credit of America, Inc. (MMCA)	U.S.A.	USD 1,220.0	Automobile financing, leasing	100.0 (100.0)
Mitsubishi Motor Sales of Canada, Inc. (MMSCAN)	Canada	CAD 1.3	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motor Sales of Caribbean, Inc. (MMSC)	Puerto Rico	USD 47.5	Automobile importing, sales	100.0
MMC Holding New Zealand Ltd.	New Zealand	NZD 48.0	Holding company	100.0
Mitsubishi Motors New Zealand Ltd. (MMNZ)	New Zealand	NZD 38.2	Automobile importing, sales	100.0 (100.0)
Mitsubishi Motors Australia, Ltd. (MMAL)	Australia	AUD 499.3	Automobile importing, assembly, sales	100.0
MMC International Finance (Netherlands) B.V.	Netherlands	EUR 0.1	Procurement of funds, group company financing	100.0
Mitsubishi Motors Philippines Corp. (MMPC)	Philippines	PHP 1,640.0	Automobile importing, assembly, sales	51.0
Asian Transmission Corp. (ATC)	Philippines	PHP 350.0	Manufacture, sales of automobile parts	84.7 (79.4)
Mitsubishi Motors (Thailand) Co., Ltd. (MMTh)	Thailand	THB 7,000.0	Automobile importing, assembly, sales	99.8
MSC Engine Co., Ltd. (MEC)	Thailand	THB 20.0	Manufacture of automobile engines	100.0 (100.0)
Mitsubishi Motor Parts Sales of Gulf FZE	UAE	UAD 10.0	Importing, sales of automobile panels	100.0

Note: MMC has 40 other subsidiaries outside Japan in addition to the above.

EQUITY METHOD AFFILIATES IN JAPAN

Company	Capitalization (In millions of yen)	Business Lines	MMC Share of Voting Rights (%)*
Mitsubishi Fuso Truck & Bus Corporation	20,000	Development, design, manufacture, assembly and sales of trucks, buses and related components	20.0
Hakodate Mitsubishi Motors Sales Co., Ltd.	280	Automobile sales	29.0
Muroran Mitsubishi Motors Sales Co., Ltd.	100	Automobile sales	29.0 (29.0)
Tokachi Mitsubishi Motors Sales Co., Ltd.	60	Automobile sales	35.0
Morioka Mitsubishi Motors Sales Co., Ltd.	248	Automobile sales	21.5
Ibaraki Mitsubishi Motors Sales Co., Ltd.	30	Automobile sales	40.0
Meihoku Mitsubishi Motors Sales Co., Ltd.	70	Automobile sales	28.6
Mie Mitsubishi Motors Sales Co., Ltd.	58	Automobile sales	24.8
Kagawa Mitsubishi Motors Sales Co., Ltd.	50	Automobile sales	23.0
Iyo Mitsubishi Motors Sales Co., Ltd.	30	Automobile sales	22.2
Uwajima Mitsubishi Motors Sales Co., Ltd.	30	Automobile sales	26.7
Miyazaki Mitsubishi Motors Sales Co., Ltd.	60	Automobile sales	38.8
Mitsubishi Automobile Credit-Lease Corporation	960	Auto sales financing, leasing, rentals	43.3

MAJOR EQUITY METHOD AFFILIATES OUTSIDE JAPAN

Company	Incorporated in	Capitalization (In millions)	Business Lines	MMC Share of Voting Rights (%)*
Mitsubishi Motors do Portugal S.A.	Portugal	EUR 16.5	Importing, sales of automobiles	50.0 (50.0)
P.T. Mitsubishi Krama Yudha Motors & Manufacturing	Indonesia	IDR 11,451.0	Manufacture, sales of automobile parts	32.3
Vina Star Motors Corp.	Vietnam	USD 16.0	Manufacture and marketing of automobiles and parts	25.0
Kuala Lumpa (Malaysia) Sendrian Bhd	Malaysia	MYR 2.0	Holding company	25.0
National Wide Distribution Service (Thailand) Co.,Ltd.	Thailand	THB 20.0	Transporting of automobiles in Thailand	49.0 (49.0)

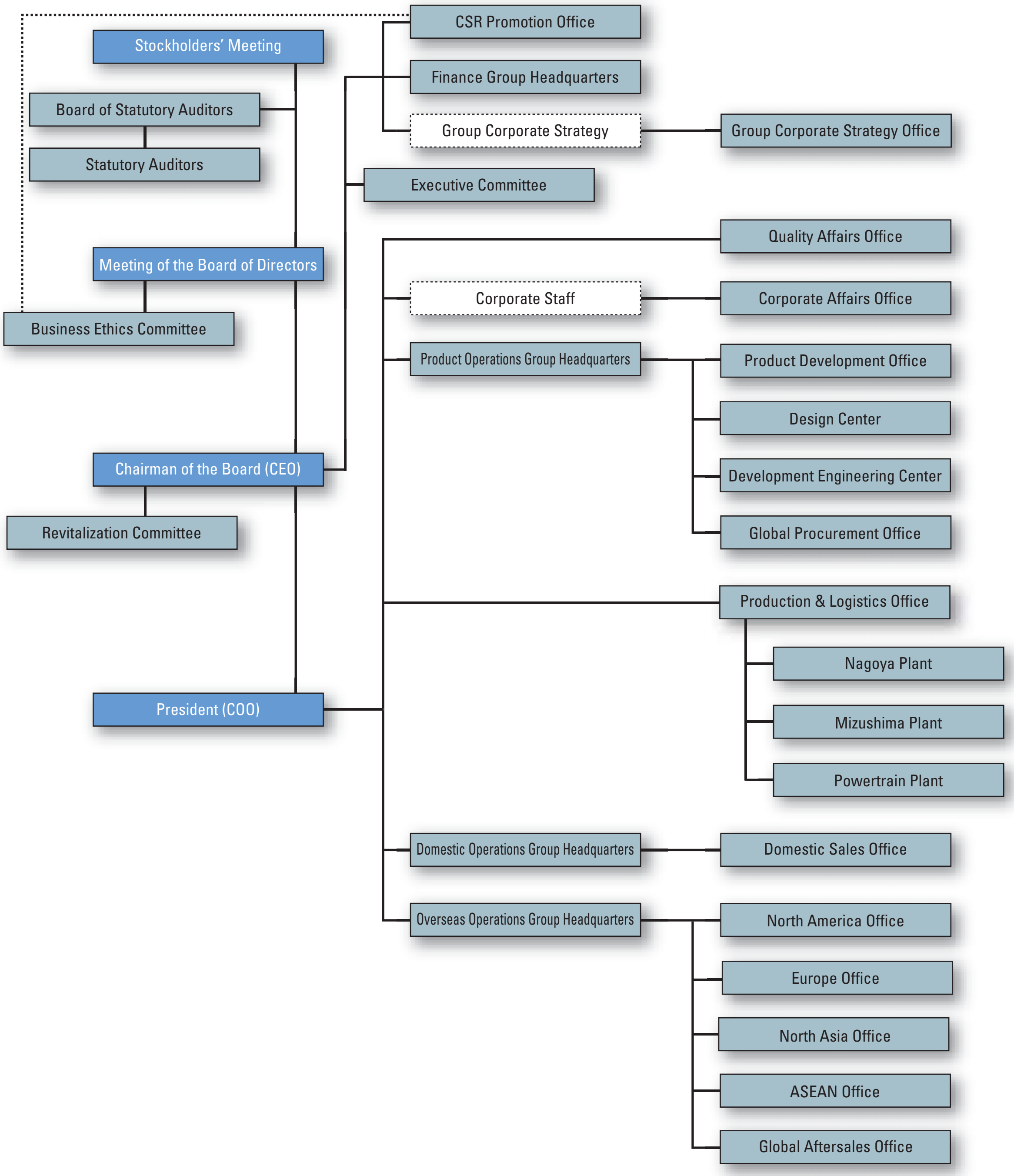
Note: MMC has 6 other equity method affiliates outside Japan in addition to the above.

OTHER MAJOR RELATED COMPANIES

Company	Incorporated in	Capitalization (In millions)	Business Lines	Share of Voting Rights in MMC (%)*
DaimlerChrysler AG	Germany	EUR 2,633	Manufacture, sales of automobiles and other transportation equipment	36.9 (3.2)

* Figures in parentheses represent indirect shares.
** The affiliate is listed as a subsidiary although MMC's equity holding is less than 50% because it exercises effective control over the company.

ORGANIZATIONAL STRUCTURE
(AS OF AUGUST 1, 2004)



BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

(AS OF SEPTEMBER 28, 2004)

DIRECTORS

YOICHIRO OKAZAKI
Chairman
Representative Director
Chief Executive Officer

KOJI FURUKAWA
Vice Chairman
Corporate General Manager of CSR Promotion Office
Chief Business Ethics Officer

HIDEYASU TAGAYA
President
Representative Director
Chief Operating Officer

HIIZU ICHIKAWA
Managing Director
Representative Director
Chief Financial Officer

AKIRA KIJIMA
Managing Director
Representative Director
Head of Product Operations

FUJIO CHO
Managing Director
Representative Director
Head of Domestic Operations

OSAMU MASUKO
Managing Director
Representative Director
Executive Corporate General Manager of Overseas Operations Group Headquarters and Corporate General Manager of ASEAN Office

ECKHARD CORDES
Member of the Board (Non-executive)

RUDIGER GRUBE
Member of the Board (Non-executive)

TAKASHI NISHIOKA
Member of the Board (Non-executive)

MIKIO SASAKI
Member of the Board (Non-executive)

YASUSHI ANDO
Member of the Board (Non-executive)

AUDITORS

MITSUGU NAKABAYASHI
Auditor

HIRAO IIJIMA
Auditor

MOTOO MAKITA
Auditor (Non-executive)

SHIGEMITSU MIKI
Auditor (Non-executive)

EXECUTIVE OFFICERS

TADASHI OHMIYA
Senior Executive Officer
Vice Corporate General Manager of CSR Promotion Office

SHUICHI AOTO
Senior Executive Officer
In charge of Controlling and Accounting

TETSURO AIKAWA
Senior Executive Officer
Corporate General Manager of Product Development Office

MAKOTO MAEDA
Senior Executive Officer
Corporate General Manager of Production and Logistics Office

AKIRA KAMEO
Executive Officer
General Manager of CFO Office

YOICHI YOKOZAWA
Executive Officer
Assistant to Chief Financial Officer

HIROSHI HARUNARI
Executive Officer
Corporate General Manager of Group Corporate Strategy Office and General Manager of Alliance Department

KENICHI HORINOUCHI
Executive Officer
Vice Corporate General Manager of Group Corporate Strategy Office

MITSUO HASHIMOTO
Executive Officer
Corporate General Manager of Quality Affairs Office

MAKOTO ARIGA
Executive Officer
Corporate General Manager of Corporate Affairs Office

JIRO IMURA
Executive Officer
Corporate General Manager of Development Engineering Center

YOSHIRO SHIMA
Executive Officer
Corporate General Manager of Global Procurement Office

MASARU MASUDA
Executive Officer
Plant General Manager of Nagoya Plant, Production and Logistics Office

OSAMU MATSUMOTO
Executive Officer
Plant General Manager of Mizushima Plant, Production and Logistics Office

MAKOTO OCHI
Executive Officer
Plant General Manager of Powertrain Plant, Production and Logistics Office

MASATOSHI TAKEGATA
Executive Officer
General Manager of Business Planning Department

MICHIO MORI
Executive Officer
Corporate General Manager of Domestic Sales Office

KAZUYUKI KIKUCHI
Executive Officer
Corporate General Manager of North America Office

TOSHIFUMI SUDO
Executive Officer
Corporate General Manager of Europe Office

KENICHI MIKI
Executive Officer
Corporate General Manager of North Asia Office

STOCKHOLDER INFORMATION
(AS OF MARCH 31, 2004)

STOCK INFORMATION*

PAID-IN CAPITAL	¥252,201 million
NUMBER OF COMMON STOCKS	Issued and outstanding: 1,483,438,934 shares
NUMBER OF STOCKHOLDERS	46,079

MAJOR STOCKHOLDERS*

	% of total
DaimlerChrysler AG	33.70
Mitsubishi Heavy Industries, Ltd.	14.82
Mitsubishi Corporation	5.21
Capital Guardian Trust Company	4.14
DaimlerChrysler MMC Beteiligungsgesellschaft mbH	3.27
The Mitsubishi Trust & Banking Corporation	3.04
The Bank of Tokyo-Mitsubishi, Ltd.	2.90
Japan Trustee Service Bank, Ltd. (Trust Account)	1.70
The Master Trust Bank of Japan, Ltd. (Trust account)	1.62
The Chase Manhattan Bank NA London	1.55

* On July 16, 2004, the Company issued and sold 740 million new common stocks (¥100/stock) to Phoenix Capital. As a result, as of July 16, 2004, the total number of outstanding common stocks stood at 2,223,438,934.

Furthermore, the Company has also issued three series of preferred stocks on the following dates:

June 24, 2004	First Series Class A / Second Series Class A
June 28, 2004	First Series Class G
July 16, 2004	Third Series Class A / First, Second, Third Series Class B

As of July 16, 2004 total outstanding preferred stocks stood at 422,000 stocks (¥1,000,000/stock)

Total Preferred Stocks Outstanding as of July 16, 2004:

First Series Class A	130,000 shares
Second Series Class A	35,000 shares
Third Series Class A	1,000 shares
First Series Class G	130,000 shares
First Series Class B	42,000 shares
Second Series Class B	42,000 shares
Third Series Class B	42,000 shares
Total	422,000 shares

Effective as of July 16, 2004, by issuing new common and preferred stocks listed above, the Company has raised ¥496 billion in new capital.

Please refer to Significant Subsequent Events in the Financial Section (p.58).

CORPORATE INFORMATION
(AS OF MARCH 31, 2004)

COMPANY NAME	MITSUBISHI MOTORS CORPORATION
DATE OF ESTABLISHMENT	April 22, 1970
HEAD OFFICE	2-16-4, Konan, Minato-ku, Tokyo 108-8410, Japan Telephone: +81-3-6719-2111 Fax: +81-3-6719-0014
ENGINEERING CENTERS	Car Research & Development Center—Okazaki 1, Aza-Nakashinkiri, Hashime-cho, Okazaki, Aichi 444-8501, Japan Telephone: +81-564-31-3100
	Car Research & Development Center—Kyoto 1, Uzumasa Tatsumi-cho, Ukyo-ku, Kyoto 616-8501, Japan Telephone: +81-75-864-8000
	Car Research & Development Center—Tokachi Proving Ground 22-1, Aza-Osarushi, Otofuke-cho, Kato-gun, Hokkaido 080-0271, Japan Telephone: +81-155-32-7111
DESIGN CENTER	Tama Design Center 1-16-1, Karakida, Tama, Tokyo 206-0035, Japan Telephone: +81-42-389-7307
WORKS	Nagoya Plant—Okazaki (Assembly) 1, Aza-Nakashinkiri, Hashime-cho, Okazaki, Aichi 444-8501, Japan Telephone: +81-564-31-3100
	Mizushima Plant (Assembly) 1-1, Mizushima Kaigandori, Kurashiki, Okayama 712-8501, Japan Telephone: +81-86-444-4114
	Powertrain Plant—Kyoto (Engines & Transmissions) 1, Uzumasa Tatsumi-cho, Ukyo-ku, Kyoto 616-8501, Japan Telephone: +81-75-864-8000
	Powertrain Plant—Shiga (Engines) 2-1, Kosunacho, Kosei-cho, Koka-gun, Shiga 520-3212, Japan Telephone: +81-748-75-3131
NUMBER OF EMPLOYEES	43,624 (Consolidated Basis)
SECURITIES TRADED	Tokyo Stock Exchange and Osaka Securities Exchange
TRANSFER AGENT AND REGISTER	The Mitsubishi Trust & Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan
ACCOUNTING AUDITOR	Shin Nihon & Co.

MITSUBISHI MOTORS

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Public Relations and Investor Relations Department
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